



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/21/2021

ITEM NO: 17

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DATE: December 14, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Annual Comprehensive Financial Report (ACFR):  
a. Receive the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2021, and  
b. Adopt a Resolution Confirming June 30, 2021 Fund Balances in Accordance Fiscal Year 2020/21 Final Audit and Town Council General Fund Reserve Policy

**RECOMMENDATION:**

Annual Comprehensive Financial Report (ACFR):

- a. Receive the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2021 (Attachment 1) as recommended by the Finance Commission, and
- b. Adopt a Resolution Confirming June 30, 2021 Fund Balances in Accordance with Fiscal Year (Attachment 2)

**BACKGROUND:**

The Town contracts with an independent certified public accountant to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds each fiscal year (FY). The FY 2020/21 audit was performed by Badawi & Associates, an experienced firm specializing in audit services for California public agencies. The firm also compiled the Draft ACFR for the Town of Los Gatos.

The information contained in the ACFR provides detailed financial information which the Los Gatos community and others can use to better understand the fiscal standing of the Town. In addition, the financial information contained in the document is one element that the credit rating agencies review annually to affix a credit rating for the Town's outstanding debt obligations. In 2021, Moody's rating service affirmed the Town's general credit rating of Aaa, the highest rating possible.

**PREPARED BY:** Stephen Conway  
Finance Director

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Reviewed by: Assistant Town Manager and Town Attorney

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SUBJECT: Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021

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BACKGROUND (continued):

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

(a) The Finance Commission shall:

(3) Review the Town Manager's draft Annual Comprehensive Financial Report (ACFR) for the preceding fiscal year and provide written comments and recommendations to the Town Manager.

(A) The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting each of the Finance Commission's comments and recommendations prior to presenting the ACFR to the Town Council for formal consideration.

(B) The Town Manager may not present the ACFR to the Town Council for formal consideration unless or until he or she considers and responds in writing to all of the Finance Commission's comments and recommendations.

DISCUSSION:

On November 8, 2021, the Commission provided feedback on elements of the Management Discussion & Analysis (MD&A) that should be addressed for the FY 2020/21 ACFR. Of note, the Commission requested a third year of data where appropriate for comparison given the unique nature of reporting during the pandemic. Other areas identified were acknowledgment of American Rescue Plan Act (ARPA) funds, additional pension obligation reporting, and reporting expenditures as a percentage of taxable revenues along with total revenues.

On December 6, 2021, the Commission received the Fiscal Year 2020/21 Draft Annual Comprehensive Financial Report (ACFR) for the Commission's consideration per Measure A. The draft presented at the meeting included the initial feedback from the November 8, 2021 meeting. During the meeting the Commission provided initial feedback on the Fiscal Year 2020/21 Draft Annual Comprehensive Financial Report (ACFR). Of note, the Commission requested enhanced language specifying the nonrecurring nature of CARES Act and ARPA revenues and nonrecurring ADP expenses. In addition, the Commission requested enhanced language identifying the amount of CARES Act and ARPA funding recognized and expensed during the period. Commissioners also requested clarifying language regarding fee-based revenues, corrections to the extension period of CARES Act funding, and the addition of a new Note 15 summarizing and expanding on both federal programs.

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SUBJECT: Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021

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DISCUSSION (continued):

On December 13, 2021, the Commission further reviewed the Fiscal Year 2020/21 Draft Annual Comprehensive Financial Report (ACFR) including all the recommendations received from the Commission prior to the December 13<sup>th</sup> meeting. At the conclusion of the December 13<sup>th</sup> meeting the Commission provided final recommendations which included changing Governmental Activities Expense Discussion in the MD&A to eliminate duplicate factors and adding clarifying language on the definition of business type activities.

The Finance Commission unanimously recommended to Town Council consideration to receive the Town of Los Gatos Annual Comprehensive Financial Report for the Year Ended June 30, 2021 with all the recommended changes.

In addition to the review and input provided by the Commission staff also provided continuous review and updates to the Fiscal Year 2020/21 Draft Annual Comprehensive Financial Report (ACFR) accordingly.

The redline version of the attached ACFR represents the culmination of recommended enhancements and changes based on Finance Commission comments, continued staff analysis, and continued auditor review while maintaining appropriate ACFR presentation based on governmental accounting and municipal standards.

Highlights of the draft audited financial results include:

Independent Auditor's Report

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2021 giving reasonable assurance that the financial statements are "free of material misstatement." (Attachment 3)

Management's Discussion and Analysis (MD&A)

The MD&A section of the report summaries for the Town on an entity-wide basis and fund type basis. Information is provided in this section with a year-to-year view, explaining how fund balances have changed between fiscal years ending June 30, 2019, June 30, 2020, and June 30, 2021. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2020/21.

Statement of Net Position

The Statement of Net Position serves as a useful indicator of a government's financial position. The Town had net assets of \$113.5 million at fiscal year-end as compared to \$114.8 million the prior year, an overall decrease of \$1.3 million over the prior fiscal year.

DISCUSSION (continued):

The largest portion of the net assets, \$111.4 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$8.4 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2021, unrestricted net position reports a deficit of approximately \$4.7 million. The unrestricted net position reported the prior year was a deficit of approximately \$4.0 million. The deficit in unrestricted net position is primarily due to the Town's outstanding long term pension and Other Post Employment Benefit (OPEB) liabilities.

Basic Financial Statements

This section contains basic financial statements, including the "entity-wide" Statement of Net Position and Statement of Activities, financial statements for the fund types including Governmental Funds (such as the General Fund), Proprietary Funds, and the Private Purpose Trust Funds (Redevelopment Successor Agency). The footnotes section provides details on significant items such as the Town's cash and investments (Note 2), its long term obligations (Certificates of Participation) related to bonded debt (Note 6), the net pension liability for both the Town's miscellaneous and safety pension plans (Note 9), and a discussion of the Town's other post-employment benefit plan (Note 10).

Required Supplementary Information

The Schedules of Pension Plan Contributions are provided in this section.

Supplementary Information

This section provides budget to actual information for "non-major" funds which represent less than 10% of the Town's total assets/liabilities/revenues or expenditures.

Statistical Section

This section presents demographic statistics and ten-year historical financial data for the Town, including information on assessed valuations, fund balances, debt, property tax rates, personnel (full-time equivalent) history, principle employers, and other financial and demographic disclosures.

CONCLUSION:

As noted in the auditor's opinion, the ACFR fairly presents the fiscal year ending June 30, 2021 financial activity for the Town of Los Gatos.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

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SUBJECT: Annual Comprehensive Financial Report for the Fiscal Year Ended June  
30, 2021

DATE: December 14, 2021

Attachments:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021.
2. Fund Balance Resolution Establishing June 30, 2021 Fund Balances
3. Independent Auditor Presentation to the Council Finance Committee