

# Town of Los Gatos

## Presentation to the Finance Commission

December 6, 2021

Presented by: Ahmed Badawi, CPA  
Partner



**Badawi & Associates**  
**Audit of the**  
**Town of Los Gatos**

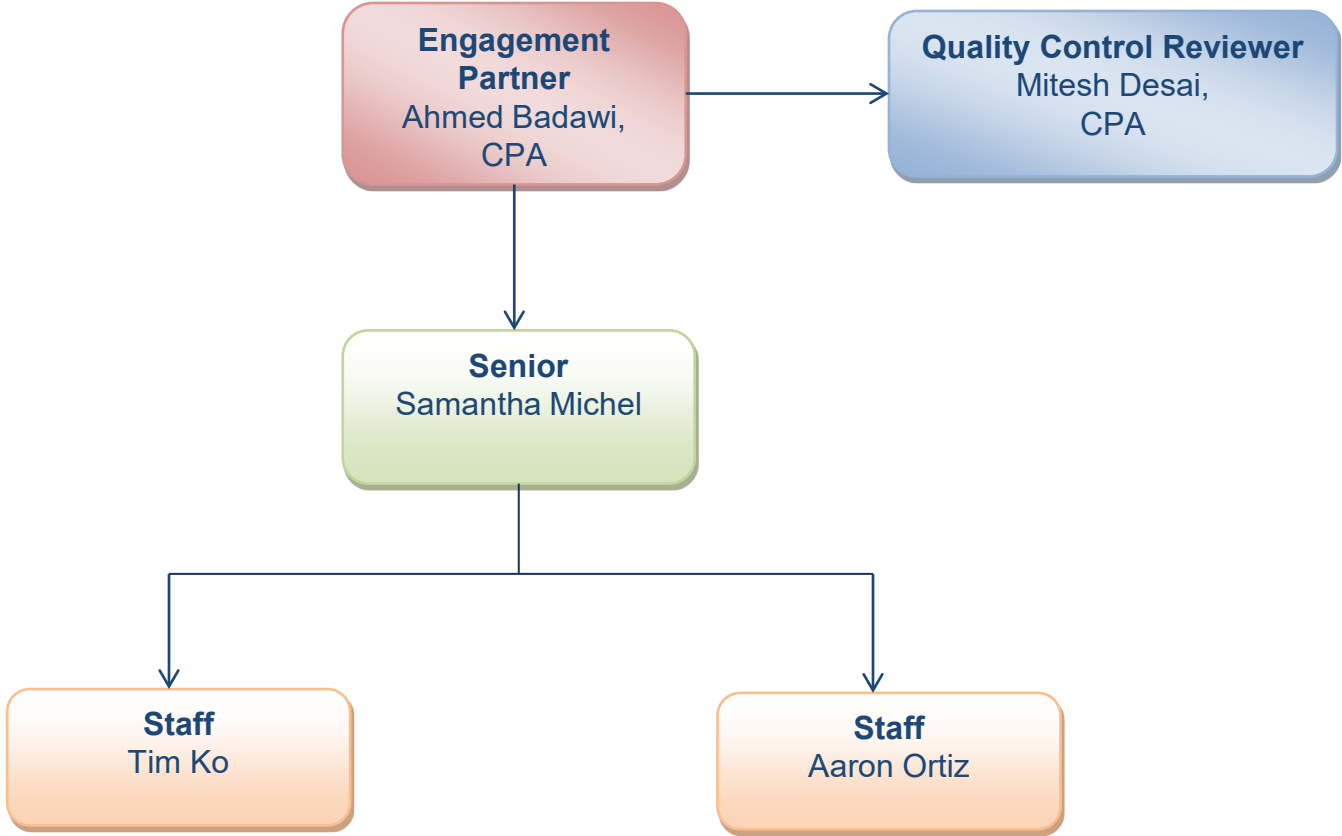
# Agenda

- Engagement Team
- Deliverables and Scope of the Audit
- Areas of Primary Emphasis
- Auditors Report and Financial Statements
- Required Communications
- New Accounting Standards
- Conclusion & Discussion/Questions

# Engagement Team



# Engagement Team



# Deliverables and Scope of the Audit

- Report of Independent Auditors on Town of Los Gatos Basic Financial Statements (BFS)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
- Report on Compliance and on Internal Control Over Compliance with Major Federal Award Programs
- Agreed-Upon Procedures Report on Appropriation Limit Schedule.
- Communications With Those Charged With Governance
  - Letter used to summarize communication of various significant matters to those charged with governance

# Areas of Primary Audit Emphasis

- The risk of management override of controls is addressed by the following procedures:
  - Assignment of audit staff based on consideration of audit risk.
  - Procedures to incorporate an element of unpredictability in the audit from period to period.
  - Consideration of the selection and application of significant accounting principles.
  - Examination of journal entries.
  - Review of accounting estimates for bias.
  - Evaluation of business rationale for unusual transactions.
  - Evaluation of the appropriateness of fraud-related inquiries performed
- Revenues & Receivables (Tax, Grants, Notes and Others): Improper revenue recognitions
  - Confirm/validate property taxes, sales taxes, district taxes, franchise taxes & other significant revenues/receivables.
  - Performed testing of licenses, permits and fees revenues
- Pension and OPEB: Complex accounting
  - Reviewed management's journal entries for pension and OPEB
  - Agreed amounts recorded to reports provided by CalPERS and Town's Actuary
  - Tested the census data used by CalPERS and Town's Actuary
  - Obtained reports from CalPERS auditors regarding plan assets and census data





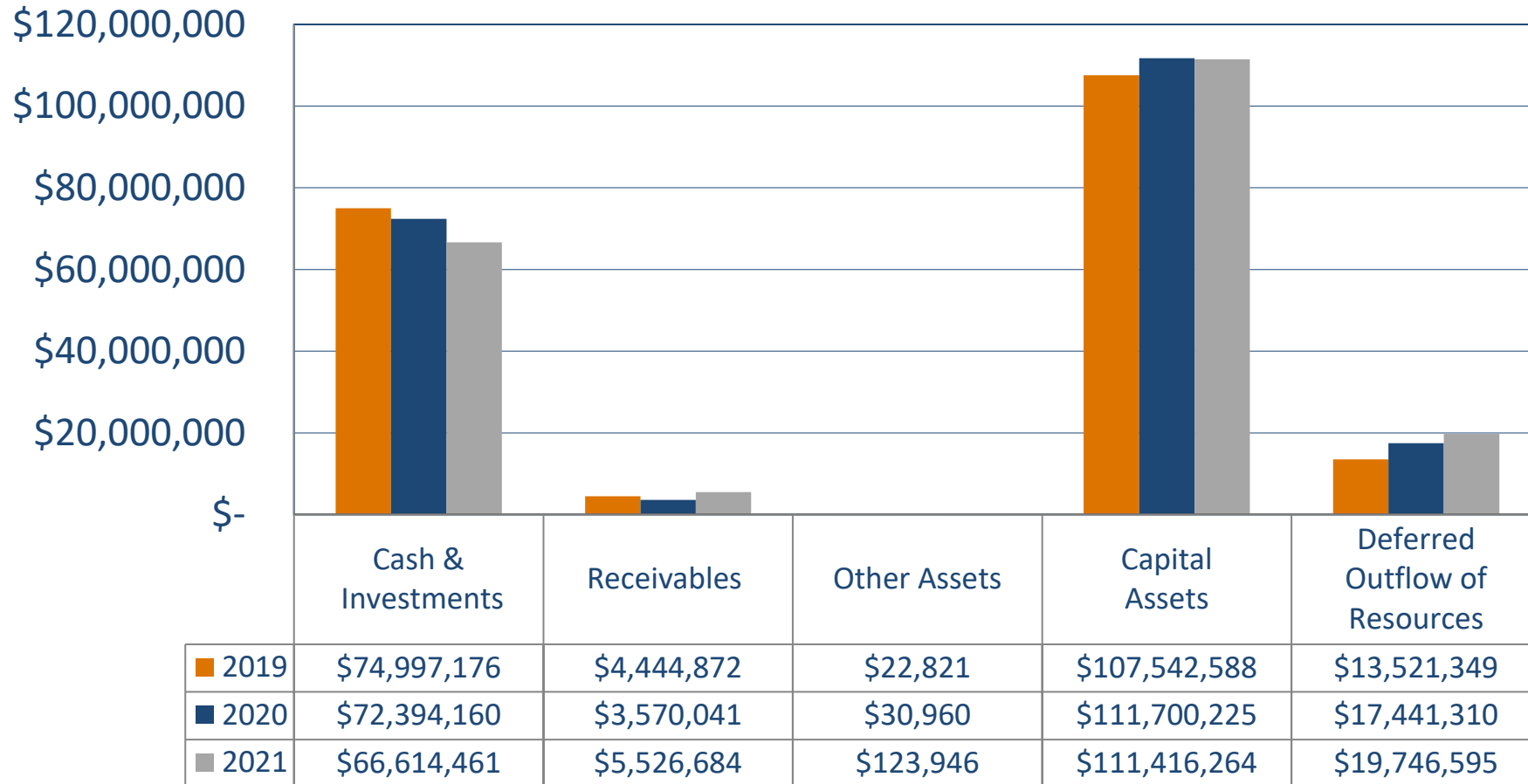
# Auditors Report

- Unmodified opinion
- Audit performed in accordance with *Generally Accepted Auditing Standards*, and *Government Auditing Standards*
- Financial statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements



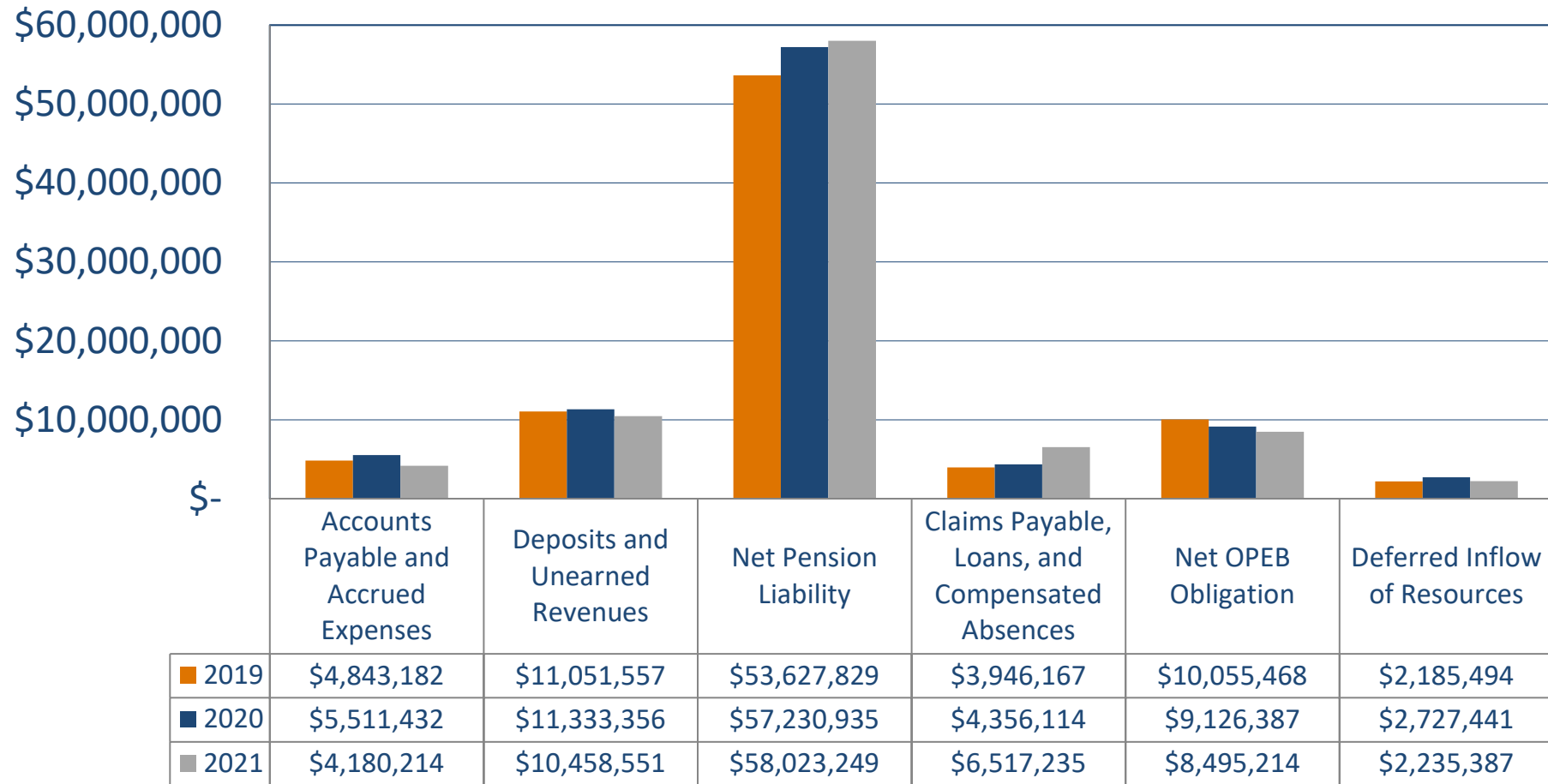
# Government-Wide Financial Statements

## Assets and Deferred Outflows of Resources



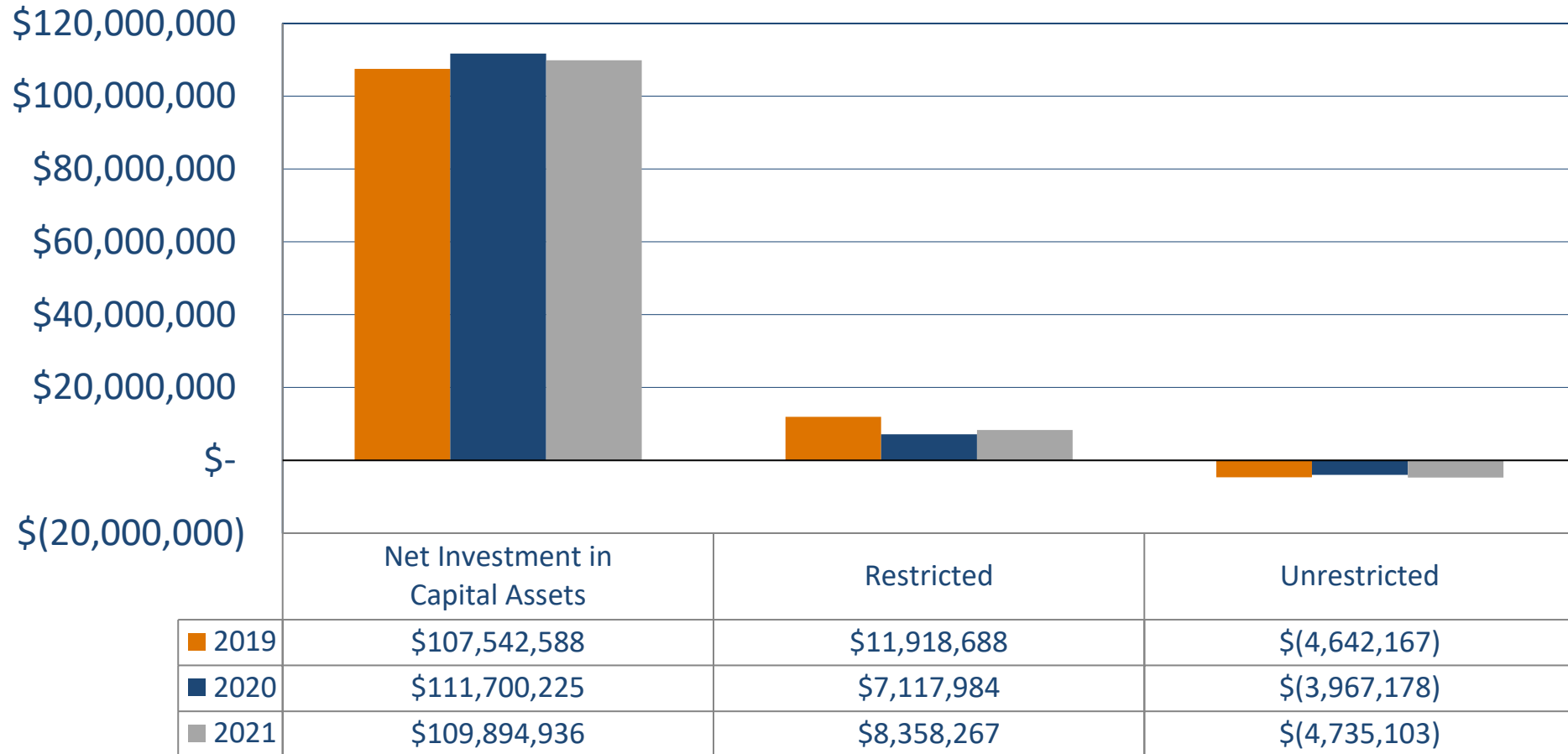
# Government-Wide Financial Statements

## Liabilities and Deferred Inflows of Resources



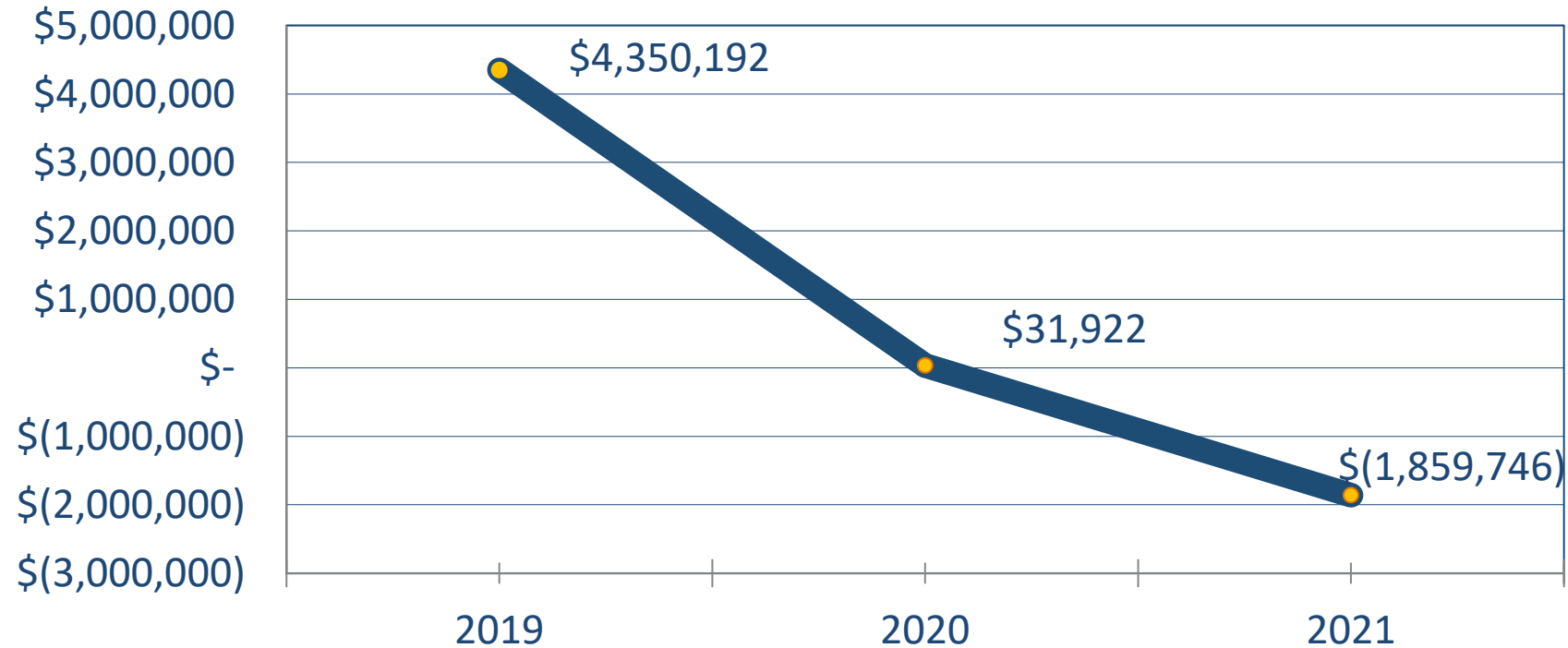
# Government-Wide Financial Statements

## Net Position



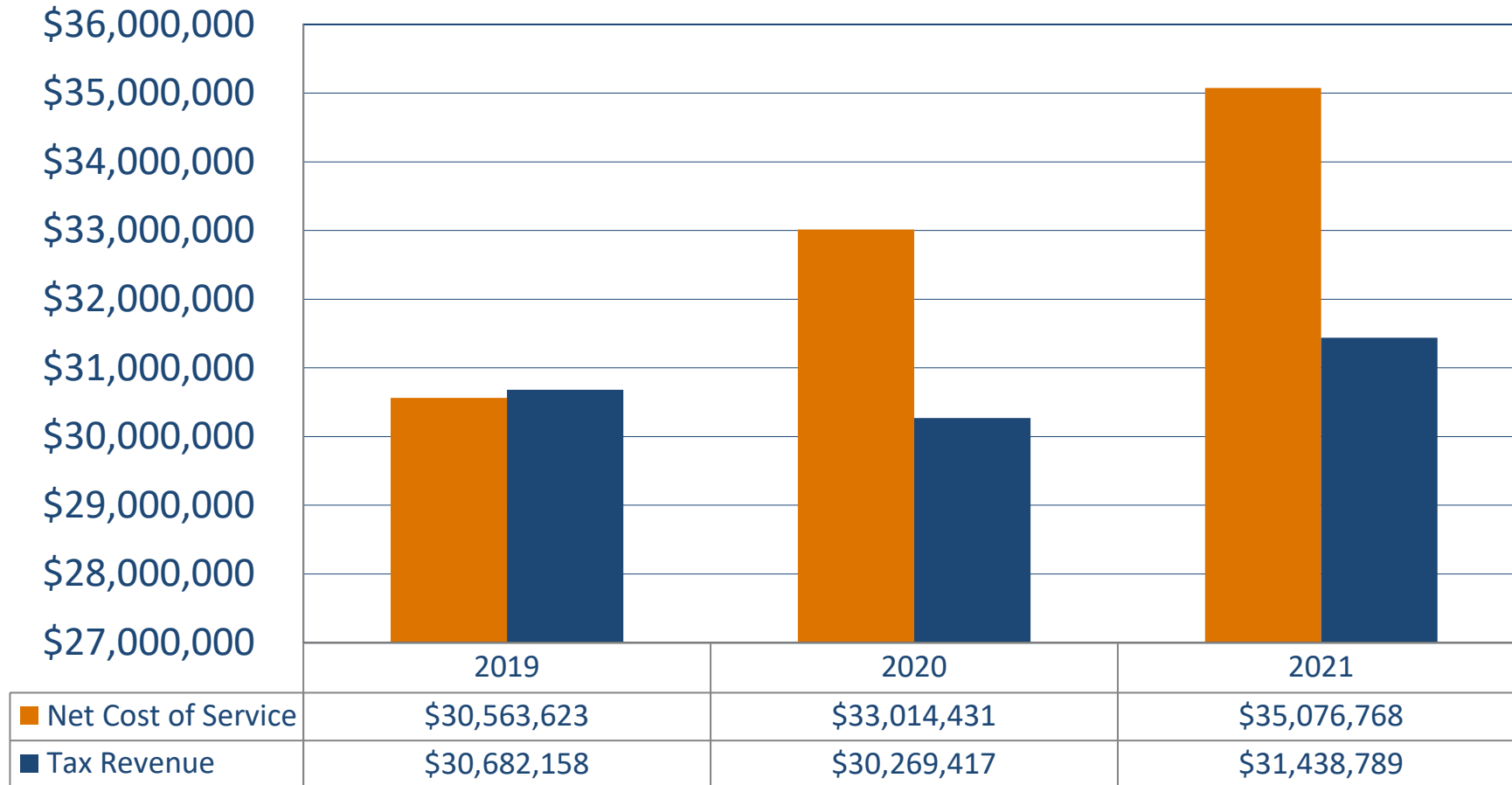
# Government-Wide Financial Statements

## Changes in Net Position



# Government-Wide Financial Statements

## Net Cost of Service to Tax Revenue



# General Fund

## Expenditure Coverage

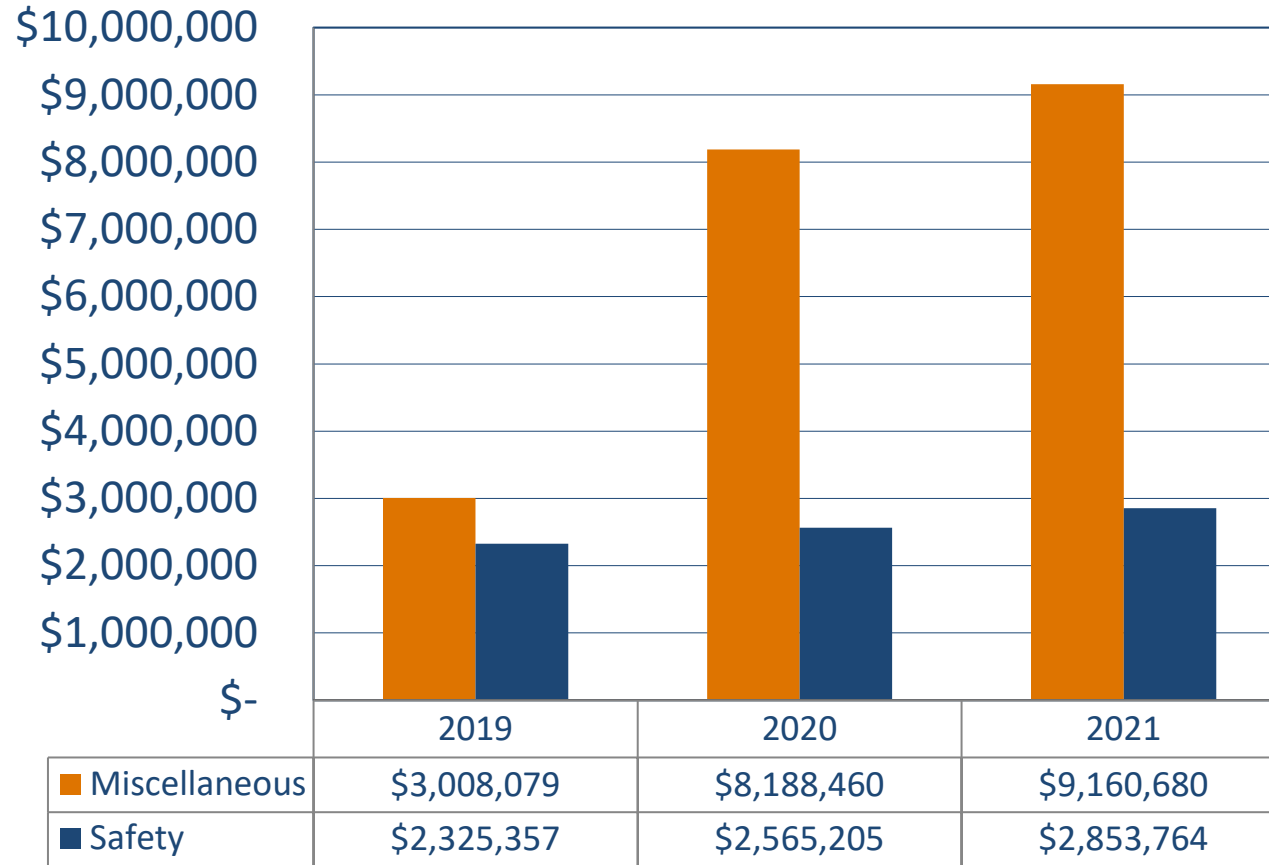
	<u>2019</u>	<u>2020</u>	<u>2021</u>
Unrestricted Fund Balance	<u>\$ 32,955,211</u>	<u>\$ 28,665,519</u>	<u>\$ 23,755,618</u>
Total Expenditures	<u>\$ 37,993,949</u>	<u>\$ 44,270,043</u>	<u>\$ 46,612,586</u>
Unrestricted Fund Balance as a % of Total Expenditures	<u>86.74%</u>	<u>64.75%</u>	<u>50.96%</u>
Number of months	10	8	6
GFOA recommendation	2 - 4		

Measure of Town's ability to operate with no revenues using available fund balance.



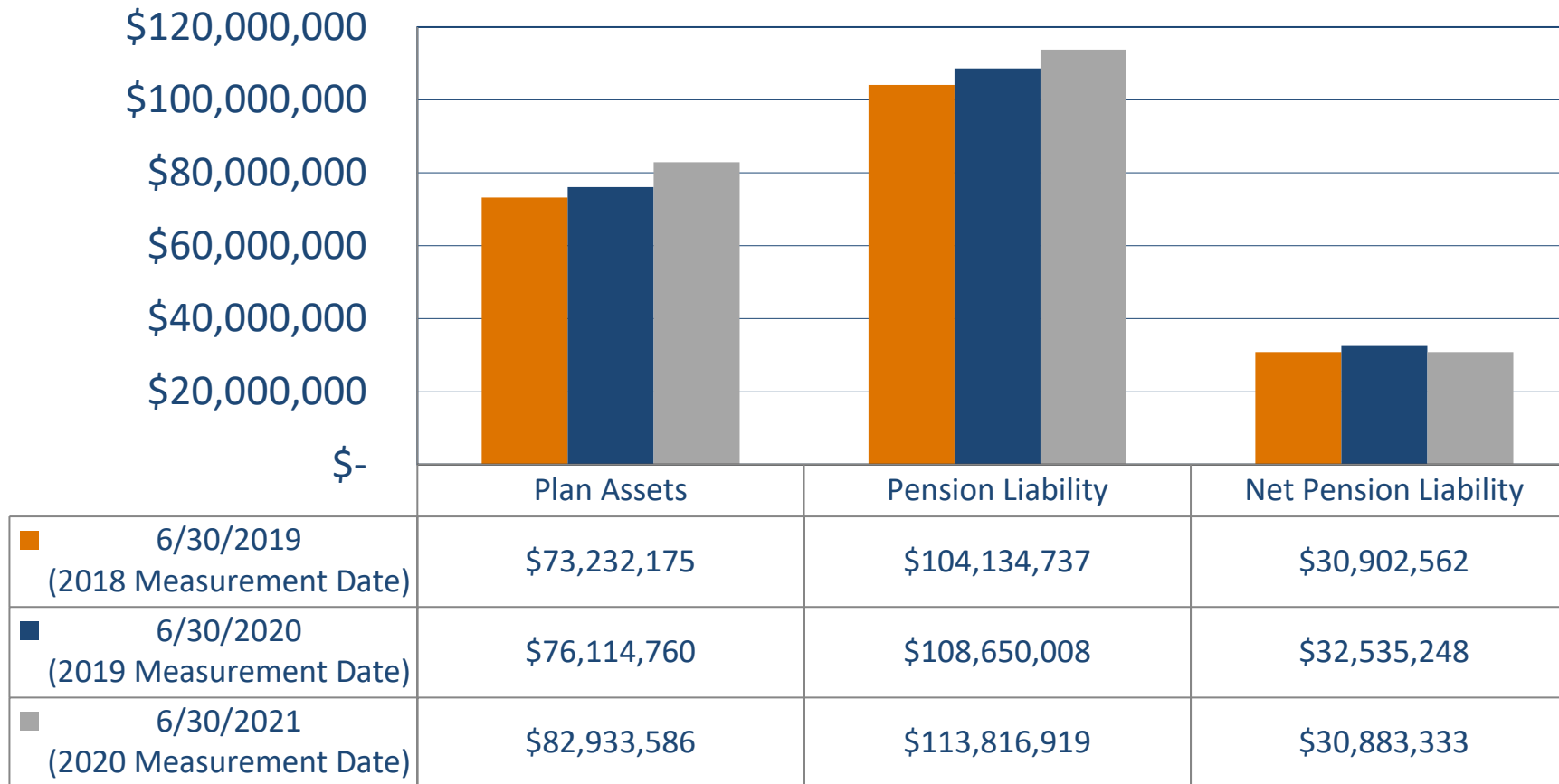
# Other Financial Information

## Town's Annual Pension Contributions



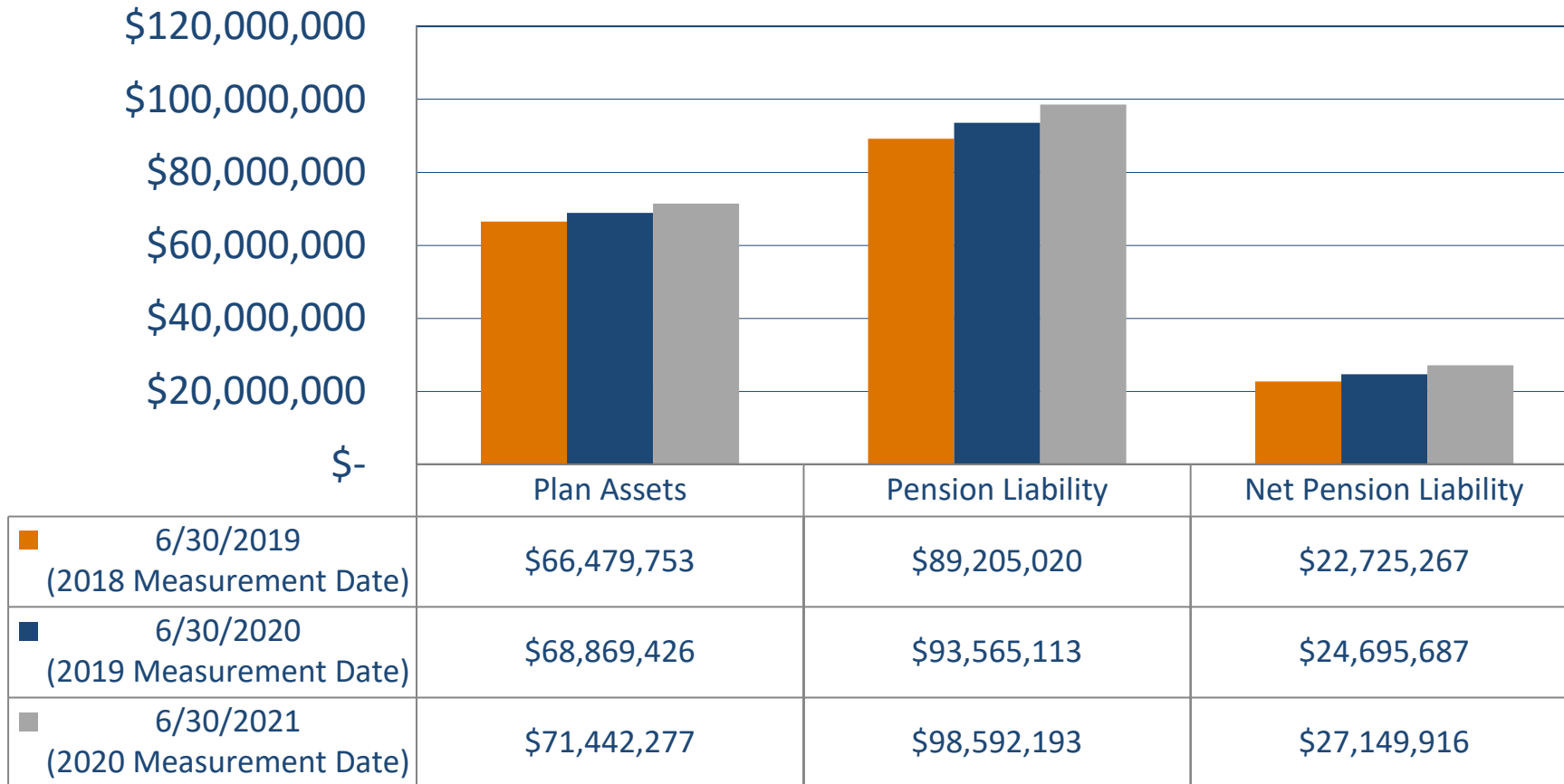
# Pension Plan

## Town's CalPERS Miscellaneous Pension Plan Funded Status



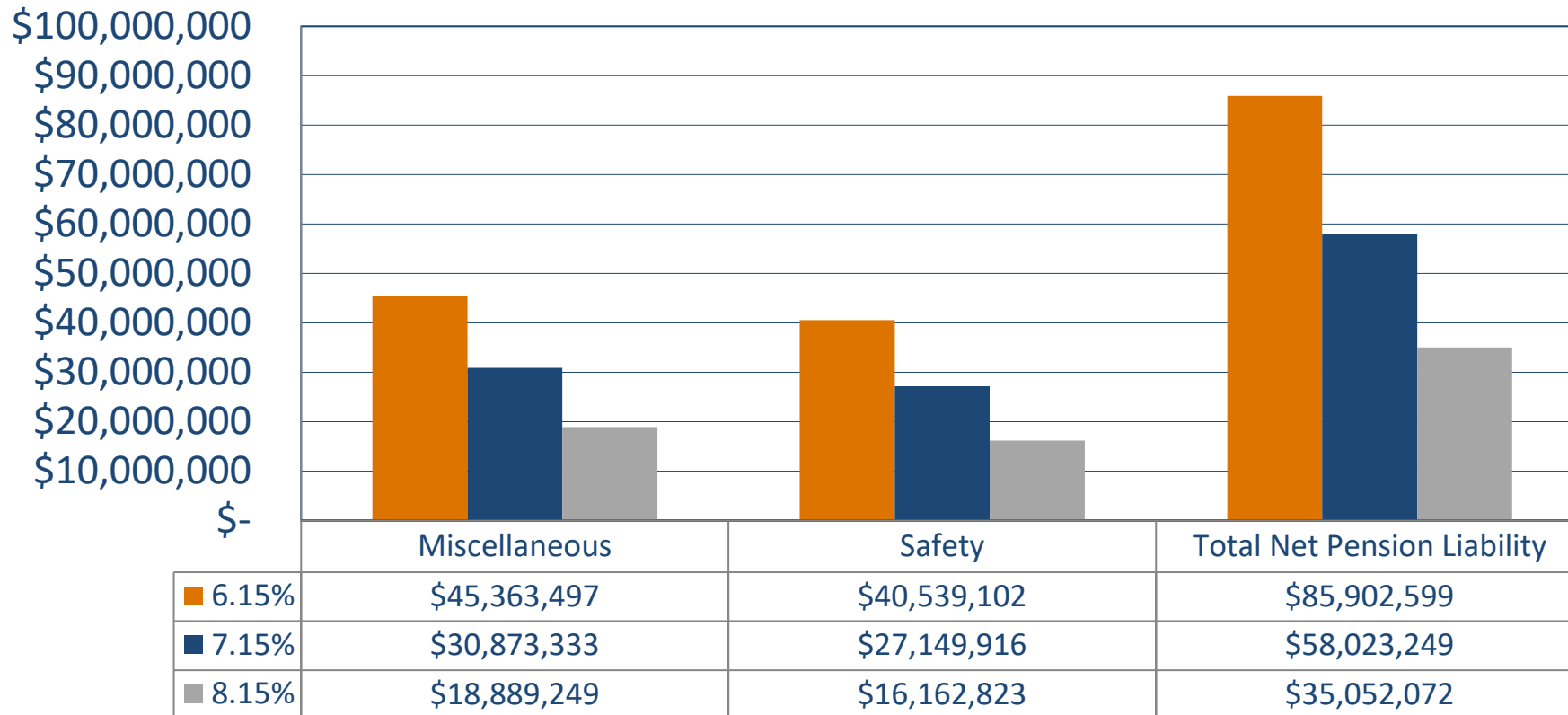
# Pension Plan

## Town's CalPERS Safety Pension Plan Funded Status



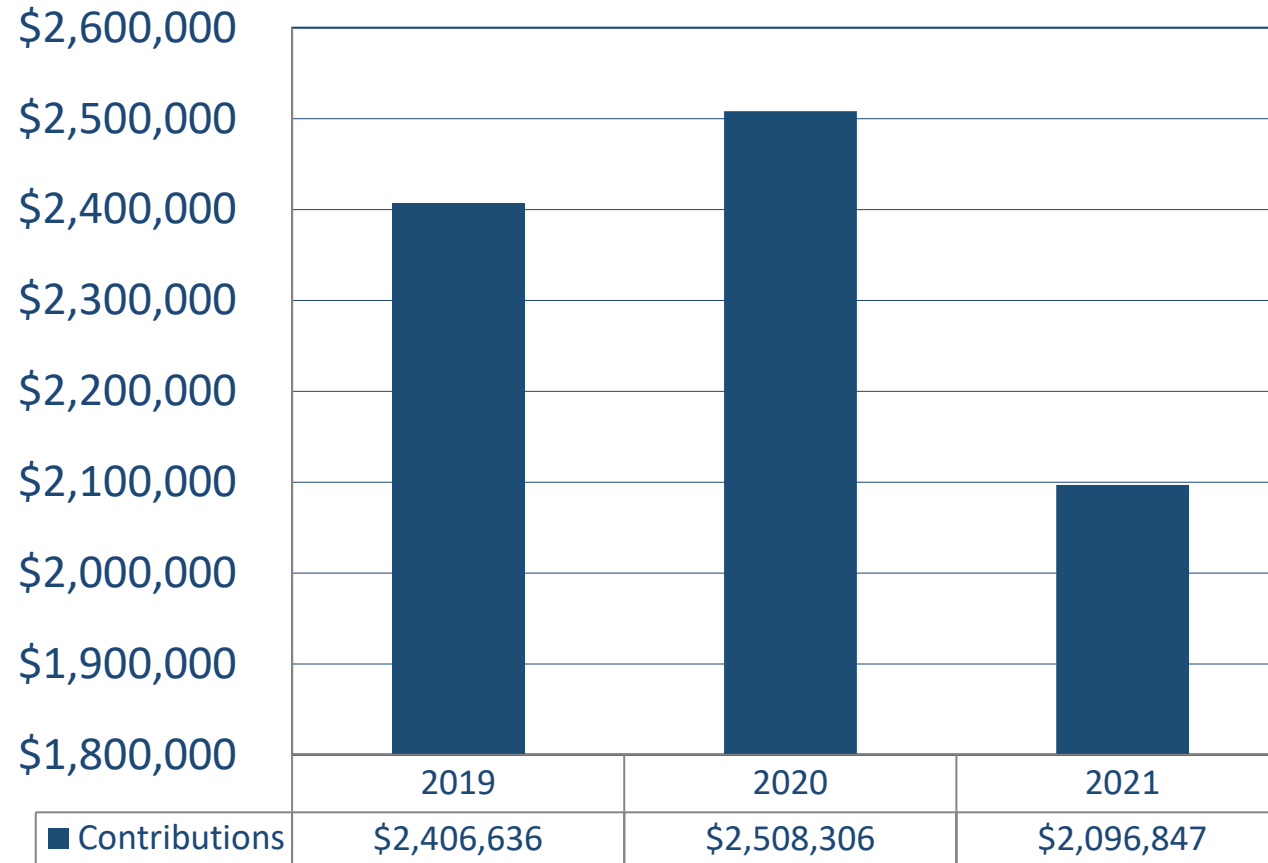
# Pension Plan

## Town's CalPERS Total Pensions Plan Sensitivity to Discount Rate (2020 Measurement Date)



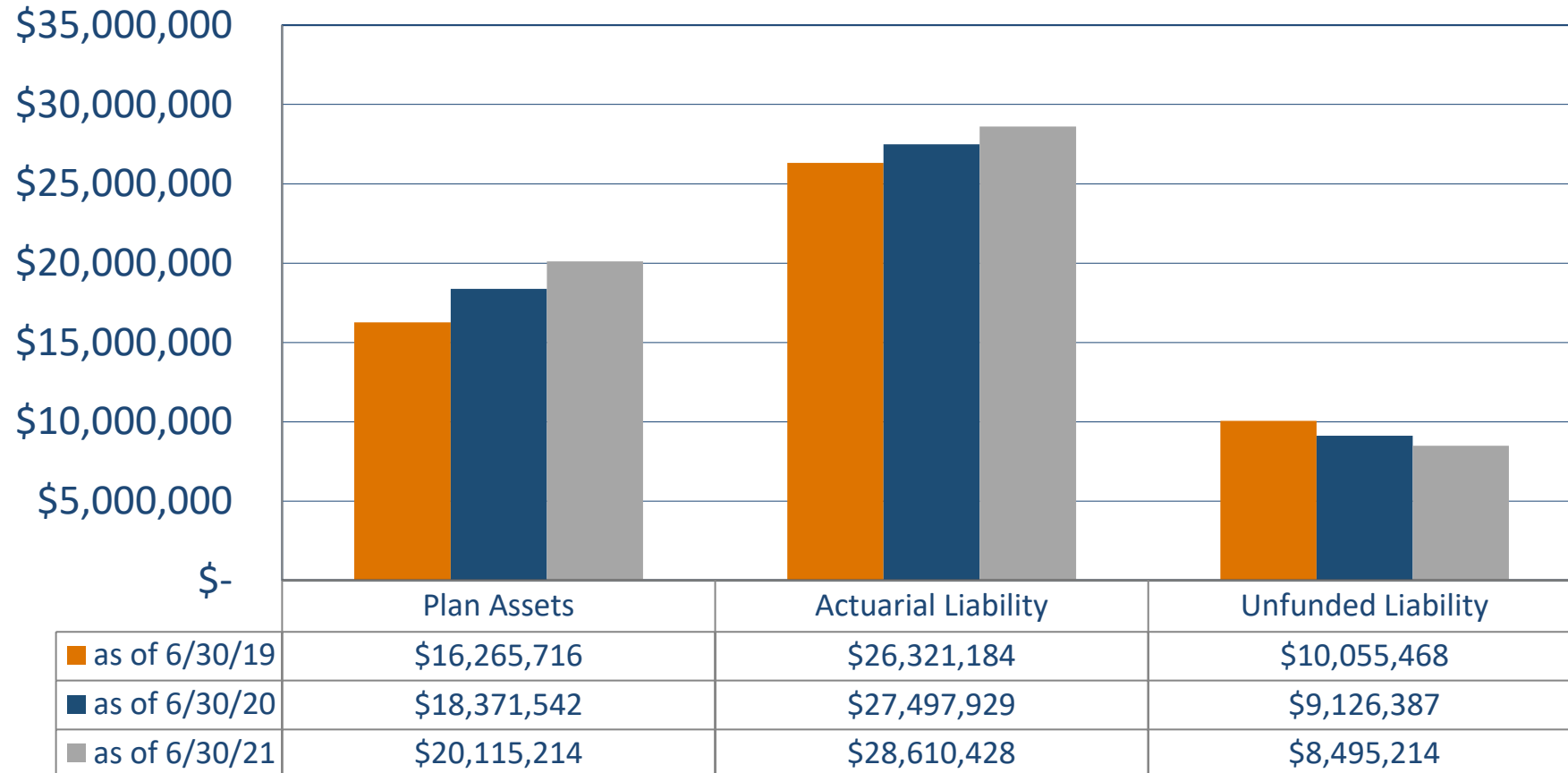
# Other Postemployment Benefits

## Town's Annual OPEB Contributions



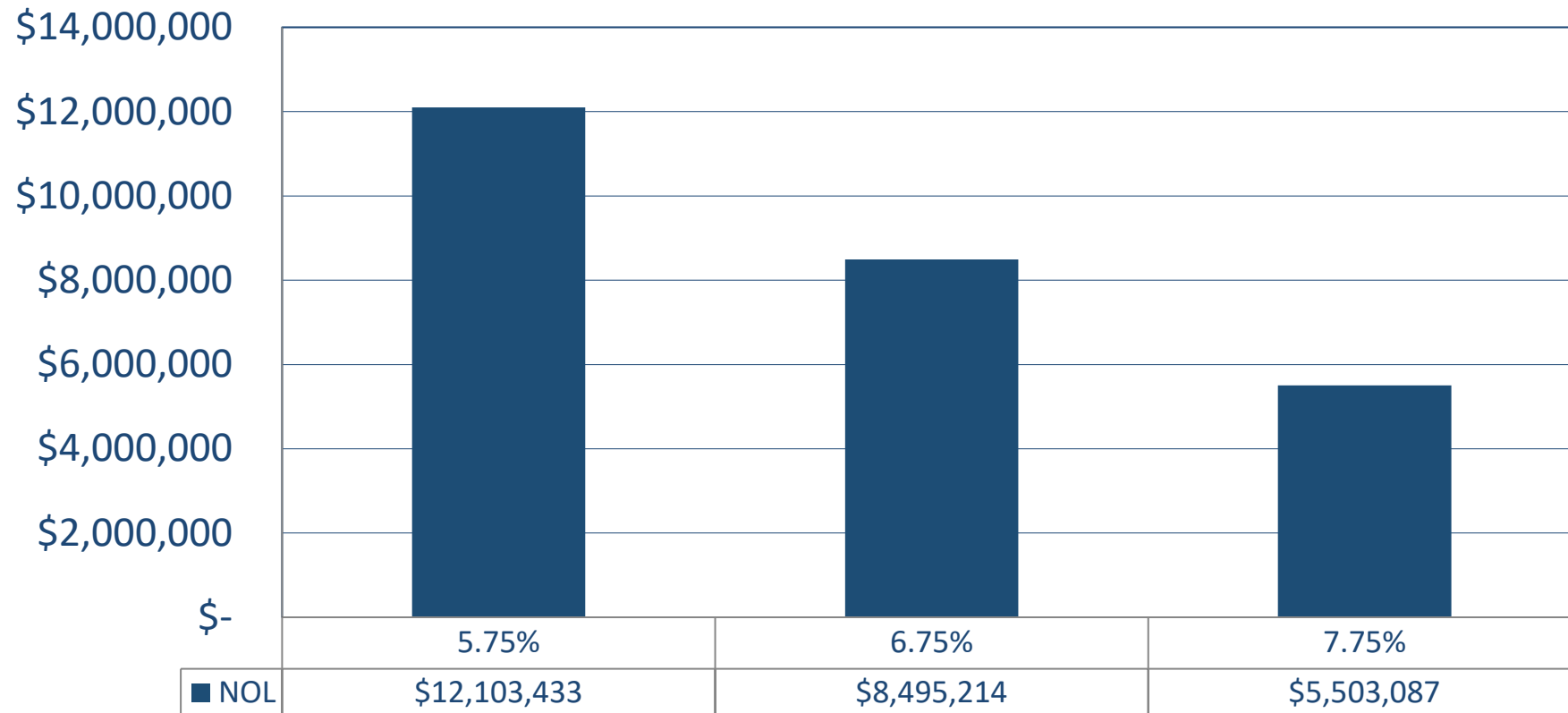
# Other Postemployment Benefits

## Town's OPEB Funded Status



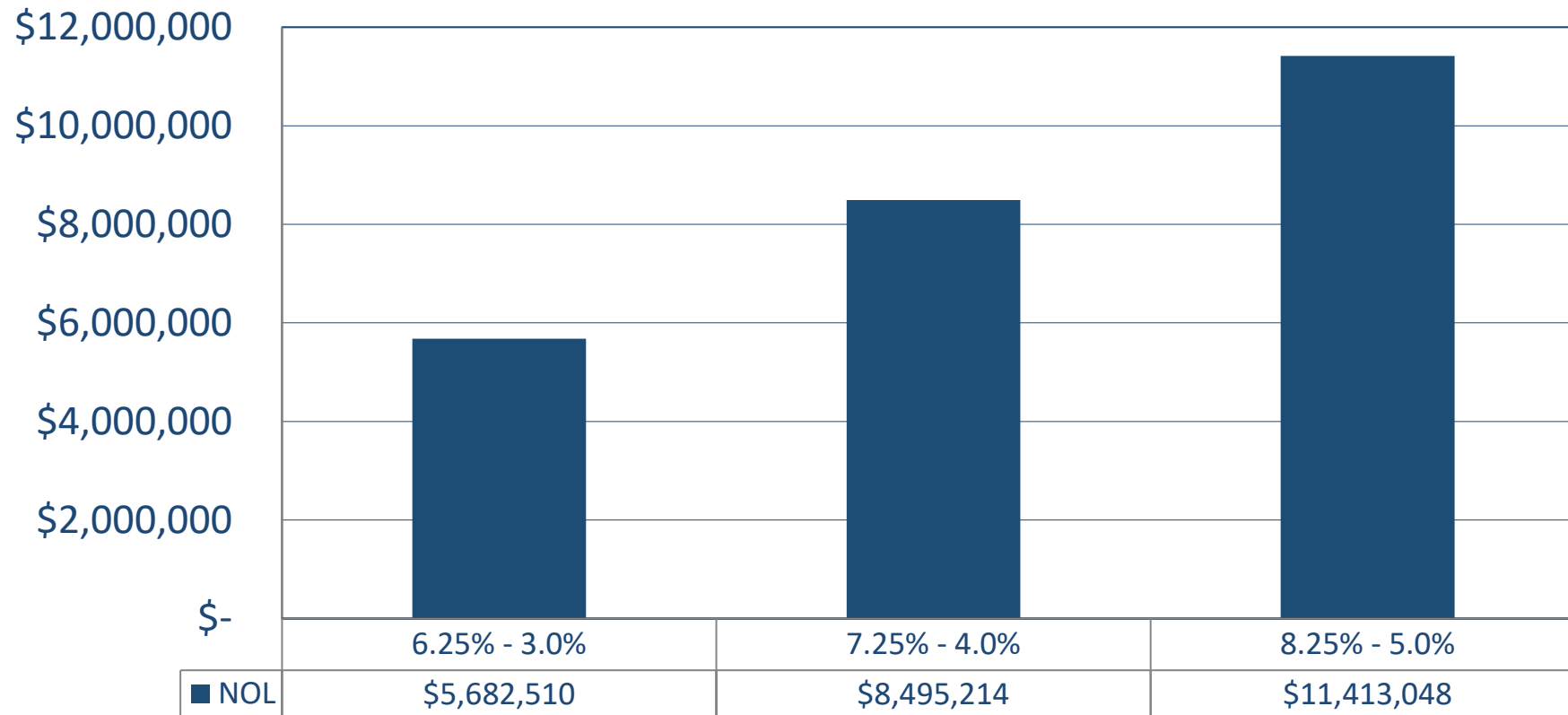
# Other Postemployment Benefits

Town's OPEB Plan Sensitivity to Discount Rate  
(2020 Measurement Date)

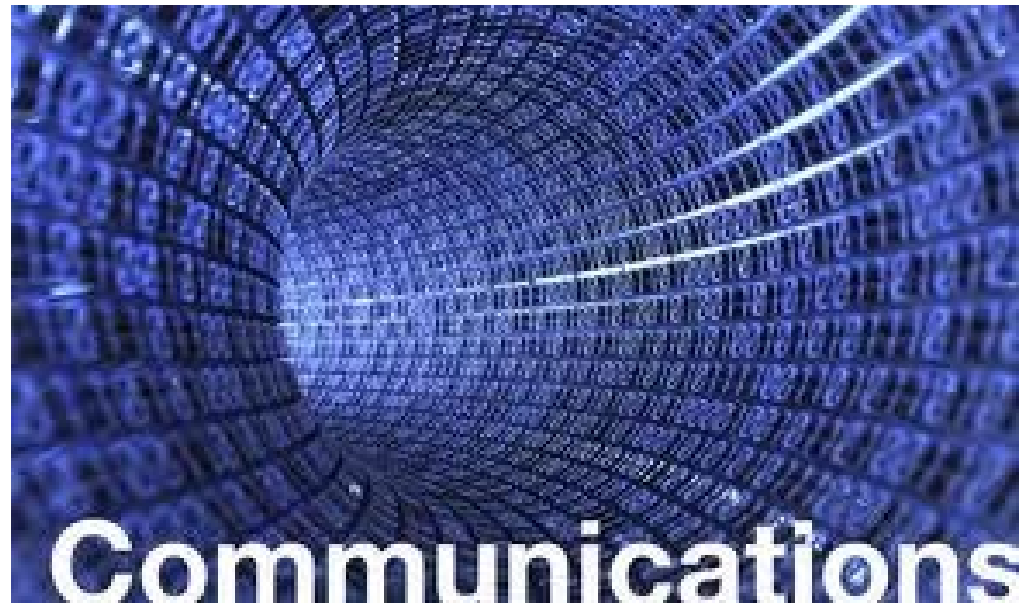


# Other Postemployment Benefits

Town's OPEB Plan Sensitivity to Healthcare Trend Rate  
(2020 Measurement Date)







# Required Communications

## • Our Responsibility Under U.S GAAS

- Opinion on whether financial statements are fairly stated in accordance with U.S GAAP
- Evaluate internal control over financial reporting including tone at the top
- Evaluate compliance with laws, contract and grants
- Ensure financial statements are clear and transparent
- Communicate with the governing body

## • Management Responsibility

- Management is responsible for the financial statements
- Establish and maintain internal control over financial reporting
- Making all financial records available to us
- Adjust the financial statements to correct material misstatements
- Establish internal control to prevent and detect fraud
- Inform us of all known and suspected fraud
- Comply with laws and regulations
- Take corrective action on audit findings

# Required Communications

- Independence





- It is our responsibility to maintain independence
- We will maintain our independence by strict adherence to the AICPA and the Board of Accountancy rules and regulations
- No other services performed that could affect our independence

- Timing of the Audit




- Audit was performed in the time frame communicated to the Town in our engagement letters

# Required Communications

- Management Judgment and Accounting Estimates  Significant management estimates impacting the financial statements include the following:
  - Useful lives of Capital Assets
  - Pension Plans
  - Accrued Compensation
  - OPEB Obligation
- Sensitive Disclosures  The most sensitive disclosures affecting the Town's financial statements are as follow:
  - Summary of Significant Accounting Policies
  - Cash and Investments
  - Capital Assets
  - Net Position/Fund Balance
  - Defined Benefit Pension Plan
  - Other Post Employment Benefits

# Required Communications

• Difficulties Encountered in Performing the Audit  No difficulties were encountered during our audit

• Significant Audit Adjustments and Unadjusted Differences Considered by Management to be Immaterial  There were adjustments and reclassifying entries during the course of the audit. Management has posted all proposed audit adjustments .

# Required Communications

- Potential Effect on the Financial Statements of Any Significant Risks and Exposures





No significant risks or exposures were identified. Legal matters and potential liabilities are disclosed in the financial statements

- Disagreement with Management



We are pleased to report that there were no disagreements with management

# Required Communications

- Deficiencies in Internal Control over Financial Reporting  No material weaknesses identified during our audits
- Representations Requested of Management  We will be requesting certain representations from management that will be included in the management representation letter.

# Required Communications

- Management Consultation with Other Accountants



We are not aware of any significant accounting or auditing matters for which management consulted with other accountants

- Other Material Written Communications



Other than the engagement letters and management representation letters, there have been no other significant communications



# Required Communications

- Material Uncertainties Related to Events and Conditions



There were no material uncertainties relating to events and conditions

- Fraud and Illegal Acts



We have not become aware of any instances of fraud or illegal acts, which were not disclosed by the Town

# New Accounting Standards

2021

- GASB Statement No. 90 – Majority Equity Interests
- GASB Statement No. 93 – Interbank offered rates (except LIBOR removal and lease modifications) GASB Statement
- GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans
- GASB Statement No. 98 – The Annual Comprehensive Financial Report

2022

- GASB Statement No. 87 – Leases
- GASB Statement No. 89 – Construction-period interest
- GASB Statement No. 92– Omnibus (multiple effective date)
- GASB Statement No. 93 – LIBOR removal and lease modifications

2023

- GASB Statement No. 91 – Conduit debt
- GASB Statement No. 94 – Public-private partnerships
- GASB Statement No. 96 - Subscription-Based Information Technology Arrangements

**Thank You  
For Allowing Us to Provide Audit Services  
to the Town of Los Gatos**

