

# Town of Los Gatos

Los Gatos, California

*Single Audit Reports*

*For the year ended June 30, 2021*



**Town of Los Gatos**  
**Single Audit Reports**  
**For the year ended June 30, 2021**

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

**INDEPENDENT AUDITOR'S REPORT**

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, each major fund, the aggregate remaining fund information, and the budgetary comparison for the General Fund of the Town of Los Gatos, California (Town), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 31, 2021.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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.

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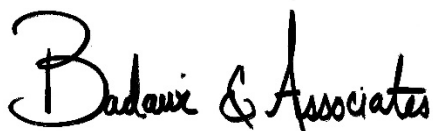
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town'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 financial statements. 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.

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Badawi & Associates, CPAs  
Berkeley, California  
December 31, 2021



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Los Gatos, California (Town)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2021. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

***Basis for Qualified Opinion on CFDA 21.019 Coronavirus Relief Fund***

As described in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding CFDA 21.019 Coronavirus Relief Fund as described in finding numbers 2021-001 for Activities Allowed or Unallowed, and Allowable Costs and Cost Principles. Compliance with such requirements is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

***Qualified Opinion on CFDA 21.019 Coronavirus Relief Fund***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 21.019 Coronavirus Relief Fund for the year ended June 30, 2021.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the Town, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

***Other Matters***

The Town's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a material weakness.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

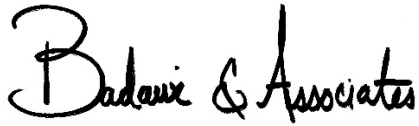
#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 31, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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

To the Honorable Mayor and Members of the Town Council

of the Town of Los Gatos  
Los Gatos, California  
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additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs  
Berkeley, California  
April 25, 2022, except for the schedule of expenditures  
of federal awards, which is as of December 31, 2021



**Town of Los Gatos**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2021**

Grantor Agency and Grant Title	Federal Catalog Number	Pass-through Number	Program Expenditures
<b>U.S. Department of Transportation:</b>			
<i>Highway Planning and Construction Cluster</i>			
<i>Passed through State of California</i>			
Highway Planning and Construction	20.205	HSIPL-5067(021)	120,220
Highway Planning and Construction	20.205	CML-5067(022)	245,253
		Subtotal Highway Planning and Construction Cluster	365,473
<b>Total U.S. Department of Transportation</b>			365,473
<b>Department of Homeland Security:</b>			
Emergency Management Performance Grants	97.042		2,365
<i>Passed through County of Santa Clara</i>			
Fire Management Assistance Grant	97.046	FM-5336-CA	12,627
<b>Total Department of Homeland Security</b>			14,992
<b>Department of Justice:</b>			
Bulletproof Vest Partnership Program	16.607		1,309
<b>Total Department of Justice</b>			1,309
<b>Department of the Treasury:</b>			
Coronavirus State and Local Fiscal Recovery Funds	21.027		200,911
<i>Passed through State of California</i>			
COVID19 - Coronavirus Relief Fund	21.019	n/a	388,181
<b>Total Department of the Treasury</b>			589,092
<b>Total Expenditures of Federal Awards</b>			\$ 970,866

**Town of Los Gatos**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2021**

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**A. Reporting Entity**

The financial reporting entity consists of (a) the primary government, Town of Los Gatos, California (Town), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**B. Basis of Accounting**

Funds received under the various grant programs have been recorded within the general, special revenue, and capital projects funds of the Town. The Town utilizes the modified accrual basis of accounting for the general, special revenue, and capital projects funds. Expenditures of federal awards reported on the Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred.

**C. Relationship of Schedule of Expenditures of Federal Awards to Financial Statements**

The accompanying Schedule presents the activity of all federal financial assistance programs of the Town. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California and the County of Santa Clara is included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the Town.

**D. Pass-Through Entities' Identifying Number**

When federal awards were received from a pass-through entity, the Schedule shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Town determined that no identifying number is assigned for the program or the Town was unable to obtain an identifying number from the pass-through entity.

**E. Indirect Costs**

The Town did not elect to use the 10% de minimis indirect cost rate.

**Town of Los Gatos**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2021**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Types of auditors’ report issued on whether financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

Any noncompliance material to the financial statements noted No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? None noted

Type of auditor’s report issued on compliance for major programs Qualified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
20.205	Highway Planning and Construction Cluster	\$ 365,473
21.019	Coronavirus Relief Fund	\$ 388,181
<b>Total Expenditures of All Major Federal Programs</b>		<b>\$ 753,654</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 970,866</b>
<b>Percentage of Total Expenditures of Federal Awards</b>		<b>77.6%</b>

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee under section 200.520? No

**Town of Los Gatos**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2021**

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**Section II – Current Year Findings**

No financial statement findings were noted.

**Section III- Federal Award Findings and Questioned Costs**

**Finding: 2021-001**

<b>Awarding Agency</b>	Department of the Treasury
<b>Passed through</b>	State of California (State)
<b>Program</b>	Coronavirus Relief Fund
<b>AFN#</b>	21.019

**Criteria:**

Per 2 CFR section 225 App. A, Paragraph C.1.d, “to be allowable under Federal awards, costs must meet the following general criteria:

Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.”

**Condition:**

During our audit, we noted that per the Coronavirus Relief Fund (Fund) program guidance in the Federal Register dated January 15, 2021, revenue replacement is not a permissible use of Fund payments. On April 21, 2020, the Town Council approved a waiver of rent and utilities for a set of non-profit lessees. When preparing a listing of grant expenditures for reporting to the State, the Town chose to use their rent and utility waivers as a qualifying expenditure.

**Cause:**

The Town did not equate rental waivers and lost revenue replacement. The Town staff’s interpretation of lost revenue was understood to be unavoidable losses of revenue due to the pandemic.

**Questioned Costs:**

During our testing, we determined that \$73,054 of federal expenditures were not allowable costs or allowable activities with total questioned costs of \$94,998.

**Context and Effect:**

The Town was not in full compliance with neither the allowable costs and cost principles, nor the allowable activities compliance requirements of the program.

**Town of Los Gatos**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2021**

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**Section III- Federal Award Findings and Questioned Costs, Continued**

**Finding: 2021-001, Continued**

**Recommendation:**

We recommend the Town double-check for disallowed costs and activities when administering new grant programs.

**Management Response:**

The Town's independent auditor has opined that the Town's efforts to provide economic relief in the form of waivers of rent (rent forgiveness) to a number of non-profits and other entities should be considered as "lost revenue" and therefore disallowable because lost revenue is precluded as an expenditure for the CARES act . Based on the Town's understanding of the CARES act rent forgiveness support was classified as eligible under the Small business assistance category of expenditures. As such, the Town Council opted to assist these groups by forgiving their rent (a voluntary write-off of rents due to the Town) to support these entities during the height of the pandemic. If the Federal Government determines that this cost were to be disallowed, the Town has significant other qualifying expenditures in categories such as payroll for public safety that could be substituted for the small business rental assistance.

**Section IV – Prior Year Financial Statements Findings**

No financial statement findings were noted.

**Section V – Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted.