



TOWN OF LOS GATOS

CALIFORNIA



Comprehensive Annual Financial Report

Fiscal Year ending June 30, 2019 ATTACHMENT 1

Final Draft
December 3, 2019

Cover Photo: Chris Bryant [Cat photo]

**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

Final Draft
December 3, 2019

PREPARED BY THE
OFFICE OF THE TOWN MANAGER

Final Draft
December 3, 2019

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 and associated residential and commercial development. Highway 17 was constructed through the center of Town. Growth levelled off in the early 1970’s, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well balanced community has been and remains a prominent goal of the community. From the first 100-acre Town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 30,998. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces.

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

Final Draft
December 3, 2019

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

INTRODUCTORY SECTION:

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

FINANCIAL SECTION:

| | |
|--|-----------|
| Independent Auditor's Report | 13 |
| Management's Discussion and Analysis..... | 18 |

Basic Financial Statements:

| | |
|--|----|
| Government-Wide Financial Statements: | |
| Statement of Net Position | 38 |
| Statement of Activities..... | 39 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 42 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 43 |
| Statement of Revenues, Expenditures and Changes in Fund Balances..... | 44 |
| Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 45 |
| Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) General Fund | 46 |
| Proprietary Funds – Internal Service Funds: | |
| Statement of Net Position..... | 48 |
| Statement of Revenue, Expenses and Changes in Net Position..... | 49 |
| Statement of Cash Flows | 50 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Position | 52 |
| Statement of Changes in Fiduciary Net Position | 53 |
| Notes to the Basic Financial Statements..... | 56 |

Required Supplementary Information:

| | |
|---|----|
| Schedule of Proportionate Share of Net Pension Liability: | |
| CalPERS Misc. Agent-Multiple Employer Plan | 94 |
| CalPERS Safety Cost-Sharing Plan..... | 95 |
| Schedule of Pension Plans Contributions | |
| Miscellaneous Agent Multiple-Employer Plan | 96 |
| Safety Cost-Sharing Plan..... | 96 |
| Actuarial Methods and Assumptions used for Pension Actuarially | |
| Determined Contributions..... | 96 |
| Schedule of Changes in Net OPEB Liability and Related Ratios | 97 |
| Schedule of Employer Contributions | 97 |
| Actuarial Methods and Assumptions used for 2017/18 OPEB Actuarially | |
| Determined Contribution | 98 |

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

SUPPLEMENTARY INFORMATION:

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

| | |
|--|-----|
| Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP) Appropriated Reserves Fund | 101 |
|--|-----|

Nonmajor Governmental Funds:

| | |
|--|-----|
| Combining Balance Sheets | 102 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances..... | 104 |
| Budgeted Nonmajor Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP)..... | 106 |

Internal Service Funds:

| | |
|--|-----|
| Combining Statement of Net Position | 110 |
| Combining Statement of Revenue, Expenses and Changes in Net Position | 111 |
| Combining Statement of Cash Flows | 112 |

Private Purpose Trust Funds:

| | |
|---|-----|
| Combining Statement of Fiduciary Net Position | 114 |
| Combining Statement of Changes in Fiduciary Net Position..... | 115 |

STATISTICAL SECTION:

| | |
|--|-----|
| Net Position by Component | 121 |
| Changes in Net Position | 122 |
| Fund Balances, Governmental Funds..... | 124 |
| Changes in Fund Balances, Governmental Funds | 126 |
| Assessed Value and Estimated Actual Value of Taxable Property | 128 |
| Direct and Overlapping Property Tax Rates..... | 129 |
| Principal Property Tax Payers | 130 |
| Property Tax Levies and Collections..... | 134 |
| Ratios of Outstanding Debt by Type | 135 |
| Direct and Overlapping Governmental Activities Debt..... | 136 |
| Legal Debt Margin..... | 138 |
| Demographic and Economic Statistics | 140 |
| Principal Employers..... | 142 |
| Full-time Equivalent Town Government Employees by Function/Program | 146 |
| Operating Indicators by Function/Program | 148 |
| Capital Assets Statistics by Function/Program..... | 150 |

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..... | 155 |
|---|-----|

INTRODUCTORY SECTION

Final Draft
December 3, 2019

Final Draft
December 3, 2019

This page intentionally left blank



TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December XX, 2019

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, 2019. This report was prepared by the Finance Department in conjunction with the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2019, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

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

This Comprehensive Annual Financial Report is organized into three sections:

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

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

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

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as "Silicon Valley." From the first 100-acre Town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 30,988. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces. Preserving Los Gatos as a complete and well-balanced community has been, and remains a prominent goal for the community.

The Town maintains a Council-Manager form of government which combines the strong political leadership of elected officials with the strong managerial experience of an appointed Town Manager. Five Council members are elected at large for staggered four-year terms to govern the Town. The Mayor and Vice-Mayor are appointed by the Council from its own ranks and serve for one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees traditional municipal services such as Public Safety, Parks and Public Works, Community Development, a Public Library, and Town Administration including Human Resources and Finance.

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the economy has remained strong and economically sensitive revenues, such as Property Tax, Sales Tax, and Transient Occupancy revenues have increased as projected. The Town continues seeing indications of softening in the housing market with homes for sale staying on the market longer than the previous year. However, the value of the home sales remains high. A median list price per square foot in Los Gatos is 42% higher than the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area median list price according to Zillow Home Value Index.

General Fund revenues (including transfer-ins) increased 7.6% from the prior year. Property tax revenues are a significant source of support for General Fund operations,

comprising approximately 40% of General Fund revenues in FY 2018/19. For FY 2018/19 property tax receipts of \$17.3 million were \$1.4 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture, and educational opportunities. Based on valuation projections by the Santa Clara County Assessor's Office, Los Gatos property values are anticipated to continue with moderate growth rates for the near term. Property taxes also increased moderately due to a change in property tax distribution methodology due to the dissolution of the California redevelopment agencies. It should be noted that this increase represents a small portion of the total loss of redevelopment tax increment previously collected prior to the aforementioned redevelopment dissolution which occurred in February 2012.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 18.7% of General Fund revenues in FY 2018/19. For FY 2018/19 sales tax receipts of \$8.2 million were \$0.8 million higher than the prior year's collection. Sales tax revenues increased due partially to the first receipt of \$228,130.91 in the final quarter of the fiscal year of a new additional 1/8 cent District Sales Tax for the Town of Los Gatos approved by the voters in the fall of 2018.

The Town is preparing for continued increases in pension employer rates. The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. To date, the Council has adopted or programmed additional discretionary pension strategies in excess of \$16.0 million and prefunded \$13.1 million towards OPEB obligations.

While the Town Council has been proactively working to manage the anticipated cost escalation in its pension and other post employment benefits (OPEB), pension and OPEB related obligations continue to be one of the Town's greatest long-term cost drivers. Data from the most recent actuarial valuations show total Net Pension (\$59.3) and OPEB (\$10.1) liabilities of \$69.4 million. For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section. In addition, the Town provides extensive information on pension and OPEB information on the Town's website.

Despite the reductions to various sources of local government revenue such as the elimination of redevelopment tax increment in 2012, and increasing costs associated with unfunded federal and state mandates, the Town has managed to maintain high service levels increased efficiency and prudent fiscal management as evidenced by General Fund's strong fiscal health through FY 2018/19. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR INITIATIVES

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$8.0 million in Town infrastructure and other capital asset improvements were expended in FY 2018/19, including \$2.9 million in street improvement projects Town-wide to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety. Other investments included \$0.7 million in vehicle and equipment, and approximately \$0.5 million on Town facilities, retaining walls, and park improvements. In addition, the Town invested \$5.0 million in various projects that are currently in progress, including approximately \$3.0 million on the Almond Grove Street project, and other facility, park, and infrastructure improvement projects.

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

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

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

With the implementation of GASB 34, the Town 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, five-year budget forecast, and five-year capital improvement plan is adopted by the Town Council consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This is the 24th consecutive year that the Town has received the award. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

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

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the

Mayor and Town Council
December xx, 2019

Department of Finance. Special thanks to Gitta Ungvari, Finance and Budget Manager, Mark Gaeta, Accountant; Melissa Ynegas, Finance Analyst; and Diane Howard, Payroll Technician for their efforts in preparing this report.

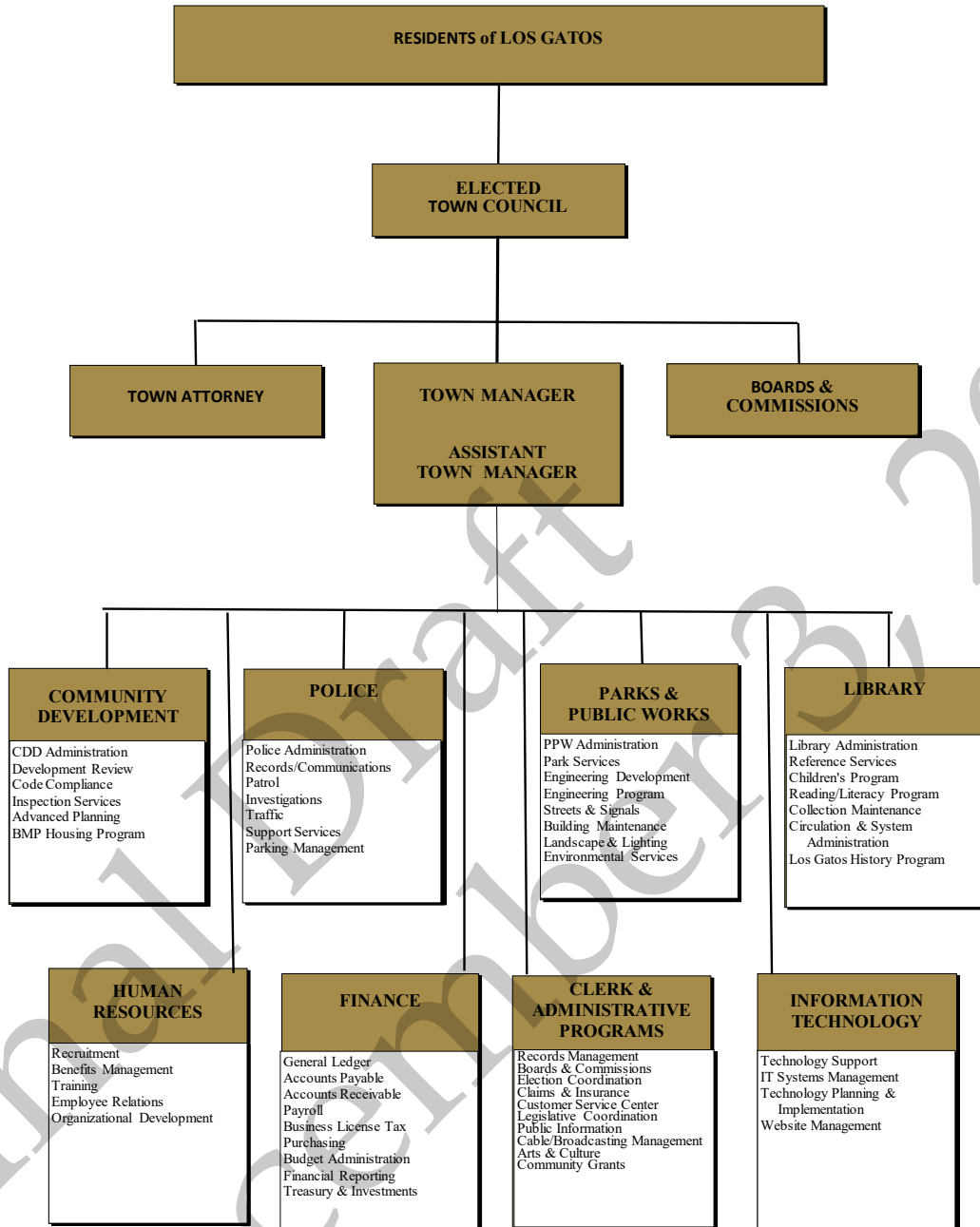
Respectfully submitted,

Laurel Prevetti
Town Manager

Stephen D. Conway
Director of Finance

Final Draft
December 3, 2019

TOWN OF LOS GATOS ORGANIZATIONAL CHART FY 2018/19



**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2019**

TOWN COUNCIL

Mayor
Vice Mayor
Council Member
Council Member
Council Member

Steven Leonardis
Marcia Jensen
Rob Rennie
Marico Sayoc
Barbara Spector

COUNCIL APPOINTEES

Town Manager
Town Attorney

Laurel Prevetti
Robert Schultz

APPOINTED OFFICIALS

Assistant Town Manager
Chief of Police
Community Development Director
Parks and Public Works Director
Library Director
Finance Director
Human Resources Director

Arn Andrews
Peter Decena
Joel Paulson
Matt Morley
Ryan Baker
Stephen Conway
Lisa Velasco



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

Final Draft
December 3, 2019

This page intentionally left blank

Final Draft
December 3, 2019

FINANCIAL SECTION

Final Draft
December 3, 2019

This page intentionally left blank

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension-related schedules and OPEB-related schedules on pages 18-33, 46, and 94-98 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

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

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2019, the City adopted new accounting guidance, GASBS No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, 2019 on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town’s internal control over financial reporting and compliance.

Badawi and Associates
Certified Public Accountants
Berkeley, California
DATE, 2019

Final Draft
December 3, 2019

Final Draft
December 3, 2019

This page intentionally left blank

Management's Discussion and Analysis

Final Draft
December 3, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Los Gatos's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2019. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- Town assets exceeded liabilities at the close of FY 2018/19 by \$114,819,109 (net position).
- The Town's total net position increased by \$4.3 million during the fiscal year largely as a result of an approximate \$3.1 million excess of total governmental funds revenues, other financing sources above expenditures, and uses of financial resources.
- Reported unrestricted net position is negative (\$4,642,167) compared to \$170,590 the prior year. The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's General Fund Appropriated Reserve (GFAR) fund during the year to invest in the Town's infrastructure and equipment. Unrestricted net position represents all resources not included as net investment in capital or restricted assets. These amounts are considered usable for any legal purpose by the Town.
- Total fund balances for all governmental funds at year end were \$53,634,826, an increase of \$3,074,054 (6.1%) from the prior year. Fund balances increased due to total governmental revenues above expenditures of approximately \$221K (excluding transfers) and one-time proceeds from the sale of Town land in the amount of approximately \$1.9 million. Added to this amount was the transfer of residual fund balances of approximately \$1.1 million from the closing of two Internal Service Funds (Vehicle Maintenance and Stores) during the year.
- At the end of FY 2018/19, fund balance for the General Fund was \$37,970,527, approximately 100% of General Fund expenditures for the current fiscal year excluding transfers-out to the Town's capital projects funds.
- During the fiscal year, the Town's General Fund placed \$3,578,913 in its recently established Town's IRS Section 115 Pension Trust.
- The Town's total capital assets increased by \$5,443,859 to \$107,542,588 net of depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the CAFR contains the following information: Independent Auditor's Report, Management's Discussion and Analysis (this section), the Basic Financial Statements, and the Required Supplementary Information. The CAFR also includes a Supplementary Information

section, which presents combining and budgetary schedules for individual non-major funds. The Basic Financial Statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

Government-Wide Financial Statements

The Government-Wide Financial Statements present the financial picture of the Town from an economic resources measurement focus using the accrual basis of accounting. An economic resources measurement focus is when a body of financial statements report all inflows, outflows, and balances affecting or reflecting an entity's net position.

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

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

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

Fund Financial Statements

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

Governmental funds – The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting,

which measures cash and other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: internal service funds. Proprietary funds are reported using the accrual basis of accounting. Internal service funds are an accounting tool used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles, computer equipment, risk management activities, and other items. The Internal Service funds are included within governmental activities in the Government-Wide Financial Statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support the Town's own programs.

Included in fiduciary funds is the Redevelopment Successor Agency private-purpose Trust Fund created upon the dissolution of the former Redevelopment Agency (RDA) in 2012. 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. Additional information on the dissolution of the RDA and this fiduciary fund can be found in Note 12 in the notes to basic financial statements.

Notes to Basic Financial Statements

- The notes provide additional information to facilitate a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the Basic Financial Statements can be found on pages 56-91 of this report.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements provide long-term and short-term information about the Town's overall financial condition. This analysis addresses the financial statements of the Town as a whole, utilizing data from throughout the CAFR to describe the changes between 2018 and 2019.

Net Position Discussion

As shown below, the Town's combined net position for the year ended June 30, 2019 was \$114.8 million, increasing \$4.3 million over the prior year. The increase is largely attributable to the restatement of the amounts placed in trust for the Town's pension and other post-employment benefits (OPEB) this fiscal year. Assets in the trust increased by \$3.8 million from an \$1.2 million balance as of June 30, 2018 to a current balance of \$5.6 million in restricted assets. Additionally, another \$0.6 million of the total increase in net position was generated by Town operations. In general, net position can serve as an important indicator of whether the Town's overall financial condition is improving or deteriorating over time.

**Town of Los Gatos
Net Position
Governmental Activities
For the Year Ended June 30, 2019**

| | 2019 | 2018 |
|-----------------------------------|----------------------|----------------------|
| Current and Other Assets | \$ 79,464,869 | \$ 78,734,160 |
| Capital Assets | 107,542,588 | 102,098,729 |
| Total Assets | <u>\$187,007,457</u> | <u>\$180,832,889</u> |
| Deferred Outflows - Pension/OPE | 13,521,349 | 19,177,172 |
| Current Liabilities | 17,375,600 | 19,125,206 |
| Long-Term Liabilities Outstanding | 66,148,603 | 66,492,020 |
| Total Liabilities | <u>\$ 83,524,203</u> | <u>\$ 85,617,226</u> |
| Deferred Inflows - Pension/OPEB | 2,185,494 | 3,923,918 |
| Net Position | | |
| Net Investment in Capital Assets | 107,542,588 | 102,098,729 |
| Restricted | 11,918,688 | 8,199,598 |
| Unrestricted | (4,642,167) | 170,590 |
| Total Net Position | <u>\$114,819,109</u> | <u>\$110,468,917</u> |

Current and other assets increased \$0.7 million for the year. This is primarily due to a \$3.8 million increase in restricted cash for pension and OPEB, and increases in accounts and intergovernmental and interest receivables totaling approximately \$0.9 million. These increases are offset by decreases in cash and investments for the year of approximately \$4.1 million, reflecting use of cash balances of approximately \$9.5 million to invest in Town infrastructure and other special projects. Capital assets increased \$5.4 million net of depreciation expense totaling approximately \$3.9 million for the year, much of which is related to the infrastructure investments made throughout the Town including approximately \$3.0 million for the Almond Grove Street Rehabilitation project, \$1.5 million in energy efficiency upgrades made to the Town's facilities, and approximately \$1.2 in street repair and resurfacing.

Current liabilities decreased \$1.8 million primarily due to a decrease in accounts payable, claims payable, and unearned revenue, offset by an increase in deposits payable.

Long-term liabilities decreased \$300K. The decrease is primarily due to small increases of approximately \$400K in the net pension liability coupled with an approximate \$300K increase in compensated absences offset by decreases of approximately \$1.1 million in the OPEB obligation required with the implementation of GASB 75. See Note (10) and Note (11) of Notes to the Financial Statements for more information.

The largest segment of the Town's net position, representing \$107.5 million of net position, reflects the net investment in capital assets (e.g. land, buildings, infrastructure, and equipment) less accumulated depreciation and related outstanding debt used to acquire those assets. The Town uses these capital assets to provide infrastructure and services to our residents. Therefore, they do not represent a liquid financial resource to the Town and consequently are not readily available for funding current obligations.

Restricted net position totaled approximately \$11.9 million representing approximately \$6.7 million for capital projects and \$5.0 million for pension/OPEB obligations.

As of June 30, 2019, unrestricted net position reports a deficit of approximately \$4.6 million. The unrestricted net position reported the prior year was approximately \$171K. The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's General Fund Appropriated Reserve (GFAR) fund during the year to invest in the Town's infrastructure and equipment.

Governmental Activities

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities is financed and determine the annual change in net position.

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2019

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for Services | \$ 11,350,345 | \$ 11,982,107 |
| Operating Grants and Contribution: | 2,175,277 | 1,906,224 |
| Capital Grants and Contributions | 146,792 | 348,437 |
| General Revenues: | | |
| Property Taxes | 17,321,347 | 15,958,406 |
| Sales Taxes | 8,158,152 | 7,466,253 |
| Franchise Taxes | 2,475,916 | 2,474,814 |
| Other Taxes | 2,726,743 | 2,667,840 |
| Motor Vehicle in Lieu | 14,689 | 16,483 |
| Investment Earnings | 1,809,128 | 333,120 |
| Miscellaneous | 2,407,840 | 622,105 |
| Total Revenues | 48,586,229 | 43,775,789 |
| Expenses: | | |
| Police Department | 18,879,618 | 15,545,521 |
| Parks and Public Works | 10,717,217 | 10,047,003 |
| General Government | 5,848,125 | 9,155,819 |
| Community Development | 5,045,523 | 4,667,609 |
| Library Services | 3,062,157 | 3,087,684 |
| Sanitation | 683,397 | 536,296 |
| Total Expenses | 44,236,037 | 43,039,932 |
| Change in Net Position | 4,350,192 | 735,857 |
| Net Position, beginning | 110,468,917 | 117,027,779 |
| Prior Period Adjustments - GASB 75/87 | | (7,294,719) |
| Net Position, as restated - GASB 75/87 | 110,468,917 | 109,733,060 |
| Net Position, Ending | \$ 114,819,109 | \$ 110,468,917 |

Governmental Activities Revenue Discussion

The Statement of Activities shown above details how the \$48.6 million in Governmental Activities revenue was derived. As categorized in the Statement of Activities as program revenues, approximately \$11.4 million or 22.6% of the revenues were recorded from those who directly benefited from the program as a charge for service. Another \$2.3 million or 4.7% of the revenues were sourced from operating/capital grants and contributions. The remaining \$34.9 million or 72.7% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues decreased by approximately \$600K from the prior year. This is largely due to some substantial permit revenues recognized the prior fiscal year as part of a large proposed residential/commercial development project.

The Town's general revenues related to Governmental Activities increased \$4.8 million from the prior year due to increases in property taxes, sales taxes, transient occupancy taxes, other taxes, investment earnings and other miscellaneous revenues.

Property tax is the largest individual revenue source for the Town and collections finished the year \$1.46 million higher than the previous year. This increase was mostly due to an increase in secured taxes as demand for residential Town property continued due to a strong economy and new developments driving property values higher.

At \$8.2 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes increased \$0.7 million from the previous year due partially to the first receipt in the final quarter of the fiscal year of a new additional 1/8 cent District Sales Tax approved by the Los Gatos voters in the fall of 2018.

Franchise taxes, the Town's third largest revenue source, finished the year at \$2.4 million, reflecting only a very small increase from the previous fiscal year.

- Investment earnings increased substantially (\$1.4 million) from the prior year. Three factors were responsible for this growth: (1) for much of the fiscal year, yields in the Town's portfolio were trending upwards; (2) the Town experienced investment gains in its IRS Section 115 Trust during the year; and (3) interest rates fell toward the end of the year leading to year end investment gains as a result of the "mark to market value" procedure required by GASB 31.

Governmental Activities Expenditures Discussion

The Town provides residents and visitors with the following functional services: General Government is comprised of six departments (Town Council, Town Clerk, Town Manager, Town Attorney, Human Resources, Information Technology, and Finance) providing services in general governance, information technology, executive management, economic vitality, legal, records management, risk management, human resources, finance, and accounting.

The Town's Police Department (public safety) provides general law enforcement, crime prevention, dispatch and responses to emergency and non-emergency calls for services. Parks and Public Works provides engineering, construction and maintenance of public streets, street lighting, Town owned buildings, parks, and related infrastructure; as well as traffic engineering and engineering evaluation of private development proposals. Community Development provides planning and zoning services; and building plan check and inspection; and code enforcement services. The Library Department provides library, local history and cultural services to the community.

Total expenditures increased \$1.2 million from the prior year. The increase was driven largely by the combination of the following factors:

- General Government expenditures decreased \$3.3 million from the prior year. The chief cause for this decrease is the payments made to the Town's IRS Section 115 pension trust in the prior year were considered expenditures and have been reclassified to General Fund restricted cash in the current year due to implementation of Governmental Accounting Standards Board (GASB) 84.
- Public safety expenditures grew by approximately \$3.3 million from the prior year driven primarily by a FY 18/19 negotiated salary increase and increasing pension expenses.
- Community Development and Parks and Public Works expenditures increased by \$380K and \$670K respectively for the year. Expenditure increases were primarily from negotiated salary increases to Town staff and pass-through expenditures for private development activity.
- Sanitation (Urban Runoff – Non-Point Source) costs increased \$147K from the prior year due to increasing efforts to adhere to clean water standards imposed by Federal and State agencies.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

Recognizing the financial resources measurement focus, the Town's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the Town's financing requirements and may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unlike the Statement of Activities which does not include transfers, the Governmental Funds Balance Sheet does include transfers in and out.

Fund Balance – As discussed below, the Town's Governmental Funds Balance Sheet reports the following fund balances.

Restricted Fund Balance – The Town has \$11.9 million in fund balance classified as restricted to indicate that it has an externally imposed restriction on how the money may be spent. Of the \$11.9 million restricted fund balance, \$5.0 million is in the General Fund representing amounts placed in an IRS Section 115 trust dedicated as to use for either pension or OPEB expenses. \$6.7 million is restricted for capital projects, and \$0.2 million for maintenance and repairs.

Committed Fund Balance – The Town has \$17.7 million in fund balance classified as committed to indicate that the Town Council has committed how the money will be spent. Of the \$17.7 million committed fund balance, \$15.1 million is committed to the General Fund, of which \$10.8 million is for budget stabilization and catastrophes and \$4.2 million is for pension and OPEB unfunded liabilities. The remaining committed balances are in the Town’s GFAR capital projects fund totaling \$2.6 million.

Assigned Fund Balance – The Town has \$24.1 million in fund balance which is not restricted or committed and is classified as assigned to indicate the Town Council’s intent to be used for specific purposes. The largest assigned fund balance is the Reserve for Capital and Special projects with a balance of approximately \$17.6 million which is the primary funding source for the Town’s five-year capital improvement plan.

Additional information on the Town’s Fund Balance can be found in Note (8) of the Notes to the Financial Statements.

Major Governmental Funds results for the year included the following:

Town of Los Gatos
Total Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

| REVENUES | 2019 | 2018 |
|--|-------------|-------------|
| Property Taxes | 17,359,435 | 15,992,980 |
| Sales Taxes | 8,158,152 | 7,592,206 |
| Other Taxes | 2,726,742 | 2,667,840 |
| Licenses & Permits | 5,173,876 | 5,937,044 |
| Intergovernmental | 2,310,655 | 2,124,903 |
| Charges for Services | 5,584,504 | 5,395,057 |
| Fines and Forfeitures | 510,266 | 676,212 |
| Franchise Fees | 2,475,916 | 2,474,814 |
| Interest | 1,809,164 | 332,938 |
| Use of Property | 32,960 | 32,206 |
| Other | 579,755 | 640,844 |
| | <hr/> | <hr/> |
| Total Revenues | 46,721,425 | 43,867,044 |
| | <hr/> | <hr/> |
| EXPENDITURES | | |
| Current: | | |
| General Government | 8,004,254 | 8,770,082 |
| Public Safety | 14,945,407 | 14,423,554 |
| Parks and Public Works | 7,962,135 | 7,125,686 |
| Community Development | 4,577,495 | 4,192,165 |
| Library Services | 2,493,617 | 2,529,017 |
| Sanitation and Other | 628,240 | 521,147 |
| Capital Outlay | 7,888,914 | 9,778,058 |
| | <hr/> | <hr/> |
| Total Expenditures | 46,500,062 | 47,339,709 |
| | <hr/> | <hr/> |
| Excess Revenues over Expenditures | 221,363 | (3,472,665) |
| Proceeds from sales of assets | 1,912,316 | 378,219 |
| Transfers in | 4,264,131 | 3,176,760 |
| Transfers out | (3,323,756) | (3,880,131) |
| | <hr/> | <hr/> |
| Total Other Financing Sources (Uses) | 2,852,691 | (325,152) |
| | <hr/> | <hr/> |
| Net Changes in Fund Balances | 3,074,054 | (2,590,966) |
| Beginning/Ending Fund Balances As Restated | 50,560,772 | 53,151,738 |
| Ending Fund Balances | 53,634,826 | 50,560,772 |

Overall, Governmental Funds revenues finished \$2.9 million or 6.1% higher than the prior year, while expenditures finished \$0.8 million or 1.8% lower than the prior year. The net result is that Governmental Funds income before transfers and other financing sources and uses increased by \$3.7 million. Actual General Fund revenues totaled \$43.6 million or nearly 93% of total of the \$46.7 million governmental fund revenues. Total General Fund operating revenues increased by \$3.1 million, resulting from a \$1.4 million increase in property tax collections, an approximate \$1.5 million in investment income, and a \$0.6 million increase in sales tax collections for the year, offset by small decreases in license and permits and intergovernmental revenues among others.

Governmental Funds expenditures for the year were \$0.9 million lower than the prior year. General Fund expenditures represent approximately \$38.0 million of the total Governmental Fund expenditures of \$46.5 million compared to \$37.0 million of total Governmental Funds expenditures of \$43.9 million in the prior year. The General Fund expense increase from the prior year resulted from negotiated salary increases effective during the year and increased costs for pension expenses. Town pension contributions mandated by CalPERS resulted in the employer contribution rate increasing 16.4% for the safety plan and 12.4% for the miscellaneous plan from the prior year. The decrease in total Governmental expenditures is largely the result of lower capital projects costs in the Town's GFAR fund of approximately \$6.8 million compared to \$8.9 million in the prior year.

Proprietary Funds

The Town's Proprietary Funds (Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-Wide Financial Statements and include individual segment information.

Total net position in the Internal Service Funds increased \$1.6 million in the current year. This was mostly due to the removal of budgeted staff to Internal Service funds resulting in the elimination of net pension/OPEB liabilities of approximately \$2.2 million (total pension and OPEB liabilities for all Town employees are reported in the Town's Statement of Net Position) and operating revenue above expenses totaling approximately \$2.0 million in the Equipment Replacement (\$600K), Workers Compensation (\$222K), Self-Insurance (\$318K), Information Technology (\$657K), and Facilities Maintenance (\$775K). This increase was offset by the closing of two Internal Service Funds (Vehicle Maintenance and Stores Fund) with a transfer of approximately \$1.1 million of residual net position fund balance to the Town's General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to the Original Budget

Comparing the FY 2018/19 original budget (or adopted) General Fund expenditures of \$42,827,777 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$45,318,031 indicates a net increase of approximately \$2.5 million. Additions to the original expenditure budget included approved encumbrance carry-forwards of

\$34,452 and additions of \$2,333,111 of miscellaneous adjustments approved by Town Council throughout the fiscal year.

| Original Budget | + Approved Carry- Forwards | + Prior Year Encumbrances | + Misc. Adjustments & Mid-Year Adjustments | = Final Budget |
|-----------------|-------------------------------------|---------------------------------|--|----------------------|
| \$42,827,777 | \$0 | \$99,927 | \$2,390,327 | \$45,318,031 |

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

- \$1,566,866 increase to salary and benefits for FY 2018/19 reflecting raises (2.5%) for all Town bargaining units as a result of collective bargaining and unrepresented employee labor agreements approved by Town Council during the year and new contracts for the Town Manager and Town Attorney.
- \$600,000 additional appropriations for pass-through revenues to be used for plan review and inspection services associated with the Town's North 40 development.
- \$80,065 of additional funding reflecting various mid-year expenditure budget adjustments including additional funding for Americans with Disabilities Act training (\$16K), additional crossing guard services to reflect collective bargaining process with City of San Jose (\$9.5K), well testing (\$12K), tuition reimbursements for Police personnel (\$11K), receipt of grant funds for bullet proof vests (\$5.9K), among others.
- \$50,000 increase for below market price housing program.
- \$47,000 for additional tree trimming services.
- Approximately \$41,000 increase to reflect receipt of a Public Library Foundation grant.
- \$36,500 for Town branding consultant services.
- \$27,718 to create a Deputy Town Clerk classification including salary and benefits costs.
- \$20,000 to the Chamber of Commerce for it to procure Property and Business Improvement District consulting services.
- \$15,500 to perform a study and provide recommendations for private sector requirements for public arts funding.
- \$15,000 to fund additional services provided by the Town of Los Gatos Chamber of Commerce.

Variance with the Final General Fund Budget

Actual revenues ended the fiscal year at \$2.5 million above final budgeted revenues. Significant factors contributing to the variance are summarized as follows:

- A favorable variance of \$1.4 million in investment earnings for year. The Town received additional investment earnings for the year in its pension/OPEB trust which was not

anticipated during FY 18/19 budget development and a positive trend of interest rates leading to additional interest accrued in year end mark to market valuations.

- A favorable variance of \$602K in property taxes was due to valuation changes caused by an increase in property values from new construction, renovations, the general strong demand for housing in the Town of Los Gatos, and an increase in residual pass-through taxes arising from the dissolution of the Redevelopment Agencies.
- Sales tax collections indicated a favorable variance of \$528K reflecting increased collections from local businesses beyond budget estimates and the effects of initial receipts of the newly adopted District 1/8 cent sales tax approved by Town voters in November 2018.
- An unfavorable variance of (\$374K) in licenses and permits reflecting lower than anticipated activity related to development activity and business licenses.
- An unfavorable variance in fines and forfeitures reflecting staff vacancies for parking enforcement, and changes in parking enforcement and library software technology leading to lower fines.

Significant factors affecting actual expenditures include:

- Non-departmental expenditures reflect a \$3.7 million favorable variance due to the early implementation of GASB 84 wherein budgeted transfers out expenditures to the pension trust were eliminated from year end actual expense as the trust is now accounted for as a restricted asset in the General Fund. Actual transfers of \$3,578,913 were made to the Town's IRS Section 115 trust during the fiscal year and this trust has been merged into the General Fund for reporting purposes hence fund transfer expenditure actuals report \$3.5 million less than actual transfer expenditures.
- Community Development expenditures reflected a \$1.2 million favorable variance explained largely by staff vacancies with salary and benefit savings of approximately \$347K, and the General Plan Update expenditures being approximately \$883K lower than budgeted because the budget reflected the entire contract amount which has not been fully executed through the end of the fiscal year.
- Public safety expenditures had a favorable variance of approximately \$768K reflecting limited term vacancies in Police Officer, Executive Assistant, Dispatcher, and Parking Control Officer positions.
- Administrative Services reflected a favorable balance of approximately \$710K in large measure due to savings in salary and benefits due to vacancies in Information Technology and Town Manager's Office positions.

- Parks and Public Works reflects a favorable variance of approximately \$685K reflecting the underfilling of three positions and three Parks and Maintenance Worker position vacancies.
- Library services reflected a favorable variance of \$191K due mainly to salary and benefit savings from staff vacancies in the Librarian position and other temporary vacancies.

CAPITAL ASSETS

As of June 30, 2019, the Town’s investment in capital assets for its governmental activity is recorded at \$107,542,588 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, and machinery and equipment. During FY 2018/19, the Town’s approximate \$8 million investment in capital assets for the current year represented approximately 4.3% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$5.0 million net increase to Construction in Progress, the majority of that amount (\$3.0 million) expended on the Almond Grove Street Rehabilitation Project.
- \$2.9 million addition to street improvement projects including improvements to major arterials and neighborhood collector streets to enhance bicycle, pedestrian, and traffic safety Town-wide.
- \$700K in equipment purchases, including approximately \$545K in vehicle fleet replacements, \$20K for a skidsteer loader, \$18K for a license plate reader, and approximately \$49K for public safety radio communications upgrade.
- Approximately \$475K expended on building improvements, retaining walls, park improvements, and parking lot improvement projects.

**Town of Los Gatos
Net Investment in Capital Assets
For the Year Ended June 30, 2019**

| | Governmental Activities |
|--------------------------|----------------------------|
| Infrastructure | \$ 48,616,553 |
| Buildings | 22,255,726 |
| Land | 20,294,810 |
| Equipment | 2,657,493 |
| Construction in Progress | 13,718,006 |
| | \$ 107,542,588 |

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 2019/20 budget, the Town Council and management considered the following factors:

- The Town continues to focus on priority issues that involve maintaining public safety and Town infrastructure including streets and parks; and providing library, community development, and other services. These priorities are coordinated with other Core Goals that protect the Town's fiscal health and ensure cost efficient and effective delivery of Town-wide administrative services. The Town's proactive approach to reducing operating expenditures, identifying revenue enhancements, and implementing operating efficiencies has been an effective fiscal approach.
- Reflecting the continued strength of the local economy, the FY 2019/20 operating budget is a balanced budget, with use of General Fund reserves dedicated for one-time uses. The FY 2019/20 Budget maintains existing service levels while recommending modest additions in strategically important areas. This budget incorporates investments toward future equipment replacement, additional annual discretionary pension payments, and increased capacity for the Town's burgeoning technology infrastructure. The FY 2019/20 budget has been balanced largely due to revenue enhancements, resulting from the positive economy and the Town's growth in the economically sensitive revenue sources such as Property Tax, Transient Occupancy Tax, and Business Licenses. In regard to expenditures, the Town's employer-paid benefits are expected to increase for the foreseeable future, including obligated pension contributions, the pre-funding of premiums for retiree health coverage, and the increasing costs of current health plans.
- Specific trends affecting the fund balance forecast include:
 - General property tax collections represent approximately 31.3% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 3.9% in FY 19/20 from the prior year's tax collections. This forecast is based on data from the Santa Clara County Tax Assessor's Office.
 - The Town anticipates a small increase in general sales tax for FY 2019/20. Sales tax estimates of \$8.0 million for FY 2019/20 were budgeted reflecting a 3.3% increase from the prior year's adopted sales tax budget. At the November 6, 2018 election, the Town of Los Gatos residents approved a ballot measure enacting a one-eighth cent (\$0.125%) sales tax for 20 years, providing about \$800,000 annually, requiring Independent Citizens Oversight with public review of spending, and all revenues controlled locally. The Sales

Tax Measure was effective starting April 1, 2019. Staff incorporated the estimated new sales tax figures in the FY 2019/20 budget.

- The Town's investment portfolio experienced a slight increase in its overall weighted average annual yield, rising from 1.75% at June 30, 2018 to 2.05% at June 30, 2019. Anticipating increasing interest rates for FY 2019/20 coupled with reduced cash balances due to capital expenditures, investment earnings are expected to remain at the same level as the prior fiscal year.
- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2019/20 as personal and business-related travel is expected to remain strong.
- The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. To address this unfunded status, the Town took proactive steps including initiating the prefunding of OPEB obligations, budgeting and programming additional discretionary pension payments to accelerate reduction of unfunded liabilities, and recently partnering with the Town's employee groups to eliminate the existing retiree healthcare benefit for new employees. Even with these proactive steps, the Town continues to be impacted by the continuing rising cost of pension related benefits. Over the next five fiscal years, the Town's five-year forecast includes increasing pension costs due to further changes in actuarial assumptions or lowering the discount rate. The Town's net pension liability is \$22.7 million for the safety cost sharing plan and \$30.9 million for the miscellaneous plan based upon data from CalPERS. For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section.

Requests for Information

This financial report is designed to provide residents, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions about this report or requests for any additional information, should be directed to Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030; email at sconway@losgatosca.gov; or phone at (408) 354-6828.

Final Draft
December 3, 2019

This page intentionally left blank

Basic Financial Statements

Final Draft
December 3, 2019

Final Draft
December 3, 2019

This page intentionally left blank

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS
STATEMENT OF NET POSITION
JUNE 30, 2019**

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 69,882,523 |
| Restricted cash and investments | 5,114,653 |
| Receivables: | |
| Accounts | 1,750,427 |
| Interest | 318,578 |
| Intergovernmental | 2,138,115 |
| Materials, supplies and deposits | 22,821 |
| Long term notes receivables | 237,752 |
| Capital Assets: | |
| Nondepreciable | 34,012,816 |
| Depreciable, net of accumulated depreciation | 73,529,772 |
| Total Assets | 187,007,457 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension contributions subsequent to measurement date | 5,333,436 |
| Pension related amounts | 5,781,277 |
| OPEB contributions subsequent to measurement date | 2,406,636 |
| Total Deferred Outflows of Resources | 13,521,349 |
| LIABILITIES | |
| Accounts payable | 3,349,666 |
| Accrued payroll and benefits | 1,415,748 |
| Due to other governments | 77,768 |
| Unearned Revenue | 4,193,759 |
| Deposits | 6,857,798 |
| Claims payable | 1,108,233 |
| Long-term liabilities: | |
| Due within one year: | |
| Compensated absences | 372,628 |
| Due in more than one year: | |
| Net OPEB liability | 10,055,468 |
| Net pension liabilities | 53,627,829 |
| Compensated absences | 2,465,306 |
| Total Liabilities | 83,524,203 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension related amounts | 1,827,262 |
| OPEB related amounts | 358,232 |
| Total Deferred Inflows of Resources | 2,185,494 |
| NET POSITION | |
| Net investment in capital assets | 107,542,588 |
| Restricted for: | |
| Capital projects | 6,695,233 |
| Pension | 5,015,316 |
| Lighting and landscape repairs and maintenance | 208,139 |
| Total Restricted Net Position | 11,918,688 |
| Unrestricted | (4,642,167) |
| Total Net Position | \$ 114,819,109 |

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

**TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position |
|---------------------------------------|----------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| General government | \$ 5,848,125 | \$ 1,562,683 | \$ - | \$ - | \$ (4,285,442) |
| Public safety | 18,879,618 | 1,745,889 | 826,643 | - | (16,307,086) |
| Parks and public works | 10,717,217 | 2,910,936 | 1,301,152 | 146,792 | (6,358,337) |
| Community development | 5,045,523 | 4,155,231 | - | - | (890,292) |
| Library services | 3,062,157 | 9,476 | 47,482 | - | (3,005,199) |
| Sanitation | 683,397 | 966,130 | - | - | 282,733 |
| Total Governmental Activities | \$ 44,236,037 | \$ 11,350,345 | \$ 2,175,277 | \$ 146,792 | (30,563,623) |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes | | | | | 17,321,347 |
| Sales taxes | | | | | 8,158,152 |
| Franchise taxes | | | | | 2,475,916 |
| Other taxes | | | | | 2,726,743 |
| Motor vehicle in lieu | | | | | 14,689 |
| Investment earnings | | | | | 1,809,128 |
| Miscellaneous | | | | | 2,407,840 |
| Total general revenues | | | | | 34,913,815 |
| Change in Net Position | | | | | 4,350,192 |
| Net Position - Beginning, as restated | | | | | 110,468,917 |
| Net Position - Ending | | | | | <u>\$ 114,819,109</u> |

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

Final Draft
December 3, 2019

This page intentionally left blank

TOWN OF LOS GATOS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year.

Major Governmental Funds:

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

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

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

Final Draft
December 3, 2019

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

| | <u>General</u> | <u>Appropriated Reserves</u> | <u>Other Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|----------------------------------|--|---|
| ASSETS | | | | |
| Cash & Investments | \$ 40,178,169 | \$ 12,299,971 | \$ 7,732,508 | \$ 60,210,648 |
| Restricted Cash & Investments | 5,015,316 | - | - | 5,015,316 |
| Receivables: | | | | |
| Accounts | 1,389,919 | 82,022 | 167,051 | 1,638,992 |
| Interest | 318,578 | - | - | 318,578 |
| Intergovernmental | 1,979,601 | - | 158,514 | 2,138,115 |
| Other assets | 22,821 | - | - | 22,821 |
| Due from other funds | 1,443 | - | - | 1,443 |
| Long term notes | 159,000 | - | 78,752 | 237,752 |
| Total Assets | <u>\$ 49,064,847</u> | <u>\$ 12,381,993</u> | <u>\$ 8,136,825</u> | <u>\$ 69,583,665</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,052,910 | \$ 1,005,965 | \$ 970,902 | \$ 3,029,777 |
| Accrued payroll and benefits | 1,412,428 | - | 3,320 | 1,415,748 |
| Due to other governments | 27,263 | 50,363 | - | 77,626 |
| Unearned revenue | 1,371,293 | 2,757,671 | 64,855 | 4,193,819 |
| Deposits | 6,857,798 | - | - | 6,857,798 |
| Due to Other Funds | - | - | 1,443 | 1,443 |
| Compensated absences | 372,628 | - | - | 372,628 |
| Total Liabilities | <u>11,094,320</u> | <u>3,813,999</u> | <u>1,040,520</u> | <u>15,948,839</u> |
| FUND BALANCE | | | | |
| Restricted for: | | | | |
| Capital Outlay | - | 133,169 | 6,562,064 | 6,695,233 |
| Pension | 5,015,316 | - | - | 5,015,316 |
| Repairs and Maintenance | - | - | 208,139 | 208,139 |
| Committed to: | | | | |
| Budget Stabilization | 5,419,222 | - | - | 5,419,222 |
| Catastrophic | 5,419,222 | - | - | 5,419,222 |
| CalPERS/OPEB | 4,232,500 | - | - | 4,232,500 |
| Almond Grove Street Project | - | 2,579,997 | - | 2,579,997 |
| Assigned to: | | | | |
| Open Space | 562,000 | - | - | 562,000 |
| Parking | - | 1,460,210 | - | 1,460,210 |
| Sustainability | 140,553 | - | - | 140,553 |
| Capital Projects | 13,262,303 | 4,344,618 | - | 17,606,921 |
| Carryover Encumbrances | 413,729 | - | - | 413,729 |
| Comcast PEG | - | 50,000 | - | 50,000 |
| Vehicle Maintenance & Stores Reserve | 1,040,375 | - | - | 1,040,375 |
| To Workers' Comp | 1,232,654 | - | - | 1,232,654 |
| Compensated Absences | 1,232,653 | - | - | 1,232,653 |
| Special Revenue Funds | - | - | 326,102 | 326,102 |
| Total Fund Balances | <u>37,970,527</u> | <u>8,567,994</u> | <u>7,096,305</u> | <u>53,634,826</u> |
| Total Liabilities and Fund Balances | <u>\$ 49,064,847</u> | <u>\$ 12,381,993</u> | <u>\$ 8,136,825</u> | <u>\$ 69,583,665</u> |

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

TOWN OF LOS GATOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

| | | |
|---|-----------------|-----------------------|
| Fund Balance - Total Governmental Funds | \$ | 53,634,826 |
| Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following: | | |
| CAPITAL ASSETS | | |
| Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. | | 107,542,588 |
| ALLOCATION OF INTERNAL SERVICE FUND NET POSITION | | |
| Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. | | 8,454,443 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Contributions subsequent to the measurement date will not be included in the calculation of the Town's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources. | | 11,114,713 |
| DEFERRED INFLOWS OF RESOURCES | | |
| In the Government-Wide financial statements certain pension amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded. | | (1,827,262) |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Contributions subsequent to the measurement date will not be included in the calculation of the Town's net OPEB liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources. | | 2,406,636 |
| DEFERRED INFLOWS OF RESOURCES | | |
| In the Government-Wide financial statements certain OPEB amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded. | | (358,232) |
| LONG-TERM LIABILITIES | | |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds. | | |
| Net Pension Liability | \$ (53,627,829) | |
| Net OPEB Liability | (10,055,468) | |
| Compensated absences | (2,465,306) | (66,148,603) |
| Net Position - Governmental Activities | | <u>\$ 114,819,109</u> |

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

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | General | Appropriated Reserves | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------|--|--------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 17,321,344 | \$ - | \$ 38,091 | \$ 17,359,435 |
| Sales Taxes | 8,158,152 | - | - | 8,158,152 |
| Other Taxes | 2,698,352 | - | 28,390 | 2,726,742 |
| Licenses & Permits | 4,586,788 | 181,691 | 405,397 | 5,173,876 |
| Intergovernmental | 950,380 | 30,582 | 1,329,693 | 2,310,655 |
| Charges for Services | 4,643,715 | 595,509 | 345,280 | 5,584,504 |
| Fines and Forfeitures | 510,266 | - | - | 510,266 |
| Franchise Fees | 2,475,916 | - | - | 2,475,916 |
| Interest | 1,682,347 | 44,161 | 82,656 | 1,809,164 |
| Use of Property | 32,960 | - | - | 32,960 |
| Other | 562,714 | 17,041 | - | 579,755 |
| Total Revenues | <u>43,622,934</u> | <u>868,984</u> | <u>2,229,507</u> | <u>46,721,425</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 8,004,254 | - | - | 8,004,254 |
| Public Safety | 14,945,407 | - | - | 14,945,407 |
| Parks and Public Works | 7,934,869 | - | 27,266 | 7,962,135 |
| Community Development | 4,577,495 | - | - | 4,577,495 |
| Library Services | 2,493,617 | - | - | 2,493,617 |
| Sanitation and Other | - | - | 628,240 | 628,240 |
| Capital Outlay | 38,307 | 6,860,026 | 990,581 | 7,888,914 |
| Total Expenditures | <u>37,993,949</u> | <u>6,860,026</u> | <u>1,646,087</u> | <u>46,500,062</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>5,628,985</u> | <u>(5,991,042)</u> | <u>583,420</u> | <u>221,363</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sales of assets | 1,912,316 | - | - | 1,912,316 |
| Transfers in | 1,578,911 | 2,685,220 | - | 4,264,131 |
| Transfers (out) | (2,785,220) | (427,616) | (110,920) | (3,323,756) |
| Total Other Financing Sources (Uses) | <u>706,007</u> | <u>2,257,604</u> | <u>(110,920)</u> | <u>2,852,691</u> |
| NET CHANGES IN FUND BALANCES | <u>6,334,992</u> | <u>(3,733,438)</u> | <u>472,500</u> | <u>3,074,054</u> |
| BEGINNING FUND BALANCES, AS RESTATED | <u>31,635,535</u> | <u>12,301,432</u> | <u>6,623,805</u> | <u>50,560,772</u> |
| ENDING FUND BALANCES | <u>\$ 37,970,527</u> | <u>\$ 8,567,994</u> | <u>\$ 7,096,305</u> | <u>\$ 53,634,826</u> |

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

**TOWN OF LOS GATOS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,074,054

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

CAPITAL ASSET TRANSACTIONS

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

| | | |
|---|--------------------|-----------|
| Expenditures for capital assets (additions) | \$ 9,275,428 | |
| Proceeds from sale of assets | (1,912,316) | |
| Gain on sale of assets | 1,864,810 | |
| Current Year Depreciation | <u>(3,783,509)</u> | 5,444,413 |

OPEB PLAN CONTRIBUTIONS AND EXPENSE

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

523,623

PENSION PLAN CONTRIBUTIONS AND EXPENSE

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

(5,961,900)

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

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

1,612,796

COMPENSATED ABSENCES EXPENSE

In governmental funds, compensated absences such as vacations and sick leave are expenditures when taken. However, in the Government-Wide Statement of Activities, the current year change in the compensated absences liability is reported.

(342,794)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 4,350,192

TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|-----------------------|-----------------------|----------------------|---|
| REVENUES | | | | |
| Property Taxes | \$ 15,989,131 | \$ 16,718,348 | \$ 17,321,344 | \$ 602,996 |
| Sales Taxes | 7,744,208 | 7,629,879 | 8,158,152 | 528,273 |
| Other Taxes | 2,279,500 | 2,629,500 | 2,698,352 | 68,852 |
| Franchise Fees | 2,386,910 | 2,386,910 | 2,475,916 | 89,006 |
| Licenses & Permits | 4,961,199 | 4,961,199 | 4,586,788 | (374,411) |
| Intergovernmental | 685,759 | 845,718 | 950,380 | 104,662 |
| Charges for Services | 4,491,868 | 4,596,416 | 4,643,715 | 47,299 |
| Fines and Forfeitures | 631,400 | 631,400 | 510,266 | (121,134) |
| Interest | 267,806 | 267,806 | 1,682,347 | 1,414,541 |
| Use of Property | 31,959 | 31,959 | 32,960 | 1,001 |
| Other | 445,308 | 466,308 | 562,714 | 96,406 |
| Total Revenues | 39,915,048 | 41,165,443 | 43,622,934 | 2,457,491 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government: | | | | |
| Town Council | 223,036 | 230,280 | 205,903 | 24,377 |
| Town Attorney | 556,183 | 597,768 | 562,542 | 35,226 |
| Administrative Services | 4,290,959 | 4,641,901 | 3,931,807 | 710,094 |
| Non-Departmental | 7,015,300 | 7,043,251 | 3,304,002 | 3,739,249 |
| Total General Government | 12,531,550 | 12,513,200 | 8,004,254 | 4,508,946 |
| Public Safety | 14,976,514 | 15,713,469 | 14,945,407 | 768,062 |
| Community Development | 5,583,158 | 5,786,501 | 4,577,495 | 1,209,006 |
| Parks & Public Works | 7,626,361 | 8,619,883 | 7,934,869 | 685,014 |
| Library Services | 2,556,267 | 2,684,979 | 2,493,617 | 191,362 |
| Capital Outlay | - | - | 38,307 | (38,307) |
| Total Expenditures | 43,273,850 | 45,318,032 | 37,993,949 | 7,324,083 |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | (3,358,802) | (4,152,589) | 5,628,985 | 9,781,574 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of assets | 1,000 | 1,906,000 | 1,912,316 | 6,316 |
| Transfers In | 538,536 | 538,536 | 1,578,911 | 1,040,375 |
| Transfers Out | (2,785,220) | (2,785,220) | (2,785,220) | - |
| Total Other Financing Sources (Uses) | (2,246,684) | (2,246,684) | 706,007 | 1,046,691 |
| NET CHANGES IN FUND BALANCES | \$ (5,605,486) | \$ (6,399,273) | 6,334,992 | \$ 10,828,265 |
| BEGINNING FUND BALANCE | | | 31,635,535 | |
| ENDING FUND BALANCE | | | \$ 37,970,527 | |

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, 2019**

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

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

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

Final Draft
December 3, 2019

**TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2019**

| | <u>Governmental Activities Internal Service Funds</u> |
|--|---|
| ASSETS | |
| Cash & investments | \$ 9,671,877 |
| Restricted cash & investments | 99,337 |
| Accounts Receivable | 111,495 |
| Total Assets | <u>9,882,709</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | 319,891 |
| Due to other governments | <u>142</u> |
| Total current liabilities | <u>320,033</u> |
| Noncurrent liabilities: | |
| Claims payable | <u>1,108,233</u> |
| Total noncurrent liabilities | <u>1,108,233</u> |
| Total Liabilities | <u>1,428,266</u> |
| NET POSITION | |
| Restricted for workers compensation claims | 99,337 |
| Unrestricted | <u>8,355,106</u> |
| Total Net Position | <u><u>\$ 8,454,443</u></u> |

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

**TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | <u>Governmental Activities Internal Service Funds</u> |
|---|---|
| OPERATING REVENUES | |
| Charges for services | \$ 3,678,124 |
| Interest | 8 |
| Use of money and property | 229,559 |
| Other local taxes | 28,390 |
| Other | <u>556,696</u> |
| Total Operating Revenues | <u>4,492,777</u> |
| OPERATING EXPENSES | |
| Salaries and related expenses | 413 |
| Depreciation | 558 |
| Services and Supplies | <u>4,145,774</u> |
| Total Operating Expenses | <u>4,146,745</u> |
| Operating Income | 346,032 |
| Transfer of net position to General Fund | (1,040,375) |
| Transfer of pension amounts to General Fund | 2,207,139 |
| Transfers in (Note 4) | 450,000 |
| Transfers out (Note 4) | (350,000) |
| Net transfers | <u>1,266,764</u> |
| Change in Net Position | 1,612,796 |
| BEGINNING NET POSITION | <u>6,841,647</u> |
| ENDING NET POSITION | <u><u>\$ 8,454,443</u></u> |

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

**TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | <u>Governmental Activities Internal Service Funds</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 6,726,234 |
| Payments to suppliers | (4,060,882) |
| Payments to employees | (2,243,024) |
| Claims paid | (495,834) |
| | (73,506) |
| Net cash provided (used) by operating activities | (73,506) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers In/(Out) | (940,375) |
| Net cash provided (used) by noncapital financing activities | (940,375) |
| Net Increase(Decrease) in Cash and Investments | (1,013,881) |
| Cash and investments - beginning of year | 10,785,095 |
| Cash and investments - end of year | \$ 9,771,214 |
| FINANCIAL STATEMENT PRESENTATION | |
| Cash & investments | \$ 9,671,877 |
| Restricted cash & investments | 99,337 |
| Total | \$ 9,771,214 |
| Reconciliation of Operating Income to Cash Flows from Operating Activities: | |
| Operating Income | \$ 2,553,171 |
| Adjustments to reconcile operating income to cash flows from operating activities: | |
| Depreciation | 558 |
| Change in assets and liabilities: | |
| Receivables, net | 26,318 |
| Material and supplies | 28,011 |
| Deferred outflows of resources | 588,282 |
| Net pension liabilities | (2,748,907) |
| Deferred inflows of resources | (46,460) |
| Accounts payable | 56,739 |
| Accrued payroll and benefits | (35,526) |
| Claims payable | (495,834) |
| Due to other government | 142 |
| Cash Flows From Operating Activities | \$ (73,506) |

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, 2019

FIDUCIARY FUNDS

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

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

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

Final Draft
December 3, 2019

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

| | Total Private Purpose Trust Funds |
|--|--|
| ASSETS | |
| Cash and investments (Note 2) | \$ 2,262,128 |
| Restricted cash and investments (Note 2) | 2,003,810 |
| Accounts receivable | 8,750 |
| Loans receivable (Note 3) | 575,425 |
| Capital assets (Note 5): | |
| Nondepreciable | 5,257,422 |
| Depreciable, net of accumulated depreciation | 1,525,393 |
| Total Assets | 11,632,928 |
| LIABILITIES | |
| Accounts payable | 3,184 |
| Due to other governments (Note 13) | 112 |
| Interest payable | 306,297 |
| Long-term debt (Note 6): | |
| Due within one year | 1,195,000 |
| Due in more than one year | 15,749,200 |
| Total Liabilities | 17,253,793 |
| NET POSITION | |
| Held in trust | (5,620,865) |
| Total Net Position | \$ (5,620,865) |

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

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | Total Private Purpose Trust Funds |
|--|--|
| ADDITIONS | |
| Property taxes | \$ 1,945,763 |
| Investment earnings | 53,998 |
| Gifts, bequests and endowments | 82,213 |
| Other | 1,909,073 |
| Total Additions | 3,991,047 |
| DEDUCTIONS | |
| Program expenses of former RDA | 1,920,655 |
| Interest and fiscal agency expenses of RDA | 701,449 |
| Library services | 69,029 |
| Capital outlay | 21,048 |
| Depreciation expense | 101,692 |
| Total Deductions | 2,813,873 |
| CHANGE IN NET POSITION | 1,177,174 |
| NET POSITION - BEGINNING OF YEAR | (6,798,039) |
| NET POSITION - END OF YEAR | \$ (5,620,865) |

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

Final Draft
December 3, 2019

This page intentionally left blank

Notes to Basic Financial Statements

Final Draft
December 3, 2019

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

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

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town's population as of January 1, 2019 was 30,988.

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 solely 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 Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) and the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) are not included in the accompanying basic financial statements as boards are separate from and independent of the Town administration.

D. Basis of Presentation

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

E. Major Funds

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

The Town also reports the following fund types:

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

F. Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

Other Postemployment Benefits (OPEB)

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

| | |
|--------------------|-------------------------------|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Measurement Period | July 1, 2017 to June 30, 2018 |

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Investments - Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

| | |
|--------------------------------------|---------------------|
| Beginning Balance | \$ 2,445,237 |
| Addition | 2,140,474 |
| Payments | <u>(1,747,777)</u> |
| Ending Balance | <u>\$ 2,837,934</u> |
| Compensated Absences Current Portion | <u>\$ 372,628</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 planned retirements are reported in the fund financial statements.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net position by the Town that is applicable to a future reporting period, for example, contributions to pension and OPEB plans that are after the actuarial measurement date.

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during for the year ended June 30, 2019.

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

G. Accounting and Reporting Changes

- GASB Statement No. 83, Certain Asset Retirement Obligations – The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this statement did not apply to the Town for the current fiscal year.
- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements – The objective of this statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. The requirements of this statement did not apply to the Town for the current fiscal year.
- GASB Statement No. 84, Fiduciary Activities – The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Town implemented this statement in the fiscal year ending June 30, 2019 by combining the Pension Trust Fiduciary Fund with the General Fund.

NOTE 2 - CASH AND INVESTMENTS

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

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are next 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 fair value of 110% of the Town's cash on deposit, first trust deed mortgage notes with a value of 150% of the deposit, or letters of credit issued by the Federal Home Loan Bank of San Francisco with a value of 100% of the deposit as collateral. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town's cash deposits are collateralized under this law.

The bank balance of the Town's cash deposits was \$13,359,592 and the book balance was \$13,380,172 as of June 30, 2019. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

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

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

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

Local Agency Investment Fund (LAIF) - The Town invests in the California State Treasurer’s Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and is under the day to day administration of the State Treasurer. As of June 30, 2019, the Town had approximately \$6.4 million in LAIF. Of that amount, 98.23% is invested in non-derivative financial products and 1.77% 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.

Risk Disclosures

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

Risk Disclosures, Continued

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

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2019.

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

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

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2019:

| <u>Investment Type/Cash Deposit</u> | <u>Available for Operations</u> | <u>Restricted</u> | <u>Total</u> | <u>Concentration of Credit Risk</u> | <u>Minimum Rating</u> | <u>Input level</u> | <u>Time to Mature (Years)</u> | <u>Weighted Average Maturity</u> |
|---|---------------------------------|---------------------|---------------------|-------------------------------------|-----------------------|--------------------|-------------------------------|----------------------------------|
| US Treasury Securities | \$14,697,063 | \$ - | \$14,697,063 | 25.02% | Aaa | 2 | 0-2 | 0.64 years |
| US Instrumentality Security | 30,897,721 | - | 30,897,721 | 52.60% | Aaa | 2 | 0-4 | 0.85 years |
| Corporate Securities | 6,692,423 | - | 6,692,423 | 11.39% | A1 | 2 | 0-3 | 0.72 years |
| Government Securities Money Market Mutual funds | 29,757 | - | 29,757 | 0.05% | Not Rated | 2 | n/a | n/a |
| LAIF | 6,425,281 | - | 6,425,281 | 10.94% | Not Rated | n/a | n/a | n/a |
| Total investments | 58,742,245 | - | 58,742,245 | 100.00% | | | | |
| Cash Deposit with Banks | 13,380,172 | 99,337 | 13,479,509 | | | | | |
| Money Market Accounts | 17,384 | 2,003,810 | 2,021,194 | | | | | |
| Investment held in pension trust | | 5,015,316 | 5,015,316 | | | | | |
| Cash on hand at Town | 4,850 | - | 4,850 | | | | | |
| Town Cash and Investments | \$72,144,651 | \$ 7,118,463 | \$79,263,114 | | | | | |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

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.

| | <u>Total Town</u> | <u>Fiduciary Funds</u> | <u>Total</u> |
|---|----------------------|------------------------|----------------------|
| Cash and Investments available for operations | \$ 69,882,523 | \$ 2,262,128 | \$ 72,144,651 |
| Restricted cash and investments | 5,114,653 | 2,003,810 | 7,118,463 |
| Total cash and investments | <u>\$ 74,997,176</u> | <u>\$ 4,265,938</u> | <u>\$ 79,263,114</u> |

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2019 :

| <u>Description</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>Balance</u> |
|--|----------------------|-----------------|-------------------|
| General Fund: | | | |
| Rehab Loan to Charities | Various | Various | \$ 159,000 |
| Total General Fund | | | <u>159,000</u> |
| Community Development Block Grant Fund (CDBG): | | | |
| Housing Conservation Loans | 0-5% | Various | 78,752 |
| Total CDBG | | | <u>78,752</u> |
| Total Long Term Notes Receivable - Government-Wide Statement of Net Position | | | <u>237,752</u> |
| Successor Agency Affordable Housing | | | |
| Project Match | Various | Various | 575,425 |
| Total Long Term Notes Receivable | | | <u>\$ 813,177</u> |

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

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four- or five-bedroom single-family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2019, no interest or principal payments have been made.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 - INTERFUND TRANSACTIONS

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

Transfers - With Council approval resources may be transferred from one fund to another. Transfers pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2019 were as follows:

| | Transfer In | Transfer Out |
|---------------------------|--------------|--------------|
| General Fund | \$ 1,578,911 | \$ 2,785,220 |
| Appropriated Reserve Fund | 2,685,220 | 427,616 |
| Non-major Gov't Funds | | 110,920 |
| Internal Service Funds | 450,000 | 1,390,375 |
| Total Transfers | \$ 4,714,131 | \$ 4,714,131 |

NOTE 5 - CAPITAL ASSETS

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

| | Balance at June 30, 2018 | Adjustments and Additions | Transfers and Retirements | Balance at June 30, 2019 |
|--|-----------------------------|------------------------------|------------------------------|-----------------------------|
| Capital Assets not being Depreciated | | | | |
| Land | \$ 20,333,684 | \$ - | \$ (38,874.00) | \$ 20,294,810 |
| Construction in Progress | 10,564,654 | 4,988,969 | (1,835,617) | 13,718,006 |
| Total Capital Assets not being Depreciated | 30,898,338 | 4,988,969 | (1,874,491) | 34,012,816 |
| Capital Assets being Depreciated | | | | |
| Buildings and Improvements | 29,690,945 | 381,878 | 106,149 | 30,178,972 |
| Equipment & Vehicle | 11,420,005 | 324,675 | (259,919) | 11,484,761 |
| Infrastructure - All Other | 22,718,449 | 827,530 | 1,729,468 | 25,275,447 |
| Infrastructure - Streets | 60,665,806 | 2,752,376 | (403,382) | 63,014,800 |
| Total Capital Assets being Depreciated | 124,495,205 | 4,286,459 | 1,172,316 | 129,953,980 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | 7,276,863 | 646,383 | | 7,923,246 |
| Equipment & Vehicle | 8,459,985 | 618,571 | (251,288) | 8,827,268 |
| Infrastructure - All Other | 5,734,439 | 697,195 | - | 6,431,634 |
| Infrastructure - Streets | 31,823,527 | 1,821,915 | (403,382) | 33,242,060 |
| Total accumulated depreciation | 53,294,814 | 3,784,064 | (654,670) | 56,424,208 |
| Net Capital Assets being Depreciated | 71,200,391 | 502,395 | 1,826,986 | 73,529,772 |
| Governmental Activity Capital Assets, Net | \$ 102,098,729 | \$ 5,491,364 | \$ (47,505) | \$ 107,542,588 |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS, CONTINUED

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 | \$ 180,838 |
| Community Services | 53,828 |
| Public Safety | 474,004 |
| Parks & Public Works | 2,658,132 |
| Library | 376,926 |
| Sanitation | 40,336 |
| Total Governmental Activities | \$ 3,784,064 |

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

| | Balance at June 30, 2018 | Adjustments and Additions | Transfers and Retirements | Balance at June 30, 2019 |
|---|-----------------------------|------------------------------|------------------------------|-----------------------------|
| Capital Assets not being Depreciated | | | | |
| Land | \$ 5,257,422 | \$ - | \$ - | \$ 5,257,422 |
| Total Capital Assets not being Depreciated | 5,257,422 | - | - | 5,257,422 |
| Capital Assets being Depreciated | | | | |
| Buildings and Improvements | 4,067,708 | - | - | 4,067,708 |
| Total Capital Assets being Depreciated | 4,067,708 | - | - | 4,067,708 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | 2,440,624 | 101,691 | - | 2,542,315 |
| Total accumulated depreciation | 2,440,624 | 101,691 | - | 2,542,315 |
| Net Capital Assets being Depreciated | 1,627,084 | (101,691) | - | 1,525,393 |
| Successor Agency Capital Assets, Net | \$ 6,884,506 | \$ (101,691) | \$ - | \$ 6,782,815 |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019:

| Long Term Debt | Interest Rate | Maturity Date | Original Issue | Beginning Balance | Deletion | Ending Balance | Due Within One Year | Due in More Than One Year |
|----------------------|---------------|---------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|
| 2002 COP | 2.5 -5% | 8/1/2031 | \$10,725,000 | \$ 6,780,000 | \$ 350,000 | \$ 6,430,000 | \$ 365,000 | \$ 6,065,000 |
| 2010 COP | 2.5 - 4.25% | 8/1/2028 | 15,675,000 | 10,900,000 | 800,000 | 10,100,000 | 830,000 | 9,270,000 |
| Subtotal COP | | | 26,400,000 | 17,680,000 | 1,150,000 | 16,530,000 | 1,195,000 | 15,335,000 |
| Premiums | | | 735,095 | 451,855 | 37,655 | 414,200 | - | 414,200 |
| Total Long-Term Debt | | | <u>\$27,135,095</u> | <u>\$18,131,855</u> | <u>\$ 1,187,655</u> | <u>\$16,944,200</u> | <u>\$ 1,195,000</u> | <u>\$15,749,200</u> |

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

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

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

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

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|----------------------------|----------------------|---------------------|----------------------|
| 2020 | 1,195,000 | 710,024 | 1,905,024 |
| 2021 | 1,250,000 | 658,494 | 1,908,494 |
| 2022 | 1,300,000 | 599,850 | 1,899,850 |
| 2023 | 1,355,000 | 538,713 | 1,893,713 |
| 2024 | 1,415,000 | 479,550 | 1,894,550 |
| 2025-2029 | 8,155,000 | 1,396,500 | 9,551,500 |
| 2030-2032 | 1,860,000 | 142,500 | 2,002,500 |
| Total COP Debt Service | <u>\$ 16,530,000</u> | <u>\$ 4,525,631</u> | <u>\$ 21,055,631</u> |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs' debt agreements. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the debt agreements and totaled \$1,961,718 as of June 30, 2019. The California Government Code requires these funds to be invested in accordance with Town ordinances, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

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

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. There was no non-obligated debt outstanding as of June 30, 2019.

NOTE 8 - FUND BALANCES

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - FUND BALANCES, CONTINUED

As of June 30, 2019, fund balances were classified as follows:

| | Beginning Balance | Adjustments | Adjusted Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|-------------|----------------------------------|------------------|------------------|----------------------|
| Restricted for | | | | | | |
| Capital Outlay | \$ 6,794,063 | - | 6,794,063 | 374,937 | 473,767 | \$ 6,695,233 |
| Pension | - | 1,206,851 | 1,206,851 | 3,808,465 | - | 5,015,316 |
| Repairs and Maintenance | 198,684 | - | 198,684 | 9,455 | - | 208,139 |
| Committed to: | - | | | | | - |
| Budget Stabilization | 5,037,243 | - | 5,037,243 | 381,979 | - | 5,419,222 |
| Catastrophic | 5,037,243 | - | 5,037,243 | 381,979 | - | 5,419,222 |
| CalPERS/OPEB Reserve | 2,878,913 | - | 2,878,913 | 1,353,587 | - | 4,232,500 |
| Almond Grove Street Project | 5,571,087 | - | 5,571,087 | - | 2,991,090 | 2,579,997 |
| Assigned to: | - | | | | | - |
| Open Space | 562,000 | - | 562,000 | - | - | 562,000 |
| Parking | 1,460,210 | - | 1,460,210 | - | - | 1,460,210 |
| Sustainability | 140,553 | - | 140,553 | - | - | 140,553 |
| Strategic Planning | 129,090 | - | 129,090 | - | 129,090 | - |
| Capital Projects | 19,034,405 | - | 19,034,405 | - | 1,427,484 | 17,606,921 |
| Carryover Encumbrances | 99,927 | - | 99,927 | 313,802 | - | 413,729 |
| Comcast PEG | 50,000 | - | 50,000 | - | - | 50,000 |
| Vehicle Maintenance & Stores Reserve | - | - | - | 1,040,375 | - | 1,040,375 |
| Workers' Compensation | - | - | - | 1,232,654 | - | 1,232,654 |
| Compensated Absences | 2,122,512 | - | 2,122,512 | - | 889,859 | 1,232,653 |
| Special Revenue Funds | 237,991 | - | 237,991 | 88,111 | - | 326,102 |
| Total Fund Balance - All Governmental Funds | <u>\$ 49,353,921</u> | <u>-</u> | <u>50,560,772</u> | <u>4,792,487</u> | <u>5,437,523</u> | <u>\$ 53,634,826</u> |

Restricted

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

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

Pension amounts are cash and investments held for the purpose of paying for the pension liabilities. Monies are held in an IRS Section 115 Trust over which the Town has control.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - FUND BALANCES, CONTINUED

Committed

Stabilization Arrangements

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

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

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

CalPERS/OPEB Reserve committed fund balance will be used to fund net pension liabilities for the Town's Miscellaneous and Safety pension plans administered by CALPERS. In the fiscal year ending June 30, 2018 the Town approved an update to its General Fund reserve policy providing to the extent possible that additional annual deposits be calculated and placed into this reserve with the goal of moving the payment of the unfunded pension liability from a 29 year to a 20 year amortization period and reducing the net OPEB liability.

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

Assigned

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - FUND BALANCES, CONTINUED

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

Vehicle Maintenance & Stores Reserve assigned fund balance is to be used for maintaining the Town's fleet and providing mail and printing services.

To Workers' Comp assigned fund balance is to be used for future payments to employees due to illness or injury as a result of being employed by the Town.

Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2019 that were not an obligation of the General Fund because of their long-term nature.

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

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Summary of Pension Amounts

| | <u>Miscellaneous Plan</u> | <u>Safety Plan</u> | <u>Total Plans</u> |
|---|---------------------------|--------------------|--------------------|
| Deferred Employer Pension Contributions | \$ 3,008,079 | \$ 2,325,357 | \$ 5,333,436 |
| Deferred Outflows - Pension Related Amounts | \$ 1,252,868 | \$ 4,528,409 | \$ 5,781,277 |
| Net Pension Liability | \$ 30,902,562 | \$ 22,725,267 | \$ 53,627,829 |
| Deferred Inflows - Pension Related Amounts | \$ 451,658 | \$ 1,375,604 | \$ 1,827,262 |
| Pension Expense | \$ 5,381,906 | \$ 3,706,315 | \$ 9,088,221 |

(a) General Information about the Pension Plans

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(a) General Information about the Pension Plan, Continued

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

| Hire Date | Miscellaneous | | | Safety | |
|--|------------------|---|--------------------------------|--|--------------------------------|
| | Tier 1 | Tier 2 | PEPRA | Tier 1 | PEPRA |
| | | Prior to September 15, 2012 and before January 1, 2013 with reciprocity or member of CalPERS | On or after January 1, 2013 | Before January 1, 2013 with reciprocity or member of CalPERS | On or after January 1, 2013 |
| Benefit Formula | 2.5% @ 55 | 2% @ 60 | 2% @ 62 | 3% @ 50 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years | 5 years | 5 years | 5 years | 5 years |
| Benefit payments | Monthly for Life | Monthly for Life | Monthly for Life | Monthly for Life | Monthly for Life |
| Retirement age | 55 | 60 | 62 | 50 | 57 |
| Monthly benefits as a % of eligible compensation | 2% to 2.5% | 1% to 2.5% | 1.5% to 2.5% | 3% | 2% to 2.7% |
| Required employee contribution rates | 8.00% | 7.00% | 7.25% | 9.00% | 12.75% |
| Required employer contribution rates | 10.001% | | | 22.346% | 12.965% |
| Required payment of unfunded liability | \$ 1,998,006 | | | \$1,197,652 | 4507 |

Employees Covered

At June 30, 2019, the following employees were covered by the benefit terms for the Miscellaneous and Safety Plans:

| | Miscellaneous | Safety |
|-------------|---------------|--------|
| Active | 113 | 37 |
| Transferred | 99 | 13 |
| Separated | 87 | 2 |
| Retired | 236 | 79 |
| Total | 535 | 131 |

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability

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

For the Safety Plan, net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Town's proportion of the net pension liability (Safety Plan) was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of the measurement date June 30, 2018 was as follows:

| | <u>Proportionate Share of Net Pension Liability</u> |
|------------------------------|---|
| Proportion - June 30, 2017 | 0.22603% |
| Proportion - June 30, 2018 | 0.23583% |
| Change - Increase (Decrease) | <u>0.00980%</u> |

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

Actuarial Assumptions - The June 30, 2017 valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial methods and assumptions:

| | <u>Miscellaneous Agent Multiple Employer Plan</u> | <u>Safety Cost Sharing Plan</u> |
|-----------------------------------|---|---------------------------------|
| Valuation Date | June 30, 2017 | June 30, 2017 |
| Measurement Date | June 30, 2018 | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method | |
| Actuarial Assumptions: | | |
| Discount Rate | 7.15% | 7.15% |
| Inflation | 2.75% | 2.75% |
| Salary Increases | Varies by Entry Age and Service | |
| Mortality Rate Table ¹ | Derived using CalPERS' Membership Data for all Funds | |
| Post Retirement Benefit Increase | Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter | |

1. The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report that can be found on the CalPERS website.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

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

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

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

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|---------------------|--------------------------------|--------------------------------|-----------------------------|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Global Fixed Income | 28.00% | 1.00% | 2.62% |
| Inflation Sensitive | - | 0.77% | 1.81% |
| Private Equity | 8.00% | 6.30% | 7.23% |
| Real Estate | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | - | -0.92% |
| Total | 100% | | |

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(c) Changes in the Net Pension Liability

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

| <u>Miscellaneous Plan</u> | <u>Total Pension Liability</u> | <u>Fiduciary Net Pension</u> | <u>Net Pension Liability</u> |
|--|--|--------------------------------------|--------------------------------------|
| Beginning Balance | \$ 100,469,377 | \$ 69,680,823 | \$ 30,788,554 |
| Service Costs | 1,700,438 | | 1,700,438 |
| Interest on Total Pension Liability | 7,073,843 | | 7,073,843 |
| Changes of Assumptions | (655,541) | | (655,541) |
| Difference Between Actual and Expected Experience | 994,994 | | 994,994 |
| Net Plan to Plan Resource Movement | | (170) | 170 |
| Employer Contributions | | 2,669,104 | (2,669,104) |
| Employee Contributions | | 761,705 | (761,705) |
| Net Investment Income | | 5,883,868 | (5,883,868) |
| Employee Contribution Refunds and Benefit Payments | (5,448,374) | (5,448,374) | - |
| Administrative Expenses | | (108,582) | 108,582 |
| Other Miscellaneous Income | | (206,199) | 206,199 |
| Net Changes | <u>3,665,360</u> | <u>3,551,352</u> | <u>114,008</u> |
| Ending Balance | <u>\$ 104,134,737</u> | <u>\$ 73,232,175</u> | <u>\$ 30,902,562</u> |

For the measurement period ended June 30, 2018, the Town contributed \$1,951,711 for the safety Cost-Sharing Plan.

As of June 30, 2019, the Town reported net pension liabilities for its proportionate share of the net pension liability of the safety Cost-Sharing Plan of \$22,725,267.

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

| <u>Sensitivity to Changes in the Discount Rate</u> | <u>Miscellaneous Agent Multiple Employer Plan</u> | <u>Safety Cost Sharing Plan</u> | <u>Total</u> |
|--|---|-------------------------------------|---------------|
| 1% Decrease (6.15%) Net Pension Liability | \$ 44,320,856 | \$ 35,022,750 | \$ 79,343,606 |
| Current Discount Rate (7.15%) Net Pension Liability | \$ 30,902,562 | \$ 22,725,267 | \$ 53,627,829 |
| 1% Increase (8.15%) Net Pension Liability | \$ 19,825,605 | \$ 12,649,681 | \$ 32,475,286 |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(c) Changes in the Net Pension Liability, Continued

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

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

For the year ended June 30, 2019, the Town recognized pension expense of \$5,381,906 for the Miscellaneous Agent Multiple Employer Plan and \$3,706,315 for the Safety Cost Sharing Plan. The Town recognized total pension expense for all plans of \$9,088,221.

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the Miscellaneous Agent Multiple Employer Plan:

| | Miscellaneous | |
|---|--------------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$ 3,008,079 | \$ - |
| Changes in assumptions | 498,312 | (370,523) |
| Difference between expected and actual experiences | 562,388 | (81,135) |
| Net differences between projected and actual earnings on plan investments | 192,168 | - |
| Totals | <u>\$ 4,260,947</u> | <u>\$ (451,658)</u> |

\$3,008,079 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2019 | \$ 1,478,926 |
| 2020 | 244,420 |
| 2021 | (724,237) |
| 2022 | (197,899) |
| 2023 | - |
| Thereafter | - |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

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

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Cost Sharing Plan:

| | Safety | |
|--|--------------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$ 2,325,357 | \$ - |
| Changes in assumptions | 2,229,745 | (300,832) |
| Difference between expected and actual experiences | 488,289 | (1,852) |
| Changes in employer's proportion | 1,656,514 | (154,538) |
| Differences between the employer's contributions and the employer's proportionate share of contributions | - | (918,382) |
| Net differences between projected and actual earnings on plan investments | 153,861 | - |
| Totals | \$ 6,853,766 | \$ (1,375,604) |

\$2,325,357 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year end June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2020 | \$ 2,754,778 |
| 2021 | 1,113,929 |
| 2022 | (558,497) |
| 2023 | (157,407) |
| 2024 | - |
| Thereafter | |

(e) Payable to the Pension Plan

At June 30, 2019, the Town reported a payable of \$83,235 and \$54,145 for the outstanding amount of contributions to the Miscellaneous Agent Multiple Employer Plan and the Safety Cost Sharing Plan for the year ended June 30, 2019.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(f) IRS Section 115 Trust

In March 2018, the Town established an IRS Section 115 Trust (Trust) with Public Agencies Retirement Services (PARS), an entity independent of CalPERS, in order to prefund the pension liabilities for both the Miscellaneous and Safety defined-benefit pension plans. The Town contributed \$3,578,913 to the Trust for the fiscal year ending June 2019 which is not reflected in any of the deferral amounts in the tables above as it is separate from the plans.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

Contributions - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the measurement period July 1, 2017-June 30, 2018, the Town contributed \$2,935,313 to the plan which included \$1,138,313 of cash benefit payments, administrative fees of \$9,000, and \$188,000 of implied subsidy benefit payments. All related obligations are paid from the Town's General Fund.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Covered Participants

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 126 |
| Inactive employees entitled to but not yet receiving benefits | 50 |
| Active employees | <u>149</u> |
| Total | <u><u>325</u></u> |

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

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

| | |
|--|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 6.75% |
| Inflation | 2.75% |
| Contribution Policy | Pre-funded through CERBT with the Strategy 1 asset allocation Town contributes at least the ADC |
| Salary Increases | Aggregate - 3% annually Meerit - CalPERS 1997-2015 Experience Study |
| Projected Salary Increase | 3.00% |
| Investment Rate of Return | 6.75% |
| Mortality, Retirement, Disability, Termination | CalPERS 1997-2015 Experience Study |
| Mortality Improvement | Post-retirement mortality projected fully generational with Scale MP-2017 |
| Healthcare Trend | Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years |
| Participation at Retirement | Actives in insurance program: 100% Actives in cash allocation program: 90% Waived retirees aged <65: 20% Waived retirees aged ≥65: 0% Retirees with sickleave conversion accounts will continue to participate after account exhausted |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

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

The long-term expected real rates of return are presented as geometric means

* Policy target effective on the measurement date (June 30, 2018). Changes to the target investment allocation effective October 1, 2018 do not have a significant impact on the expected long-term rate of return

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Net OPEB Liability – The net OPEB liability is calculated by subtracting the fiduciary net position (FNP) of the Plan from the total OPEB liability as determined by the actuary. The table that follows displays the changes that applied to the total OPEB liability, FNP, and Net OPEB liability during the measurement period of July 1, 2017 through June 30, 2018.

| | Increase (Decrease) | | |
|--|-------------------------|--------------------------------|-------------------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability/(Asset) |
| Balance at June 30, 2018 (6/30/17 measurement date) | \$ 24,773,000 | \$ 13,608,000 | \$ 11,165,000 |
| Changes in the year: | | | |
| Service cost | 1,168,227 | - | 1,168,227 |
| Interest on the total pension liability | 1,706,270 | - | 1,706,270 |
| Differences between actual and expected experience | - | - | - |
| Changes in assumptions | - | - | - |
| Changes in benefit terms | - | - | - |
| Contributions - employer | - | 2,935,313 | (2,935,313) |
| Contributions - employee | - | - | - |
| Net investment income | - | 1,082,977 | (1,082,977) |
| Administrative expenses | - | (34,261) | 34,261 |
| Benefit payments , including refunds of employee contributions | (1,326,313) | (1,326,313) | - |
| Net changes | 1,548,184 | 2,657,716 | (1,109,532) |
| Balance at June 30, 2019 (6/30/18 measurement date) | \$ 26,321,184 | \$ 16,265,716 | \$ 10,055,468 |

Due to these changes, the Town achieved an OPEB Plan funding status of 61.8% for the June 30, 2018 measurement date.

| | Fiscal Year Ending | |
|------------------------------|--------------------|------------|
| | 6/30/2019 | 6/30/2018 |
| Measurement Date | 6/30/2018 | 6/30/2017 |
| Total OPEB Liability (TOL) | 26,321,184 | 24,773,000 |
| Fiduciary Net Position (FNP) | 16,265,716 | 13,608,000 |
| Net OPEB Liability (NOL) | 10,055,468 | 11,165,000 |
| Funded Status (FNP/TOL) | 61.8% | 54.9% |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

| <u>Discount Rate</u> | 1% Decrease (5.75%) | Current Rate (6.75%) | 1% Increase (7.75%) |
|-------------------------|------------------------|-------------------------|------------------------|
| Net OPEB Liability | \$ 13,428,106 | \$ 10,055,468 | \$ 7,226,415 |
| | | | |
| <u>Healthcare Trend</u> | 1% Decrease | Current Trend | 1% Increase |
| Net OPEB Liability | \$ 7,459,605 | \$ 10,055,468 | \$ 12,779,309 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Partial amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. The measurement period July 1, 2017 through June 30, 2018 gains and losses are spread evenly over a 5-year period. The total OPEB expense recognized in the fiscal year ending June 30, 2019 was \$1,883,013 and the Town reported deferrals from the following sources:

| | <u>OPEB</u> | |
|--|---------------------------------------|--------------------------------------|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| • Employer contributions made subsequent to the measurement date | \$ 2,406,636 | \$ - |
| • Net difference between projected and actual | - | 358,232 |
| Totals | <u>\$ 2,406,636</u> | <u>\$ 358,232</u> |

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The \$2,406,636 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

| Fiscal Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2020 | \$ (108,058) |
| 2021 | \$ (108,058) |
| 2022 | \$ (109,058) |
| 2023 | \$ (33,058) |
| 2024 | - |
| Thereafter | |

NOTE 11 - RISK MANAGEMENT

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 11 - RISK MANAGEMENT, CONTINUED

The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2019:

| | Workers' Compensation Internal Service Fund | Self- Insurance Internal Service Fund | Total |
|--|--|--|---------------------|
| Claims payable balance - June 30, 2017 | \$ 1,099,736 | \$ 248,656 | \$ 1,348,392 |
| Claims incurred | 1,028,359 | 105,000 | 1,133,359 |
| Claims paid | <u>(655,770)</u> | <u>(221,913)</u> | <u>(877,683)</u> |
| Claims payable balance - June 30, 2018 | 1,472,324 | 131,743 | 1,604,067 |
| Claims incurred | 1,161,312 | 29,999 | 1,191,311 |
| Claims paid | <u>(1,581,441)</u> | <u>(105,704)</u> | <u>(1,687,145)</u> |
| Claims payable balance - June 30, 2019 | <u>\$ 1,052,195</u> | <u>\$ 56,038</u> | <u>\$ 1,108,233</u> |

NOTE 12 - REDEVELOPMENT AGENCY DISSOLUTION

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

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

Successor Agency - As of June 30, 2019, the Successor Agency Trust fund reported a net deficit of \$6,158,880.

Encumbrances - As of June 30, 2019, the Town had the following encumbered balances that were carried into the next fiscal year:

| | |
|------------------------------|---------------------|
| General Fund | \$ 413,729 |
| Appropriated Reserves Fund | 2,841,182 |
| Non-major Governmental Funds | 721,100 |
| Proprietary Funds | <u>229,734</u> |
| Total Encumbrances | <u>\$ 4,205,745</u> |

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

Affordable Housing Cooperative Agreement

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

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

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

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

The Town recorded a prior period adjustment due to the implementation of GASB Statement 84 – Fiduciary Activities. The town combined the Pension Trust Fiduciary Fund with the General Fund, resulting in a restatement of net position:

Government-wide Statements

| | <u>Prior Period Adjustment</u> | |
|---|--|-------------------------------------|
| <u>Net Position, as Previously Reported</u> | <u>Net Position of Pension Trust</u> | <u>Net Position as Restated</u> |
| Government-Wide Statements Governmental Activities | <u>\$ 1,206,851</u> | <u>\$ 110,468,917</u> |
| | <u>\$ 109,262,066</u> | <u>\$ 110,468,917</u> |

Fund Financial Statements

| | <u>Fund Balance as Previously Reported</u> | <u>Net Position of Pension Trust</u> | <u>Fund Balance as Restated</u> |
|------------------------------------|--|--|-------------------------------------|
| Governmental Funds General Fund | <u>\$ 30,428,684</u> | <u>\$ 1,206,851</u> | <u>\$ 31,635,535</u> |

Final Draft
December 3, 2019

This page intentionally left blank

Required Supplementary Information

Final Draft
December 3, 2019

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

| Measurement Date | 6/30/2018 | 6/30/2017 | 6/30/2016 | 6/30/2015 | 6/30/2014 |
|--|-----------------------|-----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | |
| Service Cost | \$ 1,700,438 | \$ 1,651,550 | \$ 1,560,679 | \$ 1,491,925 | \$ 1,579,547 |
| Interest on total pension liability | 7,073,843 | 6,820,536 | 6,697,247 | 6,483,032 | 6,268,015 |
| Difference between expected and actual experience | 994,994 | (892,479) | (357,870) | (623,495) | - |
| Changes in assumptions | (655,541) | 5,481,432 | - | (1,513,132) | - |
| Changes in benefits | - | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (5,448,374) | (5,138,083) | (4,953,756) | (4,748,786) | (4,241,487) |
| Net change in total pension liability | 3,665,360 | 7,922,956 | 2,946,300 | 1,089,544 | 3,606,075 |
| Total pension liability - beginning | 100,469,377 | 92,546,421 | 89,600,121 | 88,510,577 | 84,904,502 |
| Total pension liability - ending (a) | <u>\$ 104,134,737</u> | <u>\$ 100,469,377</u> | <u>\$ 92,546,421</u> | <u>\$ 89,600,121</u> | <u>\$ 88,510,577</u> |
| Plan fiduciary net position | | | | | |
| Contributions - employer | 2,669,104 | 2,407,496 | 2,223,782 | 1,941,765 | 1,796,079 |
| Contributions - employee | 761,705 | 682,891 | 691,770 | 679,796 | 668,167 |
| Plan to plan resource movement | (170) | - | (28,866) | 22,561 | - |
| Projected Earnings on Plan Investments | - | - | - | - | 4,328,173 |
| Recognized Difference between Projected and Actual Earning | - | - | - | - | 1,166,344 |
| Net Investment Income | 5,883,868 | 7,171,443 | 369,185 | 1,470,873 | - |
| Net Difference between Projected and Actual Earnings | - | - | - | - | 4,665,374 |
| Benefit payments, including refunds of employee contribution | (5,448,374) | (5,138,083) | (4,953,756) | (4,748,786) | (4,241,487) |
| Administrative Expenses | (108,582) | (95,455) | (40,462) | (74,706) | - |
| Other Miscellaneous Income/(Expense) ¹ | (206,199) | - | - | - | - |
| Net change in plan fiduciary net position | 3,551,352 | 5,028,292 | (1,738,347) | (708,497) | 8,382,650 |
| Plan fiduciary net position - beginning | 69,680,823 | 64,652,531 | 66,390,878 | 67,099,375 | 58,716,725 |
| Plan fiduciary net position - ending (b) | <u>\$ 73,232,175</u> | <u>\$ 69,680,823</u> | <u>\$ 64,652,531</u> | <u>\$ 66,390,878</u> | <u>\$ 67,099,375</u> |
| Net pension liability - ending (a) - (b) | \$ 30,902,562 | \$ 30,788,554 | \$ 27,893,890 | \$ 23,209,243 | \$ 21,411,202 |
| Plan fiduciary net position as a percentage of the total pension liability | 70.32% | 69.36% | 69.86% | 74.10% | 75.81% |
| Covered payroll | 9,576,157 | 9,024,370 | 9,198,318 | 8,487,940 | 8,406,315 |
| Net pension liability as a percentage of covered payroll | 322.70% | 341.17% | 303.25% | 273.44% | 254.70% |

1. During Fiscal Year 2017-18, as a result of GASB No. 75, CalPERS reported its proportionate share of activity related to postemployment benefit for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB75. Additionally, CalPERS employees participate in various State of California agent pension plans and during FY2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No.68.

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

| Measurement Date | <u>6/30/2018</u> | <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> | <u>6/30/2014</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Proportion of the net pension liability | 0.23583% | 0.22603% | 0.22394% | 0.14860% | 0.28588% |
| Proportionate share of the net pension liability | \$ 22,725,267 | \$ 22,415,954 | \$ 19,377,843 | \$ 10,199,904 | \$ 17,788,690 |
| Covered payroll* | \$ 3,920,088 | \$ 4,941,138 | \$ 5,022,498 | \$ 4,897,104 | \$ 4,916,535 |
| Proportionate share of the net pension liability as percentage of covered payroll | 579.71% | 453.66% | 385.82% | 208.28% | 361.81% |
| Plan fiduciary net position as a percentage of of the total pension liability | 75.26% | 73.31% | 74.06% | 78.40% | 75.66% |

* For the year ending on the measurement date.

Final Draft
December 3, 2019

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

| Fiscal Year | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Actuarially Determined Contribution | \$ 3,008,079 | \$ 2,669,133 | \$ 2,407,496 | \$ 2,223,782 | \$ 1,941,765 |
| Contributions in Relation to the Actuarially Determined Contribution | <u>(3,008,079)</u> | <u>(2,669,133)</u> | <u>(2,407,496)</u> | <u>(2,223,782)</u> | <u>(1,941,765)</u> |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | 11,019,496 | 9,576,157 | 9,024,370 | 9,198,318 | 8,487,940 |
| Contributions as a Percentage of Covered Payroll | 27.30% | 27.87% | 26.68% | 24.18% | 22.88% |

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

Schedule of Pension Plan Contributions – Safety Cost-Sharing Plan

| Fiscal Year | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------------------|--------------------|------------------|------------------|------------------|
| Actuarially Determined Contribution | \$ 2,325,357 | \$ 1,951,711 | \$ 302,911 | \$ 297,000 | \$ 295,000 |
| Contributions in Relation to the Actuarially Determined Contribution | <u>(2,325,357)</u> | <u>(1,951,711)</u> | <u>(302,911)</u> | <u>(297,000)</u> | <u>(295,000)</u> |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | 4,445,061 | 3,920,088 | 4,941,138 | 5,022,498 | 4,897,104 |
| Contributions as a Percentage of Covered Payroll | 52.31% | 49.79% | 6.13% | 5.91% | 6.02% |

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

Actuarial Methods and Assumptions used for Pension Actuarially Determined Contributions

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

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Schedule of Changes in Net OPEB Liability and Related Ratios

| Measurement Date | 6/30/2018 | 6/30/2017 |
|---|----------------------|----------------------|
| Changes in Total OPEB Liability | | |
| Service Cost | \$ 1,168,227 | \$ 1,134,000 |
| Interest on net liability | 1,706,270 | 1,607,000 |
| Difference between expected and actual experience | - | - |
| Changes in assumptions | - | - |
| Changes in benefits | - | - |
| Benefit payments | (1,326,313) | (1,269,000) |
| Net change in total OPEB liability | 1,548,184 | 1,472,000 |
| Total OPEB liability - beginning | 24,773,000 | 23,301,000 |
| Total OPEB liability - ending (a) | <u>\$ 26,321,184</u> | <u>\$ 24,773,000</u> |
| Changes in plan fiduciary net position | | |
| Contributions - employer | 2,935,313 | 3,878,000 |
| Contributions - employee | - | - |
| Net Investment Income | 1,082,977 | 1,049,000 |
| Benefit payments | (1,326,313) | (1,269,000) |
| Administrative Expenses | (34,261) | (14,000) |
| Net change in plan fiduciary net position | 2,657,716 | 3,644,000 |
| Plan fiduciary net position - beginning | 13,608,000 | 9,964,000 |
| Plan fiduciary net position - ending (b) | <u>\$ 16,265,716</u> | <u>\$ 13,608,000</u> |
| Net OPEB liability - ending (a) - (b) | \$ 10,055,468 | \$ 11,165,000 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 61.8% | 54.9% |
| Covered payroll | 16,192,060 | 14,985,716 |
| Net pension liability as a percentage of covered payroll | 62.10% | 74.50% |

Schedule of Employer Contributions

| Fiscal Year | 2019 | 2018 |
|--|--------------|--------------|
| Actuarially Determined Contribution (ADC) | \$ 2,108,000 | \$ 2,129,000 |
| Actual Contributions | 2,406,636 | 2,935,000 |
| Contribution deficiency/(excess) | (298,636) | (806,000) |
| Covered employee payroll | 17,338,201 | 14,985,716 |
| Contributions as a percentage of covered payroll | 13.9% | 19.6% |

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Actuarial Methods and Assumptions used for 2018/19 OPEB Actuarially Determined Contribution

| | |
|------------------------|--|
| Valuation Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal, Level percentage of pay |
| Amortization Method | Level percentage of pay |
| Amortization Period | 20-year fixed period for 2018/19 |
| Asset Valuation Method | Investment gains and losses spread over 5-year rolling period |
| Discount Rate | 6.75% |
| General Inflation | 2.75% |
| Medical Trend | Non-medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 |
| Mortality | CalPERS 1997-2015 experience study |
| Mortality Improvement | Post-retirement mortality projected fully generational with Scale MP-2017 |

Final Draft
December 3, 2019

Supplementary Information

Final Draft
December 3, 2019

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
MAJOR GOVERNMENTAL FUND BUDGET SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
NONMAJOR GOVERNMENTAL FUNDS

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

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

Capital Projects Funds:

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

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

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

Special Revenue Funds:

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

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

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

**TOWN OF LOS GATOS
 APPROPRIATED RESERVES FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (GAAP)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|--|---------------------|------------------------|---------------------|------------------------------------|
| REVENUES | | | | |
| Licenses & permits | \$ 110,000 | \$ 110,000 | \$ 181,691 | \$ 71,691 |
| Intergovernmental | 580,663 | 1,739,323 | 30,582 | (1,708,741) |
| Charges for services | 591,429 | 631,271 | 595,509 | (35,762) |
| Interest | 20,000 | 20,000 | 44,161 | 24,161 |
| Other | 23,250 | 278,622 | 17,041 | (261,581) |
| Total Revenues | <u>1,325,342</u> | <u>2,779,216</u> | <u>868,984</u> | <u>(1,910,232)</u> |
| EXPENDITURES | | | | |
| Capital outlay | <u>3,893,086</u> | <u>19,070,401</u> | <u>6,860,026</u> | <u>12,210,375</u> |
| Total Expenditures | <u>3,893,086</u> | <u>19,070,401</u> | <u>6,860,026</u> | <u>12,210,375</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(2,567,744)</u> | <u>(16,291,185)</u> | <u>(5,991,042)</u> | <u>10,300,143</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 2,635,220 | 2,685,220 | 2,685,220 | - |
| Transfers (out) | <u>(427,616)</u> | <u>(427,616)</u> | <u>(427,616)</u> | - |
| Total Other Financing Sources (Uses) | <u>2,207,604</u> | <u>2,257,604</u> | <u>2,257,604</u> | - |
| CHANGE IN FUND BALANCE | <u>\$ (360,140)</u> | <u>\$ (14,033,581)</u> | <u>(3,733,438)</u> | <u>\$ 10,300,143</u> |
| BEGINNING FUND BALANCE | | | <u>12,301,432</u> | |
| ENDING FUND BALANCE | | | <u>\$ 8,567,994</u> | |

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2019**

| | CAPITAL PROJECTS FUNDS | | | | |
|--|--------------------------|-----------------------------|---------------------|---------------------------------------|----------------------------------|
| | Storm Drains Funds | Construction Tax Fund | Gas Tax Fund | Total Capital Projects Funds | Community Development Fund |
| ASSETS | | | | | |
| Cash & Investments | \$ 2,628,557 | \$ 3,079,685 | \$ 1,713,551 | \$ 7,421,793 | \$ 94,412 |
| Receivables: | | | | | |
| Accounts | - | - | - | - | - |
| Intergovernmental Receivable | - | - | 100,152 | 100,152 | 58,344 |
| Long Term Notes Receivable | - | - | - | - | 78,752 |
| Total Assets | <u>\$ 2,628,557</u> | <u>\$ 3,079,685</u> | <u>\$ 1,813,703</u> | <u>\$ 7,521,945</u> | <u>\$ 231,508</u> |
| LIABILITIES | | | | | |
| Accounts Payable | \$ - | \$ - | \$ 959,881 | \$ 959,881 | \$ - |
| Accrued Payroll and Benefits | - | - | - | - | - |
| Due to other funds | - | - | - | - | - |
| Unearned revenue | - | - | - | - | 64,855 |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>959,881</u> | <u>959,881</u> | <u>64,855</u> |
| FUND BALANCE | | | | | |
| Restricted for: | | | | | |
| Repairs and Maintenance | - | - | - | - | - |
| Capital Projects | 2,628,557 | 3,079,685 | 853,822 | 6,562,064 | - |
| Assigned for: | | | | | |
| Special Revenue Funds | - | - | - | - | 166,653 |
| Unassigned | - | - | - | - | - |
| Total Fund Balances | <u>2,628,557</u> | <u>3,079,685</u> | <u>853,822</u> | <u>6,562,064</u> | <u>166,653</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,628,557</u> | <u>\$ 3,079,685</u> | <u>\$ 1,813,703</u> | <u>\$ 7,521,945</u> | <u>\$ 231,508</u> |

(Continued)

| SPECIAL REVENUE FUNDS | | | |
|------------------------------------|-----------------------------|-----------------------------------|--|
| Non-Point Source Maintenance | Lighting and Landscaping | Total Special Revenue Funds | Total Nonmajor Governmental Funds |
| \$ - | \$ 216,303 | \$ 310,715 | \$ 7,732,508 |
| 167,051 | - | 167,051 | 167,051 |
| - | 18 | 58,362 | 158,514 |
| - | - | 78,752 | 78,752 |
| <u>\$ 167,051</u> | <u>\$ 216,321</u> | <u>\$ 614,880</u> | <u>\$ 8,136,825</u> |
| \$ 2,839 | \$ 8,182 | \$ 11,021 | \$ 970,902 |
| 3,320 | - | 3,320 | 3,320 |
| 1,443 | - | 1,443 | 1,443 |
| - | - | 64,855 | 64,855 |
| <u>7,602</u> | <u>8,182</u> | <u>80,639</u> | <u>1,040,520</u> |
| - | 208,139 | 208,139 | 208,139 |
| - | - | - | 6,562,064 |
| <u>159,449</u> | <u>-</u> | <u>326,102</u> | <u>326,102</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>159,449</u> | <u>208,139</u> | <u>534,241</u> | <u>7,096,305</u> |
| <u>\$ 167,051</u> | <u>\$ 216,321</u> | <u>\$ 614,880</u> | <u>\$ 8,136,825</u> |

(Concluded)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | CAPITAL PROJECTS FUNDS | | | |
|--|-------------------------|-----------------------------|--------------------|------------------------------------|
| | Storm Drain Funds | Construction Tax Fund | Gas Tax Fund | Total Capital Projects Funds |
| REVENUES | | | | |
| Property Taxes | \$ - | \$ - | \$ - | \$ - |
| Other Taxes | - | 28,390 | - | 28,390 |
| License and permits | 168,947 | - | - | 168,947 |
| Intergovernmental | - | - | 1,195,072 | 1,195,072 |
| Charges for Services | - | - | - | - |
| Interest | 3,312 | 53,311 | 22,483 | 79,106 |
| Total Revenues | <u>172,259</u> | <u>81,701</u> | <u>1,217,555</u> | <u>1,471,515</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Parks and Public Works | - | - | - | - |
| Sanitation and Other | - | - | - | - |
| Capital Outlay | <u>29,700</u> | <u>-</u> | <u>960,881</u> | <u>990,581</u> |
| Total Expenditures | <u>29,700</u> | <u>-</u> | <u>960,881</u> | <u>990,581</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 142,559 | 81,701 | 256,674 | 480,934 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers (out) | <u>-</u> | <u>-</u> | <u>(106,000)</u> | <u>(106,000)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>(106,000)</u> | <u>(106,000)</u> |
| Changes in Fund Balances | 142,559 | 81,701 | 150,674 | 374,934 |
| Fund Balances - Beginning of year | <u>2,485,998</u> | <u>2,997,984</u> | <u>703,148</u> | <u>6,187,130</u> |
| Fund Balances - End of year | <u>\$ 2,628,557</u> | <u>\$ 3,079,685</u> | <u>\$ 853,822</u> | <u>\$ 6,562,064</u> |

(Continued)

| SPECIAL REVENUE FUNDS | | | | |
|----------------------------------|------------------------------------|-----------------------------|-----------------------------------|---------------------|
| Community Development Fund | Non-Point Source Maintenance | Lighting and Landscaping | Total Special Revenue Funds | Total |
| \$ - | \$ - | \$ 38,091 | \$ 38,091 | \$ 38,091 |
| - | - | - | - | 28,390 |
| - | 236,450 | - | 236,450 | 405,397 |
| - | 134,621 | - | 134,621 | 1,329,693 |
| - | 345,280 | - | 345,280 | 345,280 |
| - | - | 3,550 | 3,550 | 82,656 |
| - | 716,351 | 41,641 | 757,992 | 2,229,507 |
| - | - | 27,266 | 27,266 | 27,266 |
| - | 628,240 | - | 628,240 | 628,240 |
| - | - | - | - | 990,581 |
| - | 628,240 | 27,266 | 655,506 | 1,646,087 |
| - | 88,111 | 14,375 | 102,486 | 583,420 |
| - | - | (4,920) | (4,920) | (110,920) |
| - | - | (4,920) | (4,920) | (110,920) |
| - | 88,111 | 9,455 | 97,566 | 472,500 |
| 166,653 | 71,338 | 198,684 | 436,675 | 6,623,805 |
| <u>\$ 166,653</u> | <u>\$ 159,449</u> | <u>\$ 208,139</u> | <u>\$ 534,241</u> | <u>\$ 7,096,305</u> |

(Concluded)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | COMMUNITY DEVELOPMENT STORM DRAIN FUNDS | | | NON-POINT CONSTRUCTION TAX | | |
|--|--|---------------------|------------------------------------|-------------------------------|---------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other taxes | - | - | - | 30,000 | 28,390 | (1,610) |
| License and permits | 92,500 | 168,947 | 76,447 | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | - |
| Interest | 8,610 | 3,312 | (5,298) | 14,310 | 53,311 | - |
| Total Revenues | <u>101,110</u> | <u>172,259</u> | <u>71,149</u> | <u>44,310</u> | <u>81,701</u> | <u>(1,610)</u> |
| EXPENDITURES | | | | | | |
| Parks and public works | - | - | - | - | - | - |
| Sanitation and other | - | - | - | - | - | - |
| Capital outlay | 203,058 | 29,700 | 173,358 | 2,330,000 | - | 2,330,000 |
| Total Expenditures | <u>203,058</u> | <u>29,700</u> | <u>173,358</u> | <u>2,330,000</u> | <u>-</u> | <u>2,330,000</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(101,948)</u> | <u>142,559</u> | <u>244,507</u> | <u>(2,285,690)</u> | <u>81,701</u> | <u>2,367,391</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Operating transfers (out) | - | - | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN FUND BALANCE | <u>\$ (101,948)</u> | <u>142,559</u> | <u>\$ 244,507</u> | <u>\$ (2,285,690)</u> | <u>81,701</u> | <u>\$ 2,367,391</u> |
| BEGINNING FUND BALANCE | | <u>2,485,998</u> | | | <u>2,997,984</u> | |
| ENDING FUND BALANCE | | <u>\$ 2,628,557</u> | | | <u>\$ 3,079,685</u> | |

(Continued)

| GAS TAX | | | COMMUNITY DEVELOPMENT BLOCK GRANT | | | NON-POINT SOURCE MAINTANENCE | | |
|---------------------|-------------------|------------------------------------|--------------------------------------|-------------------|------------------------------------|---------------------------------|-------------------|------------------------------------|
| Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 231,323 | 236,450 | 5,127 |
| 1,144,218 | 1,195,072 | 50,854 | - | - | - | 134,621 | 134,621 | - |
| - | - | - | - | - | - | 353,071 | 345,280 | (7,791) |
| 1,210 | 22,483 | 21,273 | - | - | - | - | - | - |
| 1,145,428 | 1,217,555 | 72,127 | - | - | - | 719,015 | 716,351 | (2,664) |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 705,191 | 628,240 | 76,951 |
| 1,325,215 | 960,881 | 364,334 | - | - | - | - | - | - |
| 1,325,215 | 960,881 | 364,334 | - | - | - | 705,191 | 628,240 | 76,951 |
| (179,787) | 256,674 | 436,461 | - | - | - | 13,824 | 88,111 | 74,287 |
| (106,000) | (106,000) | - | - | - | - | - | - | - |
| (106,000) | (106,000) | - | - | - | - | - | - | - |
| <u>\$ (285,787)</u> | 150,674 | <u>\$ 436,461</u> | <u>\$ -</u> | - | <u>\$ -</u> | <u>\$ 13,824</u> | 88,111 | <u>\$ 74,287</u> |
| | 703,148 | | | 166,653 | | | 71,338 | |
| | <u>\$ 853,822</u> | | | <u>\$ 166,653</u> | | | <u>\$ 159,449</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, 2019

| | LIGHTING AND LANDSCAPING | | | TOTALS | | |
|--|--------------------------|-------------------|------------------------------------|-----------------------|---------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Property taxes | \$ 38,220 | \$ 38,091 | \$ (129) | \$ 38,220 | \$ 38,091 | \$ (129) |
| Other taxes | - | - | - | 30,000 | 28,390 | (1,610) |
| License and permits | - | - | - | 323,823 | 405,397 | 81,574 |
| Intergovernmental | - | - | - | 1,278,839 | 1,329,693 | 50,854 |
| Charges for services | - | - | - | 353,071 | 345,280 | (7,791) |
| Interest | 1,460 | 3,550 | 2,090 | 25,590 | 82,656 | 18,065 |
| Total Revenues | <u>39,680</u> | <u>41,641</u> | <u>1,961</u> | <u>2,049,543</u> | <u>2,229,507</u> | <u>140,963</u> |
| EXPENDITURES | | | | | | |
| Parks and public works | 32,817 | 27,266 | 5,551 | 32,817 | 27,266 | 5,551 |
| Sanitation and other | - | - | - | 705,191 | 628,240 | 76,951 |
| Capital outlay | 75,093 | - | 75,093 | 3,933,366 | 990,581 | 2,942,785 |
| Total Expenditures | <u>107,910</u> | <u>27,266</u> | <u>80,644</u> | <u>4,671,374</u> | <u>1,646,087</u> | <u>3,025,287</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(68,230)</u> | <u>14,375</u> | <u>82,605</u> | <u>(2,621,831)</u> | <u>583,420</u> | <u>3,205,251</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Operating transfers (out) | (4,920) | (4,920) | - | (110,920) | (110,920) | - |
| Total Other Financing Sources (Uses) | <u>(4,920)</u> | <u>(4,920)</u> | <u>-</u> | <u>(110,920)</u> | <u>(110,920)</u> | <u>-</u> |
| CHANGE IN FUND BALANCE | <u>\$ (73,150)</u> | <u>9,455</u> | <u>\$ 82,605</u> | <u>\$ (2,732,751)</u> | <u>472,500</u> | <u>\$ 3,205,251</u> |
| BEGINNING FUND BALANCE | | <u>198,684</u> | | | <u>6,623,805</u> | |
| ENDING FUND BALANCE | | <u>\$ 208,139</u> | | | <u>\$ 7,096,305</u> | |

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS**

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

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

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2019**

| | Equipment Replacement | Workers' Comp | Self Insurance | Stores | Information Technology | Vehicle Maintenance | Facilities Maintenance | Total |
|----------------------------------|--------------------------|------------------|-------------------|--------|---------------------------|------------------------|---------------------------|--------------|
| ASSETS | | | | | | | | |
| Cash & Investments | \$ 2,894,235 | \$ 1,744,470 | \$ 1,384,880 | \$ - | \$ 2,592,213 | \$ - | \$ 1,056,079 | \$ 9,671,877 |
| Restricted Cash & Investments | - | 99,337 | - | - | - | - | - | 99,337 |
| Receivables: | | | | | | | | |
| Accounts | - | 67,596 | - | - | 1,912 | - | 41,987 | 111,495 |
| Total Assets | 2,894,235 | 1,911,403 | 1,384,880 | - | 2,594,125 | - | 1,098,066 | 9,882,709 |
| LIABILITIES | | | | | | | | |
| Accounts Payable | 85,378 | 16,127 | 15,538 | - | 75,657 | - | 127,191 | 319,891 |
| Due to Other Governments | 53 | - | - | - | - | - | 89 | 142 |
| Claims Payable | - | 1,052,195 | 56,038 | - | - | - | - | 1,108,233 |
| Total Liabilities | 85,431 | 1,068,322 | 71,576 | - | 75,657 | - | 127,280 | 1,428,266 |
| NET POSITION | | | | | | | | |
| Restricted for: | | | | | | | | |
| Workers comp- ensation claims | - | 99,337 | - | - | - | - | - | 99,337 |
| Unrestricted | 2,808,804 | 743,744 | 1,313,304 | - | 2,518,468 | - | 970,786 | 8,355,106 |
| Total Net Position | \$ 2,808,804 | \$ 843,081 | \$ 1,313,304 | \$ - | \$ 2,518,468 | \$ - | \$ 970,786 | \$ 8,454,443 |

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | Equipment Replacement | Workers' Comp | Self Insurance | Stores | Information Technology | Vehicle Maintenance | Facilities Maintenance | Total |
|---|--------------------------|------------------|-------------------|------------|---------------------------|------------------------|---------------------------|--------------|
| OPERATING REVENUES | | | | | | | | |
| Charges for services | \$ 610,000 | \$ 875,419 | \$ 365,155 | \$ 130,956 | \$ 437,232 | \$ 376,655 | \$ 882,707 | \$ 3,678,124 |
| Interest | - | 8 | - | - | - | - | - | 8 |
| Use of money and property | - | - | - | - | - | - | 229,559 | 229,559 |
| Other local taxes | - | - | - | - | - | - | 28,390 | 28,390 |
| Other | 22,495 | 412,667 | - | 10,983 | 5 | 29,180 | 81,366 | 556,696 |
| Total Operating Revenues | 632,495 | 1,288,094 | 365,155 | 141,939 | 437,237 | 405,835 | 1,222,022 | 4,492,777 |
| OPERATING EXPENSES | | | | | | | | |
| Salaries and benefits | - | 413 | - | - | - | - | - | 413 |
| Depreciation expenses | - | - | - | - | - | - | 558 | 558 |
| Services and supplies | 601,961 | 1,270,216 | 338,617 | 104,345 | 567,082 | 252,206 | 1,011,347 | 4,145,774 |
| Total Operating Expenses | 601,961 | 1,270,629 | 338,617 | 104,345 | 567,082 | 252,206 | 1,011,905 | 4,146,745 |
| Operating Income (loss) | 30,534 | 17,465 | 26,538 | 37,594 | (129,845) | 153,629 | 210,117 | 346,032 |
| Transfer of net position to General Fund | - | - | - | (265,384) | - | (774,991) | - | (1,040,375) |
| Transfer of pension amounts to General Fund | - | 204,834 | 291,997 | - | 786,505 | 358,571 | 565,232 | 2,207,139 |
| Transfers in | 450,000 | - | - | - | - | - | - | 450,000 |
| Transfers out | - | - | - | - | (300,000) | - | (50,000) | (350,000) |
| Net Transfers | 450,000 | 204,834 | 291,997 | (265,384) | 486,505 | (416,420) | 515,232 | 1,266,764 |
| Change in Net Position | 480,534 | 222,299 | 318,535 | (227,790) | 356,660 | (262,791) | 725,349 | 1,612,796 |
| BEGINNING NET POSITION | 2,328,270 | 620,782 | 994,769 | 227,790 | 2,161,808 | 262,791 | 245,437 | 6,841,647 |
| ENDING NET POSITION | \$ 2,808,804 | \$ 843,081 | \$ 1,313,304 | \$ - | \$ 2,518,468 | \$ - | \$ 970,786 | \$ 8,454,443 |

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | Equipment Replacement | Worker's Comp | Self Insurance | Stores | Information Technology | Vehicle Maintenance | Facilities Maintenance | Total |
|---|--------------------------|------------------|-------------------|------------|---------------------------|------------------------|---------------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Receipts from customers | \$ 632,495 | \$ 1,544,258 | \$ 657,152 | \$ 141,939 | \$ 1,223,922 | \$ 764,718 | \$ 1,761,750 | \$ 6,726,234 |
| Payments to suppliers | (533,733) | (1,279,438) | (323,516) | (105,702) | (611,880) | (230,888) | (975,725) | (4,060,882) |
| Payments to employees | (343) | (208,623) | (297,158) | - | (800,577) | (364,773) | (571,550) | (2,243,024) |
| Claims paid | - | (420,129) | (75,705) | - | - | - | - | (495,834) |
| Net Cash Provided (Used) by Operating Activities | 98,419 | (363,932) | (39,227) | 36,237 | (188,535) | 169,057 | 214,475 | (73,506) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | | | |
| Transfers In/(Out) | 450,000 | - | - | (265,384) | (300,000) | (774,991) | (50,000) | (940,375) |
| Net Cash Provided (Used) by Noncapital Financing Activities | 450,000 | - | - | (265,384) | (300,000) | (774,991) | (50,000) | (940,375) |
| Net Increase(Decrease) in Cash and Investments | 548,419 | (363,932) | (39,227) | (229,147) | (488,535) | (605,934) | 164,475 | (1,013,881) |
| Cash and investments - beginning of year | 2,345,816 | 2,207,739 | 1,424,107 | 229,147 | 3,080,748 | 605,934 | 891,604 | 10,785,095 |
| Cash and investments - end of year | \$ 2,894,235 | \$ 1,843,807 | \$ 1,384,880 | \$ - | \$ 2,592,213 | \$ - | \$ 1,056,079 | \$ 9,771,214 |
| Reconciliation of Operating Income to Cash Flows from Operating Activities: | | | | | | | | |
| Operating Income | \$ 30,534 | \$ 222,299 | \$ 318,535 | \$ 37,594 | \$ 656,660 | \$ 512,200 | \$ 775,349 | \$ 2,553,171 |
| Adjustments to reconcile operating income to cash flows from operating activities: | | | | | | | | |
| Depreciation | - | - | - | - | - | - | 558 | 558 |
| Change in assets and liabilities: | | | | | | | | |
| Receivables, net | - | 51,330 | - | - | 180 | 312 | (25,504) | 26,318 |
| Material and supplies | - | - | - | 173 | - | 27,838 | - | 28,011 |
| Deferred outflows of resources | - | 54,592 | 77,823 | - | 209,619 | 95,566 | 150,682 | 588,282 |
| Net pension liabilities | - | (255,060) | (363,674) | - | (979,569) | (446,588) | (704,016) | (2,748,907) |
| Deferred inflows of resources | - | (4,312) | (6,146) | - | (16,555) | (7,549) | (11,898) | (46,460) |
| Accounts payable | 68,175 | (9,222) | 15,101 | (1,530) | (44,798) | (6,520) | 35,533 | 56,739 |
| Accrued payroll and benefits | (343) | (3,430) | (5,161) | - | (14,072) | (6,202) | (6,318) | (35,526) |
| Claims payable | - | (420,129) | (75,705) | - | - | - | - | (495,834) |
| Due to other government | 53 | - | - | - | - | - | 89 | 142 |
| Cash Flows From Operating Activities | \$ 98,419 | \$ (363,932) | \$ (39,227) | \$ 36,237 | \$ (188,535) | \$ 169,057 | \$ 214,475 | \$ (73,506) |

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

FIDUCIARY FUNDS
PRIVATE PURPOSE TRUST FUNDS

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

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

Final Draft
December 3, 2019

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

| | Library | RDA Successor Agency | Total |
|--|-------------------|----------------------------|-----------------------|
| ASSETS | | | |
| Cash and investments (Note 2) | \$ 532,514 | \$ 1,729,614 | \$ 2,262,128 |
| Restricted cash and investments (Note 2) | - | 2,003,810 | 2,003,810 |
| Accounts receivable | 8,750 | - | 8,750 |
| Loans receivable (Note 3) | - | 575,425 | 575,425 |
| Capital assets (Note 5): | | | |
| Nondepreciable | - | 5,257,422 | 5,257,422 |
| Depreciable, net of accumulated depreciation | - | 1,525,393 | 1,525,393 |
| Total Assets | 541,264 | 11,091,664 | 11,632,928 |
| LIABILITIES | | | |
| Accounts payable | 3,137 | 47 | 3,184 |
| Due to other governments | 112 | - | 112 |
| Interest payable | - | 306,297 | 306,297 |
| Long-term debt (Note 6): | | | |
| Due within one year | - | 1,195,000 | 1,195,000 |
| Due in more than one year | - | 15,749,200 | 15,749,200 |
| Total Liabilities | 3,249 | 17,250,544 | 17,253,793 |
| NET POSITION | | | |
| Held in trust | 538,015 | (6,158,880) | (5,620,865) |
| Total Net Position | \$ 538,015 | \$ (6,158,880) | \$ (5,620,865) |

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| | Library | RDA Successor Agency | Total |
|--|-------------------|----------------------------|-----------------------|
| ADDITIONS | | | |
| Property taxes | \$ - | \$ 1,945,763 | \$ 1,945,763 |
| Investment earnings | 10,135 | 43,863 | 53,998 |
| Gifts, bequests and endowments | 82,213 | - | 82,213 |
| Other | - | 1,909,073 | 1,909,073 |
| Total Additions | <u>92,348</u> | <u>3,898,699</u> | <u>3,991,047</u> |
| DEDUCTIONS | | | |
| Program expenses | - | 1,920,655 | 1,920,655 |
| Interest and fiscal agency expenses of RDA | - | 701,449 | 701,449 |
| Library services | 69,029 | - | 69,029 |
| Capital Outlay | 21,048 | - | 21,048 |
| Depreciation expense | - | 101,692 | 101,692 |
| Total Deductions | <u>90,077</u> | <u>2,723,796</u> | <u>2,813,873</u> |
| CHANGE IN NET POSITION | 2,271 | 1,174,903 | 1,177,174 |
| NET POSITION - BEGINNING OF YEAR | <u>535,744</u> | <u>(7,333,783)</u> | <u>(6,798,039)</u> |
| NET POSITION - END OF YEAR | <u>\$ 538,015</u> | <u>\$ (6,158,880)</u> | <u>\$ (5,620,865)</u> |

Final Draft
December 3, 2019

This page intentionally left blank

STATISTICAL SECTION

Final Draft
December 3, 2019

Final Draft
December 3, 2019

This page intentionally left blank

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

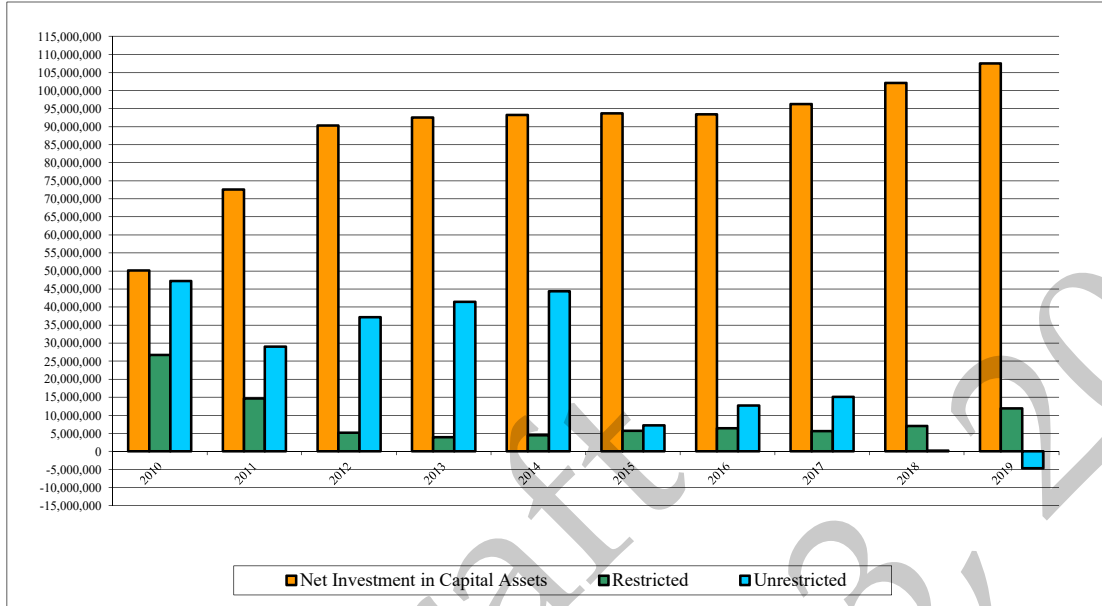
These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s CAFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

Final Draft
December 3, 2019

This page intentionally left blank

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 |
|-------------|----------------------------------|------------|--------------|--------------------|
| 2010 | 50,129,550 | 26,723,994 | 47,191,225 | 124,044,769 |
| 2011 | 72,567,355 | 14,652,823 | 29,017,520 | 116,237,698 (1) |
| 2012 | 90,333,451 | 5,167,236 | 37,192,210 | 132,692,897 |
| 2013 | 92,558,523 | 3,949,583 | 41,480,377 | 137,988,483 |
| 2014 | 93,251,117 | 4,485,246 | 44,393,265 | 142,129,628 |
| 2015 | 93,687,029 | 5,663,182 | 7,180,919 | 106,531,130 (2) |
| 2016 | 93,383,855 | 6,386,014 | 12,744,637 | 112,514,506 |
| 2017 | 96,265,652 | 5,627,707 | 15,134,420 | 117,027,779 |
| 2018 | 102,098,729 | 6,992,747 | 170,590 | 109,262,066 |
| 2019 | 107,542,588 | 11,918,688 | -4,642,167 | 114,819,109 (3) |

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

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

(3) The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's GFAR fund during the year to invest in the Town's infrastructure and equipment.

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

| Expenses | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|--|----------------------|-----------------------|----------------------|----------------------|
| Governmental Activities: | | | | |
| General Government | \$ 4,647,801 | \$ 5,180,153 | \$ 6,145,143 | \$ 6,564,768 |
| Police Department | 13,266,849 | 13,495,885 | 14,124,798 | 13,731,754 |
| Parks and Public Works | 7,458,085 | 7,155,905 | 7,827,332 | 7,829,315 |
| Community Development | 3,522,477 | 3,099,269 | 3,434,551 | 4,094,188 |
| Community Services | 1,270,240 | 666,015 | - | - |
| Library Services | 2,038,009 | 1,892,805 | 1,938,577 | 2,128,823 |
| Sanitation | 655,713 | 342,893 | 158,205 | 393,205 |
| Redevelopment | 6,992,935 | 16,794,022 | 919,821 | 1,277,063 |
| Interest and Fees | 612,700 | 1,278,381 | 1,123,842 | - |
| Total Governmental Activities | <u>\$ 40,464,809</u> | <u>\$ 49,905,328</u> | <u>\$ 35,672,269</u> | <u>\$ 36,019,116</u> |
| Program Revenues | | | | |
| Charges for Services: | | | | |
| General Government | \$ 1,337,772 | \$ 1,156,931 | \$ 1,131,424 | \$ 1,416,593 |
| Police Department | 2,110,357 | 2,153,843 | 2,324,397 | 2,450,630 |
| Parks and Public Works | 779,300 | 810,022 | 1,215,382 | 3,044,401 |
| Community Development | 3,404,087 | 3,097,192 | 3,448,433 | 4,649,444 |
| Community Services | 134,366 | 98,803 | - | - |
| Library Services | 57,633 | 39,491 | 37,662 | 50,696 |
| Sanitation | 135,000 | 135,000 | 135,000 | 403,294 |
| Operating Grants and Contributions: | | | | |
| General Government | 10,237 | 15,638 | 6,453 | 8,406 |
| Police Department | 81,997 | 27,748 | 29,980 | 91,360 |
| Parks and Public Works | 594,775 | 809,272 | 993,827 | 835,724 |
| Community Services | 124,287 | 182,683 | - | - |
| Library Services | 13,996 | 10,662 | 109 | 40 |
| Sanitation | 25,103 | 9,002 | - | - |
| Capital Grants and Contributions: | | | | |
| General Government | - | - | - | 169,270 |
| Parks and Public Works | 3,074,453 | 2,375,759 | 641,811 | 2,757,660 |
| Community Development | - | - | - | - |
| Total Program Revenues | <u>\$ 11,883,363</u> | <u>\$ 10,922,046</u> | <u>\$ 9,964,478</u> | <u>\$ 15,877,518</u> |
| General Revenues | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| Property Taxes | \$ 18,856,081 | \$ 18,226,001 | \$ 14,088,866 | \$ 11,968,377 |
| Sales Taxes | 8,317,217 | 9,971,409 | 9,889,100 | 8,757,428 |
| Franchise Taxes | - | - | - | - |
| Other Taxes | 2,623,622 | 2,906,264 | 3,698,753 | 3,324,791 |
| Motor Vehicle in Lieu | 92,595 | 139,814 | 15,238 | 15,790 |
| Investment Earnings | 1,155,929 | 760,905 | 331,420 | (133,375) |
| Loss on Disposal of Capital Assets | - | - | - | - |
| Sale of Property | - | (870,127) | - | 54,425 |
| Miscellaneous | 52,459 | 41,943 | 2,275,160 | 1,154,647 |
| Extraordinary Gain (Loss) Dissolution of RDA | - | - | 11,864,453 | 295,101 |
| Total General Revenues | <u>\$ 31,097,903</u> | <u>\$ 31,176,209</u> | <u>\$ 42,162,990</u> | <u>\$ 25,437,184</u> |
| Change in Net Position | <u>\$ 2,516,457</u> | <u>\$ (7,807,073)</u> | <u>\$ 16,455,199</u> | <u>\$ 5,295,586</u> |

| 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------------|---------------|---------------|---------------|---------------|---------------|
| \$ 6,955,804 | \$ 6,465,852 | \$ 6,993,661 | \$ 6,771,628 | \$ 9,155,819 | \$ 5,848,125 |
| 14,119,786 | 12,644,221 | 12,825,688 | 14,587,597 | \$ 15,545,521 | \$ 18,879,618 |
| 8,154,616 | 8,069,352 | 8,320,623 | 9,502,707 | \$ 10,047,003 | \$ 10,717,217 |
| 4,424,040 | 4,047,738 | 3,227,224 | 5,093,459 | \$ 4,667,609 | \$ 5,045,523 |
| - | - | - | - | - | - |
| 2,234,431 | 2,553,414 | 2,522,142 | 2,868,748 | \$ 3,087,684 | \$ 3,062,157 |
| 363,180 | 491,359 | 528,580 | 466,762 | \$ 536,296 | \$ 683,397 |
| 21,687 | - | - | - | - | - |
| - | - | - | - | - | - |
| \$ 36,273,544 | \$ 34,271,936 | \$ 34,417,918 | \$ 39,290,901 | \$ 43,039,932 | \$ 44,236,037 |
| <hr/> | | | | | |
| \$ 2,179,077 | \$ 1,888,213 | \$ 1,517,012 | \$ 1,669,020 | \$ 1,701,146 | \$ 1,562,683 |
| 3,206,579 | 3,529,166 | 3,278,585 | 2,076,688 | 1,888,359 | 1,745,889 |
| 1,550,867 | 2,206,765 | 1,516,108 | 2,155,841 | 4,150,068 | 2,910,936 |
| 5,156,061 | 5,027,497 | 4,359,146 | 3,803,626 | 3,456,390 | 4,155,231 |
| - | - | - | - | - | - |
| 51,775 | 53,123 | 46,192 | 46,746 | 14,702 | 9,476 |
| 328,648 | 328,868 | 368,813 | 410,626 | 771,442 | 966,130 |
| - | - | 15,291 | - | - | - |
| 42,661 | 24,838 | 98,138 | 837,329 | 895,730 | 826,643 |
| 994,096 | 907,745 | 749,300 | 665,779 | 953,294 | 1,301,152 |
| - | - | - | - | - | - |
| 14,662 | 4,062 | 12,228 | - | 57,200 | 47,482 |
| - | - | - | - | - | - |
| - | 176,705 | - | - | - | - |
| 2,274,879 | 2,338,154 | 1,610,657 | 770,600 | 348,437 | 146,792 |
| 19,360 | - | - | 9,280 | - | - |
| \$ 15,818,665 | \$ 16,485,136 | \$ 13,571,470 | \$ 12,445,535 | \$ 14,236,768 | \$ 13,672,414 |
| <hr/> | | | | | |
| 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| \$ 11,712,312 | \$ 12,931,603 | \$ 13,763,458 | \$ 14,756,214 | \$ 15,958,406 | \$ 17,321,347 |
| 8,029,571 | 8,202,678 | 7,501,175 | 8,925,276 | 7,466,253 | 8,158,152 |
| - | 2,215,430 | 2,258,892 | 2,366,908 | 2,474,814 | 2,475,916 |
| 3,718,405 | 2,062,893 | 1,997,497 | 2,351,223 | 2,667,840 | 2,726,743 |
| 13,068 | - | 12,308 | 14,056 | 16,483 | 14,689 |
| 772,200 | 428,772 | 698,324 | 192,260 | 333,120 | 1,809,128 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 350,468 | 813,324 | 598,170 | 528,946 | 622,105 | 2,407,840 |
| - | - | - | - | - | - |
| \$ 24,596,024 | \$ 26,654,700 | \$ 26,829,824 | \$ 29,134,883 | \$ 29,539,021 | \$ 34,913,815 |
| <hr/> | | | | | |
| \$ 4,141,145 | \$ 8,867,900 | \$ 5,983,376 | \$ 2,289,517 | \$ 735,857 | \$ 4,350,192 |

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

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| General Fund | | | | |
| Reserved | \$ 4,491,589 | \$ - | \$ - | \$ - |
| Unreserved | 18,594,984 | - | - | - |
| Nonspendable | - | 1,500,000 | - | - |
| Restricted | - | - | - | - |
| Committed | | | | |
| Assigned | - | 21,806,781 | 21,992,886 | 20,758,156 |
| Unassigned | - | 2,433,556 | 4,019,409 | 7,502,446 |
| Total General Fund | <u>\$ 23,086,573</u> | <u>\$ 25,740,337</u> | <u>\$ 26,012,295</u> | <u>\$ 28,260,602</u> |
| All Other Governmental Funds | | | | |
| Reserved | \$ 10,525,384 | \$ - | \$ - | \$ - |
| Unreserved, reported in: | | | | |
| Special Revenue Funds | 225,509 | - | - | - |
| Capital Project Funds | 24,454,347 | - | - | - |
| Debt Service Funds | 6,953,732 | - | - | - |
| Nonspendable | - | - | - | - |
| Restricted | - | 14,764,334 | 5,167,236 | 3,949,583 |
| Committed | - | - | - | - |
| Assigned | - | 4,786,547 | 5,389,674 | 6,097,182 |
| Unassigned | - | (23,889) | 107,107 | 157,208 |
| Total All Other Governmental Funds | <u>\$ 42,158,972</u> | <u>\$ 19,526,992</u> | <u>\$ 10,664,017</u> | <u>\$ 10,203,973</u> |
| Total Fund Balances | <u>\$ 65,245,545</u> | <u>\$ 45,267,329</u> | <u>\$ 36,676,312</u> | <u>\$ 38,464,575</u> |

| Fiscal Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | 5,015,316 |
| 23,791,749 | 24,121,256 | 20,019,187 | 15,129,925 | 12,953,399 | 15,070,944 |
| 1,363,376 | - | 9,555,085 | 14,050,699 | 17,475,285 | 17,884,267 |
| <u>\$ 25,155,125</u> | <u>\$ 24,121,256</u> | <u>\$ 29,574,272</u> | <u>\$ 29,180,624</u> | <u>\$ 30,428,684</u> | <u>\$ 37,970,527</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 4,485,246 | 5,663,182 | 6,386,014 | 5,627,707 | 6,992,747 | 6,903,372 |
| - | - | 3,696,000 | 10,354,584 | 5,571,087 | 2,579,997 |
| 8,191,823 | 15,346,558 | 11,099,076 | 7,928,994 | 6,361,403 | 6,180,930 |
| 183,045 | 206,875 | - | - | - | - |
| <u>\$ 12,860,114</u> | <u>\$ 21,216,615</u> | <u>\$ 21,181,090</u> | <u>\$ 23,911,285</u> | <u>\$ 18,925,237</u> | <u>\$ 15,664,299</u> |
| <u>\$ 38,015,239</u> | <u>\$ 45,337,871</u> | <u>\$ 50,755,362</u> | <u>\$ 53,091,909</u> | <u>\$ 49,353,921</u> | <u>\$ 53,634,826</u> |

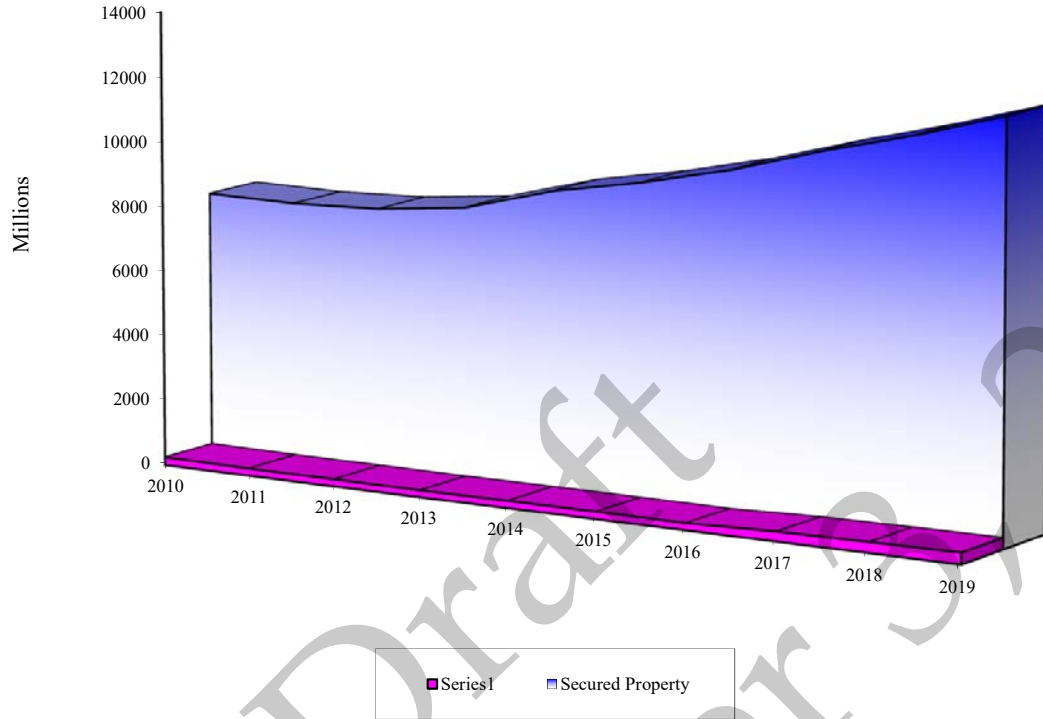
Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|--|---------------------|------------------------|-----------------------|---------------------|
| Revenues: | | | | |
| Taxes | \$ 29,967,385 | \$ 31,549,352 | \$ 27,676,719 | \$ 24,596,799 |
| Intergovernmental | 4,082,725 | 3,248,303 | 1,669,729 | 2,615,191 |
| Charges for Service | 4,418,074 | 4,107,386 | 5,550,671 | 6,529,234 |
| Licenses & Permits | 2,977,199 | 2,967,819 | 3,242,348 | 4,015,871 |
| Investment Income | 1,174,203 | 691,022 | 291,484 | (133,380) |
| Fines and Forfeitures | 662,699 | 737,903 | 809,790 | 688,125 |
| Franchise Fees | - | - | - | - |
| Use of Property | 51,948 | 38,502 | 38,974 | 38,910 |
| Other | 2,105,333 | 2,904,862 | 5,412,328 | 4,577,584 |
| Total Revenues | 45,439,566 | 46,245,149 | 44,692,043 | 42,928,334 |
| Expenditures: | | | | |
| Current | | | | |
| Public Safety | 12,821,499 | 13,004,041 | 13,392,953 | 13,370,032 |
| Public Works | 5,152,745 | 5,222,504 | 5,440,960 | 5,616,197 |
| Community Development | 3,452,914 | 2,973,587 | 3,226,195 | 4,235,832 |
| Community Services | 1,261,981 | 663,645 | - | - |
| Library Services | 1,999,430 | 1,806,611 | 1,805,479 | 2,055,069 |
| Sanitation & Other | 642,512 | 314,899 | 116,607 | 359,725 |
| General Government | 5,483,753 | 6,318,706 | 8,046,794 | 8,331,444 |
| Redevelopment | 8,692,216 | 18,958,126 | 3,282,155 | 1,277,063 |
| Capital Outlay | 16,141,561 | 15,839,303 | 10,929,491 | 6,568,653 |
| Debt Service | | | | |
| Principal Repayment | 465,000 | 485,000 | 934,167 | - |
| Interest and Fiscal Charges | 620,356 | 1,019,881 | 1,143,185 | - |
| Total Expenditures | 56,733,967 | 66,606,303 | 48,317,986 | 41,814,015 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (11,294,401) | (20,361,154) | (3,625,943) | 1,114,319 |
| Other Financing Sources(Uses): | | | | |
| Debt Issuance | 16,428,095 | - | - | - |
| Transfers In | 4,028,905 | 3,928,107 | 3,735,440 | 2,841,881 |
| Transfers Out | (3,461,724) | (3,545,168) | (3,661,894) | (2,463,850) |
| Proceeds from Sale of Property | - | - | - | - |
| Proceeds from Issuance of Debt | - | - | - | - |
| Total Other Financing Sources(Uses) | 16,995,276 | 382,939 | 73,546 | 378,031 |
| Special Item: | | | | |
| Sale of Property | - | - | - | - |
| Extraordinary Gain (Loss) RDA Dissolution | - | - | (5,038,620) | 295,913 |
| Prepayment of Pension Obligations | - | - | - | - |
| Net Change in Fund Balances | \$ 5,700,875 | \$ (19,978,215) | \$ (3,552,397) | \$ 1,492,350 |
| Debt Service as a Percentage of Non Capital Expenditures | 2.67% | 2.96% | 5.56% | 0.00% |

| Fiscal Year | | | | | | |
|-------------|-------------|---------------|---------------|---------------|----------------|---------------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| \$ | 23,475,393 | \$ 23,208,820 | \$ 23,269,892 | \$ 25,945,129 | \$ 26,253,026 | \$ 28,244,329 |
| | 2,440,127 | 2,921,002 | 2,573,475 | 1,715,580 | 2,124,903 | 2,310,655 |
| | 5,837,581 | 5,794,386 | 4,773,001 | 4,210,174 | 5,395,057 | 5,584,504 |
| | 5,343,265 | 6,467,771 | 5,442,133 | 5,075,503 | 5,937,044 | 5,173,876 |
| | 772,164 | 428,735 | 698,308 | 192,978 | 332,938 | 1,809,164 |
| | 795,720 | 868,564 | 879,277 | 917,105 | 676,212 | 510,266 |
| | - | 2,215,430 | 2,258,892 | 2,366,908 | 2,474,814 | 2,475,916 |
| | 37,741 | 32,209 | 31,723 | 32,096 | 32,206 | 32,960 |
| | 3,648,277 | 3,130,975 | 2,396,992 | 1,011,939 | 640,844 | 579,755 |
| | 42,350,268 | 45,067,892 | 42,323,693 | 41,467,412 | 43,867,044 | 46,721,425 |
| | 13,742,189 | 13,747,198 | 13,763,316 | 13,251,288 | 14,423,554 | 14,945,407 |
| | 5,611,283 | 5,840,097 | 6,307,266 | 6,633,748 | 7,125,686 | 7,962,135 |
| | 4,335,599 | 4,218,500 | 3,695,504 | 3,793,930 | 4,192,165 | 4,577,495 |
| | - | - | - | - | - | - |
| | 2,131,438 | 2,268,844 | 2,332,268 | 2,508,677 | 2,529,017 | 2,493,617 |
| | 322,817 | 411,863 | 452,726 | 466,762 | 521,147 | 628,240 |
| | 8,499,854 | 8,647,451 | 9,144,797 | 8,390,959 | 8,770,082 | 8,004,254 |
| | 21,687 | - | - | - | - | - |
| | 4,097,662 | 3,800,478 | 3,241,657 | 6,867,034 | 9,778,058 | 7,888,914 |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | 38,762,529 | 38,934,431 | 38,937,534 | 41,912,398 | 47,339,709 | 46,500,062 |
| | 3,587,739 | 6,133,461 | 3,386,159 | (444,986) | (3,472,665) | 221,363 |
| | - | - | - | - | - | - |
| | 3,418,872 | 8,977,220 | 3,315,846 | 7,907,692 | 3,176,760 | 4,264,131 |
| | (2,921,409) | (7,788,049) | (1,284,514) | (7,612,012) | (3,880,131) | (3,323,756) |
| | - | - | - | 4,435 | 378,219 | 1,912,316 |
| | 497,463 | 1,189,171 | 2,031,332 | 300,115 | (325,152) | 2,852,691 |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | (4,534,538) | - | - | - | - | - |
| \$ | 4,085,202 | \$ 7,322,632 | \$ 5,417,491 | \$ (144,871) | \$ (3,797,817) | \$ 3,074,054 |
| | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

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

Schedule 5

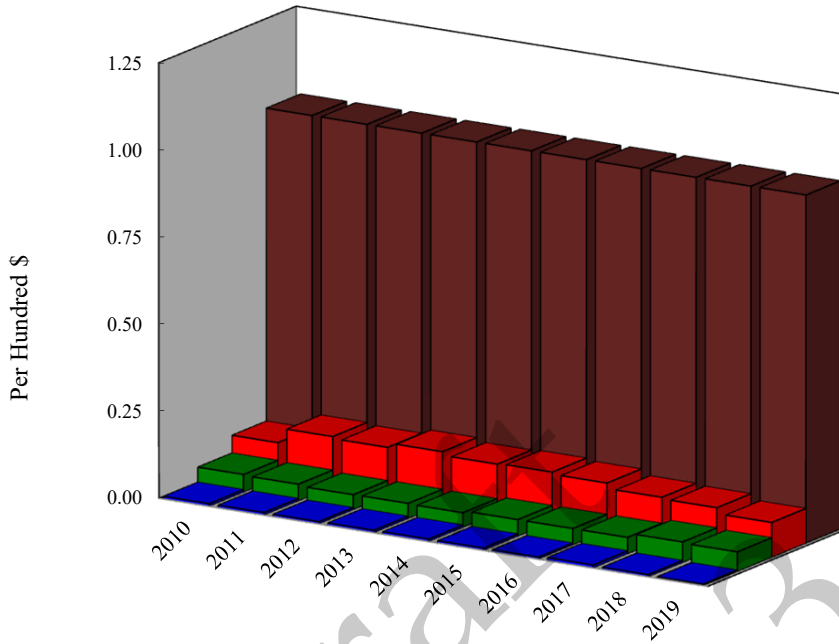


| Fiscal Year | Utility and Unsecured Property | Percent Change | Secured Property | Percent Change | Total Assessed | Estimated Full Market | Total Direct Tax Rate |
|-------------|--------------------------------|----------------|------------------|----------------|----------------|-----------------------|-----------------------|
| 2010 | 241,286,055 | 11.50% | 8,076,101,607 | 1.59% | 8,317,387,662 | 32,304,406,428 | 1.0584 |
| 2011 | 217,353,236 | -9.92% | 8,044,692,600 | -0.39% | 8,262,045,836 | 32,178,770,400 | 1.0555 |
| 2012 | 217,297,593 | -0.03% | 8,152,459,157 | 1.34% | 8,369,756,750 | 32,609,836,628 | 1.0499 |
| 2013 | 211,268,609 | -2.77% | 8,465,420,032 | 3.84% | 8,676,688,641 | 33,861,680,128 | 1.0508 |
| 2014 | 224,079,502 | 6.06% | 9,238,816,900 | 9.14% | 9,462,896,402 | 36,955,267,600 | 1.0493 |
| 2015 | 227,331,042 | 1.45% | 9,767,782,505 | 5.73% | 9,995,113,547 | 39,071,130,020 | 1.0544 |
| 2016 | 217,035,545 | -4.53% | 10,417,804,357 | 6.65% | 10,634,839,902 | 41,671,217,428 | 1.0533 |
| 2017 | 304,443,013 | 40.27% | 11,240,554,198 | 7.90% | 11,544,997,211 | 44,962,216,792 | 1.0560 |
| 2018 | 330,504,877 | 8.56% | 11,969,049,272 | 6.48% | 12,299,554,149 | 47,876,197,088 | 1.0659 |
| 2019 | 359,276,665 | 8.71% | 12,795,393,103 | 6.90% | 13,154,669,768 | 51,181,572,412 | 1.0607 |

Source: Santa Clara County Assessed Value Report

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

Schedule 6



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

| Fiscal Year | Basic County Wide Levy | County Bonds and Levies | Santa Clara Valley Water District | School District Bonds and Loans | Total |
|-------------|------------------------|-------------------------|-----------------------------------|---------------------------------|--------|
| 2010 | 1.0000 | 0.0510 | 0.0074 | 0.1021 | 1.1605 |
| 2011 | 1.0000 | 0.0483 | 0.0072 | 0.1449 | 1.2004 |
| 2012 | 1.0000 | 0.0435 | 0.0064 | 0.1393 | 1.1892 |
| 2013 | 1.0000 | 0.0439 | 0.0069 | 0.1523 | 1.2031 |
| 2014 | 1.0000 | 0.0423 | 0.0070 | 0.1417 | 1.1910 |
| 2015 | 1.0000 | 0.0479 | 0.0065 | 0.1442 | 1.1986 |
| 2016 | 1.0000 | 0.0476 | 0.0057 | 0.1381 | 1.1914 |
| 2017 | 1.0000 | 0.0474 | 0.0086 | 0.1223 | 1.1783 |
| 2018 | 1.0000 | 0.0597 | 0.0062 | 0.1177 | 1.1836 |
| 2019 | 1.0000 | 0.0565 | 0.0042 | 0.1006 | 1.1613 |

Source: Santa Clara County Book of Tax Rates

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

| ASSESSEE NAME | 2009/10 | | 2010/11 | |
|--|------------------------|---|------------------------|---|
| | Taxable Assessed Value | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Percentage of Total City Taxable Assessed Value |
| 750 University LLC | \$ 21,000,000 | 0.26% | \$ 20,950,229 | 0.26% |
| 980 JR LLC | | | | |
| Alberto Way Holdings LLC | 20,927,018 | 0.26% | 20,877,418 | 0.26% |
| Ann R. Desantis | | | - | 0.00% |
| Boccardo Corporation | 37,747,020 | 0.47% | 36,839,021 | 0.46% |
| CH Realty IV Downing LP | 29,391,300 | 0.37% | 19,000,000 | 0.24% |
| D&K Los Gatos LLC | 20,400,000 | 0.26% | 20,351,651 | 0.25% |
| David A. and Shari Flick Trustee | - | 0.00% | 14,614,447 | 0.18% |
| Donahue Schriber Realty Group LP | | | | |
| DS Downing Los Gatos LLC | | | - | 0.00% |
| DS Village Square | | | | |
| El Camino Hospital | | | - | 0.00% |
| Equestrian 3 Investments LLC | | | | |
| Fox Creek Fund LLC | | | | |
| Good Samaritan Hospital LP | - | 0.00% | - | 0.00% |
| Grade Way Associations VI | 14,434,261 | 0.18% | 14,400,050 | 0.18% |
| Green Eyes LLC | - | 0.00% | - | 0.00% |
| Grosvenor USA Ltd. | 20,958,858 | 0.26% | 20,909,185 | 0.26% |
| Health Care REIT Inc, | 24,969,600 | 0.31% | 19,720,749 | 0.25% |
| International Hotel | | | | |
| Kay Kaoru and Go Sasaki Sr., Trustees | | | - | 0.00% |
| Knowles Los Gatos LLC | 32,000,000 | 0.40% | 45,778,757 | 0.57% |
| KSL Capital Partners | 14,030,096 | 0.18% | 39,960,114 | 0.50% |
| Leland E Lester, Trustee | | | | |
| LG Business Park Bldg 3 LLC | | | | |
| LG Business Park Bldg 4 LLC | | | | |
| LG Business Park LLC | - | 0.00% | - | 0.00% |
| LG Hotel LLC | | | - | 0.00% |
| Los Gatos Hotel Corp. | 13,906,273 | 0.17% | 15,978,009 | 0.20% |
| Lyon Baytree Apartments LLC | 14,161,525 | 0.18% | 14,111,407 | 0.18% |
| Safeway Inc. | | | | |
| San Jose Water Works | 20,162,848 | 0.25% | 23,313,978 | 0.29% |
| Serramonte Corporate Center LLC | | | | |
| SI 32 LLC | | | - | 0.00% |
| Sobrato Interests IV LLC | 156,934,561 | 1.94% | 150,781,092 | 1.87% |
| SRI Old Town LLC | 29,626,371 | 0.37% | 29,556,155 | 0.37% |
| Summerhill Prospect Avenue LLC | | | | |
| Wealthcap Los Gatos 121 | | | | |
| Wealthcap Los Gatos 31 | | | | |
| Windrose Los Gatos Properties LLC | - | 0.00% | - | 0.00% |
| Total - Principal taxpayers | \$ 560,999,695 | 6.95% | \$ 582,218,627 | 7.24% |
| Total - All real properties assessed by the Town (1) | \$8,075,202,207 | | \$8,043,793,200 | |

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

Source Data: California Municipal Statistics, Inc.

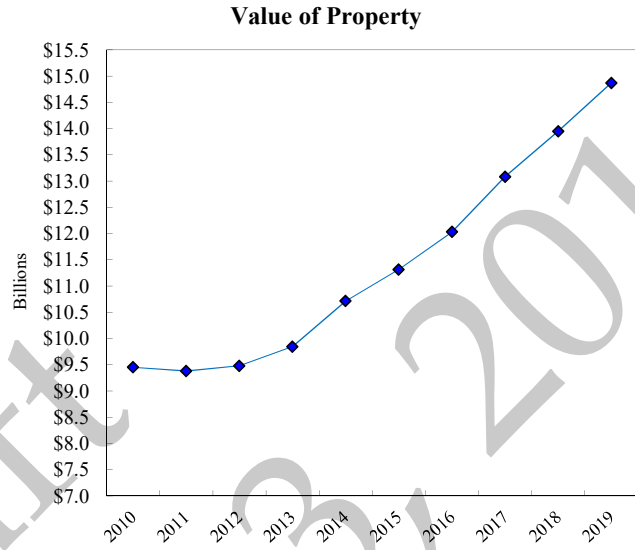
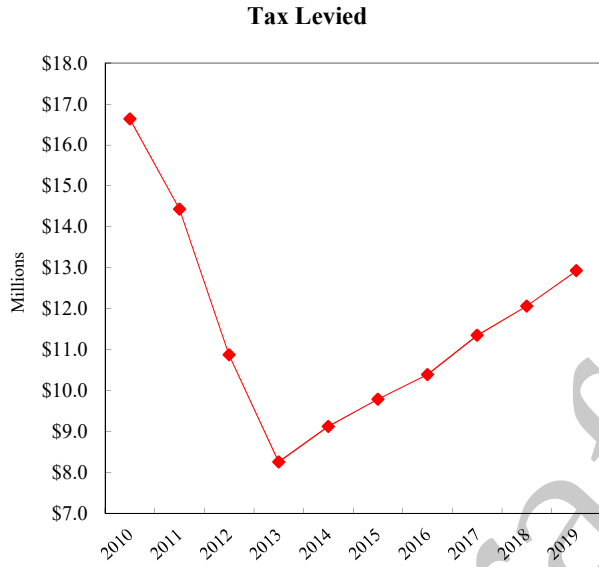
| 2011/12 | | 2012/13 | | 2013/14 | |
|------------------------|---|------------------------|---|------------------------|---|
| Taxable Assessed Value | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Percentage of Total City Taxable Assessed Value |
| \$ - | 0.00% | \$ 12,137,999 | 0.14% | \$ 18,600,000 | 0.20% |
| 21,034,623 | 0.26% | 23,145,064 | 0.27% | 23,607,964 | 0.26% |
| - | 0.00% | - | 0.00% | 13,823,779 | 0.15% |
| 37,173,877 | 0.46% | 37,550,368 | 0.44% | 38,617,912 | 0.42% |
| 19,143,068 | 0.23% | 19,525,927 | 0.23% | 19,916,443 | 0.22% |
| 15,284,324 | 0.19% | 15,590,010 | 0.18% | 15,901,809 | 0.17% |
| 14,724,487 | 0.18% | 15,018,971 | 0.18% | | |
| - | 0.00% | - | 0.00% | | |
| - | 0.00% | - | 0.00% | | |
| 19,372,795 | 0.24% | 19,530,183 | 0.23% | 19,710,897 | 0.21% |
| 14,508,482 | 0.18% | 14,798,651 | 0.17% | 15,094,623 | 0.16% |
| - | 0.00% | 12,542,555 | 0.15% | 12,793,404 | 0.14% |
| 21,066,630 | 0.26% | 22,437,962 | 0.27% | 22,886,720 | 0.25% |
| 19,869,245 | 0.24% | 19,223,348 | 0.23% | 20,671,960 | 0.22% |
| - | 0.00% | - | 0.00% | 22,752,809 | 0.25% |
| 46,123,468 | 0.57% | 47,045,934 | 0.56% | 47,986,850 | 0.52% |
| 41,698,751 | 0.51% | 42,532,721 | 0.50% | 43,383,370 | 0.47% |
| | | - | 0.00% | | |
| | | - | 0.00% | | |
| 18,342,931 | 0.23% | - | 0.00% | 47,276,977 | 0.51% |
| - | 0.00% | - | 0.00% | | |
| 15,683,979 | 0.19% | 15,617,134 | 0.18% | 18,134,182 | 0.20% |
| 14,177,039 | 0.17% | 14,430,123 | 0.17% | 14,674,716 | 0.16% |
| 29,369,137 | 0.36% | 30,882,009 | 0.36% | 33,626,381 | 0.36% |
| - | 0.00% | - | 0.00% | | |
| 157,554,525 | 1.93% | 157,559,245 | 1.86% | 169,809,676 | 1.84% |
| 29,778,712 | 0.37% | 30,374,286 | 0.36% | 30,981,771 | 0.34% |
| | | - | 0.00% | | |
| | | \$ - | 0.00% | | |
| | | \$ - | 0.00% | | |
| | 0.00% | - | 0.00% | - | 0.00% |
| <u>\$ 583,795,249</u> | <u>7.16%</u> | <u>\$ 584,030,904</u> | <u>6.90%</u> | <u>\$ 650,252,243</u> | <u>7.68%</u> |
| <u>\$8,151,530,237</u> | | <u>\$8,464,491,112</u> | | <u>\$9,237,887,980</u> | |

| ASSESSEE NAME | 2014/15 | | 2015/16 | |
|--|------------------------|---|-------------------------|---|
| | Taxable Assessed Value | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Percentage of Total City Taxable Assessed Value |
| 750 University LLC | \$ 19,000,000 | 0.19% | \$ 19,379,620 | 0.19% |
| 980 JR LLC | | | | |
| Alberto Way Holdings LLC | 23,715,141 | 0.24% | 24,188,966 | 0.23% |
| Ann R. Desantis | | | | |
| Boccardo Corporation | 38,772,905 | 0.40% | 21,617,318 | 0.21% |
| CH Realty IV Downing LP | | | | |
| D&K Los Gatos LLC | 15,974,003 | 0.16% | 16,293,163 | 0.16% |
| David A. and Shari Flick Trustee | 15,388,884 | 0.16% | | |
| Donahue Schriber Realty Group LP | | | | |
| DS Downing Los Gatos LLC | 20,006,861 | 0.20% | 21,980,568 | 0.21% |
| DS Village Square | | | | |
| El Camino Hospital | 20,803,609 | 0.21% | 26,477,160 | 0.25% |
| Equestrian 3 Investments LLC | | | | |
| Fox Creek Fund LLC | | | | |
| Good Samaritan Hospital LP | 19,602,594 | 0.20% | 19,880,366 | 0.19% |
| Grade Way Associations VI | 15,163,152 | 0.16% | | |
| Green Eyes LLC | | | | |
| Grosvenor USA Ltd. | 22,990,624 | 0.24% | 23,449,975 | 0.23% |
| Health Care REIT Inc, International Hotel | 20,765,810 | 0.21% | 20,089,903 | 0.19% |
| Kay Kaoru and Go Sasaki Sr., Trustees | | | 24,744,983 | 0.24% |
| Knowles Los Gatos LLC | 48,204,708 | 0.49% | 49,167,836 | 0.47% |
| KSL Capital Partners | 43,580,326 | 0.45% | 30,134,614 | 0.29% |
| Leland E Lester, Trustee | | | | |
| LG Business Park Bldg 3 LLC | | | 61,947,284 | 0.59% |
| LG Business Park Bldg 4 LLC | | | | |
| LG Business Park LLC | 39,347,485 | 0.40% | 17,507,261 | 0.17% |
| LG Hotel LLC | 15,448,057 | 0.16% | 15,497,395 | 0.15% |
| Los Gatos Hotel Corp. | 15,573,314 | 0.16% | 15,676,113 | 0.15% |
| Lyon Baytree Apartments LLC | | | | |
| Safeway Inc. | | | | |
| San Jose Water Works | 36,693,453 | 0.38% | 37,081,049 | 0.36% |
| Serramonte Corporate Center LLC | | | | |
| SI 32 LLC | 150,563,119 | 1.54% | 141,348,894 | 1.36% |
| Sobrato Interests IV LLC | 20,869,338 | 0.21% | 44,930,482 | 0.43% |
| SRI Old Town LLC | 31,122,427 | 0.32% | 31,744,252 | 0.30% |
| Summerhill Prospect Avenue LLC | | | | |
| Wealthcap Los Gatos 121 | | | | |
| Wealthcap Los Gatos 31 | | | | |
| Windrose Los Gatos Properties LLC | - | | - | 0.00% |
| Total - Principal taxpayers | <u>\$ 394,337,473</u> | <u>6.49%</u> | <u>\$ 663,137,202</u> | <u>6.37%</u> |
| Total - All real properties assessed by the Town (1) | <u>\$9,766,765,025</u> | | <u>\$10,416,786,877</u> | |

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

Source Data: California Municipal Statistics, Inc.

| 2016/17 | | 2017/18 | | 2019/20 | |
|--------------------------|---|--------------------------|---|-------------------------|---|
| 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 |
| \$ 19,675,159 | 0.18% | \$ 25,241,863 | 0.21% | \$ 25,746,699 | 0.20% |
| 24,557,845 | 0.22% | 25,048,998 | 0.21% | 19,277,879 | 0.15% |
| 21,918,921 | 0.20% | 22,211,650 | 0.19% | 25,549,975 | 0.20% |
| | | | | 22,651,732 | 0.18% |
| | | 53,872,083 | 0.45% | 56,370,186 | 0.44% |
| 22,315,770 | 0.20% | | | | |
| 22,799,599 | 0.20% | | | | |
| 26,880,933 | 0.24% | 23,353,576 | 0.20% | 28,596,104 | 0.22% |
| | | 29,584,251 | 0.25% | 28,563,864 | 0.22% |
| | | | | 21,558,664 | 0.17% |
| 22,402,756 | 0.20% | 22,516,823 | 0.19% | 22,934,274 | 0.18% |
| | | | | | |
| 20,396,274 | 0.18% | | | | |
| | | 30,144,617 | 0.25% | 30,747,509 | 0.24% |
| 25,122,131 | 0.22% | 25,624,027 | 0.21% | 26,135,962 | 0.20% |
| 49,917,644 | 0.44% | 50,915,995 | 0.43% | 51,934,313 | 0.41% |
| 30,105,945 | 0.27% | 25,893,946 | 0.22% | 26,411,820 | 0.21% |
| 29,004,169 | 0.26% | | | | |
| | | 53,465,724 | 0.45% | | |
| | | 43,937,857 | 0.37% | | |
| 31,070,572 | 0.28% | | | | |
| | | 24,394,468 | 0.20% | | |
| 38,710,728 | 0.34% | 41,202,805 | 0.34% | 46,150,577 | 0.36% |
| | | | | 200,844,610 | 1.57% |
| 143,442,269 | 1.28% | 146,317,944 | 1.22% | 149,208,182 | 1.17% |
| 42,240,994 | 0.38% | 43,071,837 | 0.36% | 43,919,879 | 0.34% |
| 32,228,351 | 0.29% | 32,872,917 | 0.27% | 33,530,374 | 0.26% |
| 18,274,508 | 0.16% | | | | |
| 109,100,000 | 0.97% | 111,282,000 | 0.93% | 113,507,640 | 0.89% |
| 84,000,000 | 0.75% | 85,680,000 | 0.72% | 87,393,600 | 0.68% |
| | 0.00% | | | | |
| <u>\$ 814,164,568.00</u> | <u>7.24%</u> | <u>\$ 916,633,381.00</u> | <u>7.66%</u> | <u>#####</u> | <u>8.29%</u> |
| <u>\$11,239,536,718</u> | | <u>\$11,968,031,792</u> | | <u>\$12,793,751,423</u> | |



| 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 |
|-------------|--|---|---|--|--|---|
| 2010 | 7,608,137 | 9,022,863 | 16,630,999 | 8,317,387,662 | 1,134,135,499 | 9,451,523,161 |
| 2011 | 7,567,880 | 6,861,650 | 14,429,530 | 8,262,045,836 | 1,117,973,351 | 9,380,019,187 |
| 2012 | 7,520,265 | 3,349,254 | 10,869,519 | 8,369,756,750 | 1,109,305,673 | 9,479,062,423 |
| 2013 | 8,253,442 | - | 8,253,442 | 8,676,688,641 | 1,167,752,021 | 9,844,440,662 |
| 2014 | 9,120,626 | - | 9,120,626 | 9,462,896,402 | 1,249,873,303 | 10,712,769,705 |
| 2015 | 9,787,519 | - | 9,787,519 | 9,995,113,547 | 1,318,214,863 | 11,313,328,410 |
| 2016 | 10,388,424 | - | 10,388,424 | 10,634,839,902 | 1,395,509,489 | 12,030,349,391 |
| 2017 | 11,345,588 | - | 11,345,588 | 11,544,997,211 | 1,537,577,241 | 13,082,574,452 |
| 2018 | 12,060,228 | - | 12,060,228 | 12,299,554,149 | 1,650,746,473 | 13,950,300,622 |
| 2019 | 12,924,592 | - | 12,924,592 | 13,154,669,768 | 1,717,358,555 | 14,872,028,323 |

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

| Fiscal Year | Governmental Activities | | | | | | |
|-------------|--|--|--|-------------------------------------|--------------------------------|-------------------------------------|---------------|
| | 1992 Certificate of Participation | 2002 Certificate of Participation | 2010 Certificate of Participation | Total Governmental Activities | Total Primary Government | Percentage of Personal Income | Per Capita |
| 2010 | 470,000 | 9,120,000 | 15,675,000 | 25,265,000 | 25,265,000 | 19.4% | 820.24 |
| 2011 | 240,000 | 8,865,000 | 15,675,000 | 24,780,000 | 24,780,000 | 19.7% | 835.72 |
| 2012 | - | - | - | - | - | 0.0% ¹⁾ | 0.00 |
| 2013 | - | - | - | - | - | 0.0% | 0.00 |
| 2014 | - | - | - | - | - | 0.0% | 0.00 |
| 2015 | - | - | - | - | - | 0.0% | 0.00 |
| 2016 | - | - | - | - | - | 0.0% | 0.00 |
| 2017 | - | - | - | - | - | 0.0% | 0.00 |
| 2018 | - | - | - | - | - | 0.0% | 0.00 |
| 2019 | - | - | - | - | - | 0.0% | 0.00 |

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

Final Draft
December 3, 2019

2018/19 Assessed Valuation:

\$13,154,669,768

| DIRECT AND OVERLAPPING BONDED DEBT: | % Applicable | (1) | Total Debt at June 30, 2019 | Estimated Share of Direct and Overlapping Debt at June 30, 2019 |
|---|--------------|-----|--------------------------------|--|
| Overlapping Tax & Assessment Debt | | | | |
| Santa Clara County | 2.724% | | \$ 947,220,000 | \$ 25,802,273 |
| West Valley-Mission Community College District | 9.343% | | \$ 635,310,000 | \$ 59,357,013 |
| Campbell Union High School District | 8.094% | | \$ 389,345,000 | \$ 31,513,584 |
| Los Gatos-Saratoga Joint Union High School District | 34.664% | | \$ 95,760,000 | \$ 33,194,246 |
| Cambrian School District | 0.287% | | \$ 49,514,944 | \$ 142,108 |
| Campbell Union High School District | 8.210% | | \$ 194,775,237 | \$ 15,991,047 |
| Los Gatos Union School District | 71.107% | | \$ 80,975,000 | \$ 57,578,893 |
| Saratoga Union School District | 0.033% | | \$ 23,580,378 | \$ 7,782 |
| Union School District | 20.788% | | \$ 103,253,148 | \$ 21,464,264 |
| Midpeninsula Regional Open Space District | 4.595% | | \$ 92,460,000 | \$ 4,248,537 |
| Santa Clara Valley Water District Benefit Assessment District | 2.724% | | \$ 73,570,000 | \$ 2,004,047 |
| Total Overlapping Tax and Assesmet Debt | | | | \$ 251,303,794 |
| Overlapping General Fund Debt | | | | |
| Santa Clara County General Fund Obligations | 2.724% | | \$ 710,539,120 | \$ 19,355,086 |
| Santa Clara County Pension Obligations | 2.724% | | \$ 352,378,882 | \$ 9,598,801 |
| Santa Clara County Board of Education Certificates of Participation | 2.724% | | \$ 4,255,000 | \$ 115,906 |
| West Valley-Mission Community College District General Fund Obligations | 9.343% | | \$ 62,200,000 | \$ 5,811,346 |
| Campbell Union High School District General Fund Obligations | 8.094% | | \$ 10,000,000 | \$ 809,400 |
| Los Gatos-Saratoga Joint Union High School District Certificates of Participation | 34.664% | | \$ 3,538,000 | \$ 1,226,412 |
| Campbell Union School District General Fund Obligations | 6.224% | | \$ 3,535,000 | \$ 220,028 |
| Saratoga Union School District Certificates of Participation | 0.052% | | \$ 2,245,000 | \$ 1,167 |
| Santa Clara County Vector Control District Certificates of Participation | 2.724% | | \$ 2,245,000 | \$ 61,154 |
| Midpeninsula Regional Open Space Park District General Fund Obligations | 4.595% | | \$ 117,450,600 | \$ 5,396,855 |
| Total Gross Overlapping General Fund Debt | | | | \$ 42,596,155 |
| Less: Santa Clara County Supported Obligations | | | | \$ 8,767,697 |
| Total Overlapping General Fund Debt | | | | \$ 33,828,458 |
| Overlapping Tax Increment Debt (Successor Agency) | | | | |
| Town of Los Gatos Certificated of Participations | | | | \$ 16,350,000 |
| Total of Overlapping Tax Increment Debt | | | | \$ 16,350,000 |
| Total Direct Debt | | | | \$0 |
| Total Gross Overlapping Debt | | | | \$ 310,429,949 |
| Total Net Overlapping Debt | | | | \$ 301,662,252 |
| Gross Combined Total Debt | | | | \$ 310,429,949 (2) |
| Net Combined Total Debt | | | | \$ 301,662,252 |

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

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

Ratios to 2018/19 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.91%
 Total Direct Debt: 0.00%
 Gross Combined Total Debt: 2.36%
 Net Combined Total Debt: 2.29%

Ratios to Redevelopment Incremental Valuation (\$1,408,818,209):

Total Overlapping Tax Increment Debt: 1.17%

Final Draft
December 3, 2019

This page intentionally left blank

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

| | 2009/10 | | 2010/11 | | 2011/12 | | 2012/13 | | Fiscal 2013/14 | |
|---|---------|-----------|---------|-----------|---------|-----------|---------|-----------|-------------------|-----------|
| Debt Limit | \$ | 1,185,727 | \$ | 1,204,551 | \$ | 1,195,035 | \$ | 1,216,131 | \$ | 1,263,138 |
| Debt Applicable to Limit | | - | | - | | - | | - | | - |
| Legal Debt Margin | \$ | 1,185,727 | \$ | 1,204,551 | \$ | 1,195,035 | \$ | 1,216,131 | \$ | 1,263,138 |
| Total Net Debt Applicable to the Limit as a Percentage of Debt Limit | | 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.

Legal Debt Margin Calculation
for Fiscal Year 2018/19

| | |
|---------------------------|-------------------------|
| Assessed Value | \$ 11,927,312,472 |
| Debt Limit | 1,789,096,871 |
| Debt Applicable to Limit: | |
| Legal Debt Margin | <u>\$ 1,789,096,871</u> |

| Fiscal Year | | | | |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| \$ 1,379,254 | \$ 1,444,943 | \$ 1,556,252 | \$ 1,679,736 | \$ 1,789,097 |
| - | - | - | - | - |
| <u>\$ 1,379,254</u> | <u>\$ 1,444,943</u> | <u>\$ 1,556,252</u> | <u>\$ 1,679,736</u> | <u>\$ 1,789,097</u> |

0.00% 0.00% 0.00% 0.00% 0.00%

Final Draft
December 3, 2019

| 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) |
|-------------------|----------------|--|--------------------------------|----------------|------------------------------|------------------------------|
| 2010 | 30,802 | 1,787,070 | 58,018 | 45.09 | 6,100 | 11.3% |
| 2011 | 29,651 | 1,833,410 | 61,833 | 44.22 | 6,184 | 10.3% |
| 2012 | 29,808 | 1,854,892 | 62,228 | 42.64 | 6,352 | 8.7% |
| 2013 | 30,247 | 2,140,641 | 70,772 | 45.80 | 6,420 | 6.8% |
| 2014 | 30,443 | 2,267,912 | 74,497 | 45.80 | 6,522 | 5.7% |
| 2015 | 30,505 | 2,197,885 | 72,050 | 46.10 | 6,622 | 3.8% |
| 2016 | 31,376 | 2,286,087 | 72,861 | 46.30 | 6,646 | 3.5% |
| 2017 | 31,314 | 2,281,569 | 72,861 | 46.50 | 6,631 | 3.8% |
| 2018 | 30,601 | 2,290,638 | 74,855 | 46.81 | 6,588 | 2.6% |
| 2019 | 30,998 | 2,365,178 | 76,301 | 46.72 | 6,544 | 2.6% |

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2019)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) California State Dept of Finance - county per capita at: labormarketinfo.edd.ca.gov
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Final Draft
December 3, 2019

This page intentionally left blank

Town of Los Gatos
 Principal Employers
 Last Ten Fiscal Years

| <u>Principal Employers</u> | 2009/10 | | 2010/11 | |
|--|---------|-------------------------------------|---------|-------------------------------------|
| | Emp. | Percentage of Total Town Employment | Emp. | Percentage of Total Town Employment |
| Columbia Health Care Assoc/Mission Oaks Hospital | 2,000 | 12.17% | 2,000 | 12.60% |
| El Camino Hospital, Los Gatos | 700 | 4.26% | 700 | 4.41% |
| Los Gatos Union School District | 300 | 1.83% | 300 | 1.89% |
| Los Gatos-Saratoga High School District | 300 | 1.83% | 300 | 1.89% |
| Netflix | 280 | 1.70% | 800 | 5.04% |
| Safeway | 250 | 1.52% | 250 | 1.57% |
| Alain Pinel Realtors | 220 | 1.34% | 220 | 1.39% |
| Verizon | - | 0.00% | - | 0.00% |
| Courtside Tennis Club | 200 | 1.22% | 200 | 1.26% |
| Town of Los Gatos | 148 | 0.90% | 138 | 0.87% |
| Whole Foods | - | 0.00% | - | 0.00% |
| Vasona Creek Health Care Center | - | 0.00% | - | 0.00% |
| Good Samaritan Regional Cancer Center | - | 0.00% | - | 0.00% |
| Roku | - | 0.00% | - | 0.00% |
| Terraces of Los Gatos | - | 0.00% | - | 0.00% |

Source: Town of Los Gatos, Finance Department and Muniservices

| 2011/12 | | 2012/13 | | 2013/14 | | 2014/15 | |
|---------|-------------------------------------|---------|-------------------------------------|---------|-------------------------------------|---------|-------------------------------------|
| Emp. | Percentage of Total Town Employment | Emp. | Percentage of Total Town Employment | Emp. | Percentage of Total Town Employment | Emp. | Percentage of Total Town Employment |
| 2,000 | 13.89% | 2,000 | 13.29% | 2,000 | 13.52% | - | 0.00% |
| 700 | 4.86% | 700 | 4.65% | 700 | 4.73% | 560 | 3.73% |
| 275 | 1.91% | 275 | 1.83% | 237 | 1.60% | 273 | 1.82% |
| 270 | 1.88% | 270 | 1.79% | 256 | 1.73% | 157 | 1.05% |
| 800 | 5.56% | 900 | 5.98% | 825 | 5.58% | 1,530 | 10.19% |
| 250 | 1.74% | 250 | 1.66% | 250 | 1.69% | 314 | 2.09% |
| 150 | 1.04% | 150 | 1.00% | 156 | 1.05% | 156 | 1.04% |
| - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| 200 | 1.39% | 200 | 1.33% | 295 | 1.99% | 440 | 2.93% |
| 136 | 0.94% | 138 | 0.92% | 144 | 0.97% | 157 | 1.05% |
| - | 0.00% | - | 0.00% | - | 0.00% | 179 | 1.19% |
| - | 0.00% | - | 0.00% | - | 0.00% | 233 | 1.55% |
| - | 0.00% | - | 0.00% | - | 0.00% | 200 | 1.33% |
| - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |

| <u>Principal Employers</u> | 2015/16 | | 2016/17 | |
|--|---------|-----------------------------|---------|-----------------------------|
| | Emp. | Percentage of Total Town | Emp. | Percentage of Total Town |
| | | Employment | | Employment |
| Columbia Health Care Assoc/Mission Oaks Hospital | - | 0.00% | - | 0.00% |
| El Camino Hospital, Los Gatos | 560 | 3.53% | 560 | 3.49% |
| Los Gatos Union School District | 280 | 1.76% | 274 | 1.71% |
| Los Gatos-Saratoga High School District | 157 | 0.99% | 370 | 2.30% |
| Netflix | 1,976 | 12.45% | 1,864 | 11.61% |
| Safeway | 314 | 1.98% | 314 | 1.95% |
| Alain Pinel Realtors | 146 | 0.92% | 148 | 0.92% |
| Verizon | - | 0.00% | - | 0.00% |
| Courtside Tennis Club | 440 | 2.77% | 468 | 2.91% |
| Town of Los Gatos | 158 | 1.00% | 160 | 1.00% |
| Whole Foods | 179 | 1.13% | 179 | 1.11% |
| Vasona Creek Health Care Center | 233 | 1.47% | 233 | 1.45% |
| Good Samaritan Regional Cancer Center | 200 | 1.26% | 200 | 1.25% |
| Roku | 487 | 3.07% | 554 | 3.45% |
| Terraces of Los Gatos | 228 | 1.44% | 228 | 1.42% |

Schedule 13

| 2017/18 | | 2018/19 | |
|---------|-------------------------------------|---------|-------------------------------------|
| Emp. | Percentage of Total Town Employment | Emp. | Percentage of Total Town Employment |
| | 0.00% | | 0.00% |
| 560 | 3.43% | 560 | 3.49% |
| 267 | 1.64% | 281 | 1.75% |
| 367 | 2.25% | 367 | 2.28% |
| 2,117 | 12.98% | 2,314 | 14.41% |
| 314 | 1.92% | 314 | 1.95% |
| 131 | 0.80% | 131 | 0.82% |
| | 0.00% | | 0.00% |
| 542 | 3.32% | 542 | 3.37% |
| 159 | 0.97% | 160 | 1.00% |
| 179 | 1.10% | 125 | 0.78% |
| 233 | 1.43% | 233 | 1.45% |
| 200 | 1.23% | 200 | 1.25% |
| 664 | 4.07% | 516 | 3.21% |
| 228 | 1.40% | 228 | 1.42% |

Final Draft December 2019

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 | | | | | | | | | |
|------------------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
| General Government | 18.35 | 18.90 | 20.15 | 20.40 | 20.73 | 20.97 | 20.97 | 21.35 | 21.97 | 22.16 |
| Police | 60.00 | 59.50 | 60.50 | 58.00 | 57.50 | 60.00 | 59.00 | 59.00 | 59.00 | 59.00 |
| Culture and Recreation | 5.25 | 3.25 | - | - | - | - | - | - | - | - |
| Economic Development | 1.00 | 1.00 | 1.00 | - | 0.50 | 0.63 | 0.63 | 0.63 | 0.75 | 0.75 |
| Library | 10.35 | 8.60 | 8.60 | 8.60 | 10.30 | 10.80 | 11.00 | 12.25 | 12.25 | 12.50 |
| Planning | 17.80 | 15.00 | 16.00 | 17.50 | 17.50 | 19.50 | 19.00 | 19.26 | 19.63 | 20.08 |
| Public Works | 35.00 | 32.50 | 32.00 | 31.00 | 31.50 | 32.00 | 33.50 | 33.50 | 34.50 | 34.50 |
| Total | 147.75 | 138.75 | 138.25 | 135.50 | 137.53 | 143.90 | 144.10 | 145.98 | 148.10 | 148.99 |

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.

Final Draft
December 3, 2019

This page intentionally left blank

Town of Los Gatos
 Operating Indicators
 Last Ten Fiscal Years

FUNCTION/PROGRAM

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|------------|------------|------------|------------|
| General government | | | | |
| Building Permits Issued | | | | |
| Residential Permits Issued | 733 | 711 | 747 | 738 |
| Residential Permits Value | 51,090,808 | 42,974,043 | 66,072,341 | 75,227,889 |
| Commercial Permits Issued | 117 | 128 | 107 | 137 |
| Commercial Permits Value | 7,908,146 | 31,289,431 | 17,663,124 | 46,855,615 |
| Publically Owned Permits Issued | 11 | 11 | - | - |
| Publically Owned Permits Value | 5,732,014 | 40,000 | - | - |
| Residential Parking Permits | | | | |
| Number of Special Event Permits Issued | 87 | 96 | 89 | 125 |
| Number of Annual Permits Issued | 686 | 713 | 1,223 | 1,320 |
| City Clerk | | | | |
| Number of Council Resolutions Passed | 167 | 76 | 59 | 74 |
| Number of Ordinances Passed | 16 | 6 | 13 | 20 |
| Number of Contracts Passed | 206 | 218 | 227 | 220 |
| General Services | | | | |
| Number of Purchase Orders Issued | 365 | 336 | 358 | 318 |
| Police | | | | |
| Physical Arrests | 831 | 872 | 690 | 648 |
| Parking Violations | 11,512 | 14,377 | 12,938 | 11,991 |
| Traffic Violations | 3,008 | 2,718 | 2,908 | 3,333 |
| DUI Arrests | 110 | 98 | 89 | 86 |
| Library | | | | |
| Circulated e-audiobooks | 1,852 | 1,994 | 3,388 | 4,774 |
| Other Public Works | | | | |
| Street Resurfacing/Overlay/Reconstruction (miles) | 4.7 | 4.7 | 8.0 | 8.0 |
| ADA Compliance: Curb Ramps | 13 | 17 | 19 | 19 |
| Traffic Circles | 1 | 1 | 1 | 1 |
| Street Poles | 1,605 | 1,708 | 1,611 | 1,611 |
| Planning and Development Department | | | | |
| Building & Safety Inspections Performed | 9,055 | 10,977 | 11,738 | 11,902 |
| Redevelopment: Number of active projects | 3 | 1 | 1 | - |

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

** The Town streamlined the special event application where multiple events require only one permit.

| Fiscal Year | | | | | | |
|-------------|-------------|------------|------------|------------|------------|--|
| 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | |
| 813 | 805 | 899 | 744 | 849 | 814 | |
| 87,307,822 | 76,896,111 | 85,000,754 | 53,625,891 | 63,083,249 | 80,030,846 | |
| 139 | 133 | 147 | 135 | 105 | 122 | |
| 138,676,507 | 178,195,997 | 20,185,884 | 50,024,177 | 16,626,196 | 13,295,999 | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| 133 | 127 | 107 | 118 | 113 | 78 ** | |
| 1,376 | 1,570 | 1,363 | 1,251 | 1,342 | 1,395 | |
| 86 | 72 | 61 | 69 | 69 | 59 | |
| 16 | 9 | 11 | 5 | 17 | 11 | |
| 196 | 222 | 283 | 240 | 262 | 245 | |
| 301 | 277 | 334 | 331 | 322 | 343 | |
| 641 | 695 | 987 | 1,030 | 1,164 | 1,138 | |
| 14,421 | 13,321 | 13,975 | 12,863 | 11,784 | 6,817 | |
| 4,747 | 4,633 | 5,400 | 4,634 | 4,757 | 2,877 | |
| 62 | 48 | 58 | 60 | 51 | 70 | |
| 2,414 * | 5,867 * | 7,761 | 10,006 | 8,844 | 12,130 | |
| 10.0 | 1.8 | 8.0 | 10.0 | 2.6 | 5.8 | |
| 19 | 23 | 11 | 30 | 68 | 49 | |
| - | 1 | 1 | 1 | 1 | 1 | |
| 1,611 | 1,609 | 1,609 | 1,609 | 1,762 | 1,830 | |
| 12,764 | 11,652 | 8,655 | 14,722 | 13,918 | 13,966 | |
| - | - | - | - | - | - | |

2014 the Library has expanded its contents giving

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

| Function/Program | Fiscal Year | | | | | |
|--|-------------|---------|---------|---------|---------|---------|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
| Police | | | | | | |
| Number of Stations | 2 | 2 | 2 | 2 | 2 | 2 |
| Number of Patrol Units | 14 | 14 | 14 | 14 | 14 | 14 |
| Parking Enforcement Vehicles | 2 | 2 | 2 | 2 | 2 | 2 |
| Other Public Works | | | | | | |
| Streets (miles) | 132 | 132 | 132 | 132 | 132 | 132 |
| Streetlights | 2,112 | 2,115 | 2,116 | 2,116 | 2,109 | 1,609 |
| Traffic Signals | 28 | 28 | 29 | 29 | 29 | 29 |
| Parks and Recreation | | | | | | |
| Number of Parks | 12 | 12 | 12 | 12 | 12 | 12 |
| Number of Community Centers | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of Parks & Open Spaces | N/A | N/A | N/A | N/A | N/A | N/A |
| Parking | | | | | | |
| Number of Parking Garages | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of Parking Lots | 22 | 22 | 22 | 22 | 22 | 22 |
| Number of Off Street Parking Garage Spaces | 1,126 | 1,126 | 1,126 | 1,126 | 1,126 | 1,126 |
| Number of Downtown Off-Street Parking Spaces | N/A | N/A | N/A | N/A | N/A | N/A |

Source: Town of Los Gatos, Finance Department

2015/16 2016/17 2017/18 2018/19

| | | | |
|-------|-------|-------|-------|
| 2 | 2 | 2 | 2 |
| 14 | 14 | 14 | 14 |
| 2 | 2 | 2 | 2 |
| 132 | 132 | 132 | 132 |
| 1,609 | 1,609 | 1,762 | 1,830 |
| 30 | 30 | 30 | 31 |
| 12 | 12 | 12 | N/A |
| 1 | 1 | 1 | 1 |
| N/A | N/A | N/A | 18 |
| 1 | 1 | 1 | 1 |
| 22 | 22 | 22 | 22 |
| 1,126 | 1,126 | 1,126 | N/A |
| N/A | N/A | N/A | 1,269 |

Final Draft
 December 3, 2019

Final Draft
December 3, 2019

This page intentionally left blank

OTHER INDEPENDENT AUDITOR'S REPORT

Final Draft
December 3, 2019

Final Draft
December 3, 2019

This page intentionally left blank

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Los Gatos, California's basic financial statements, and have issued our report thereon dated **DATE, 2019**.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Badawi and Associates
Certified Public Accountants
Berkeley, California
DATE, 2019