



Chavan and Associates, LLP
Certified Public Accountants

March 9, 2022

Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

We are pleased to confirm our understanding of the services we are to provide for the Town of Los Gatos (the "Town") for the fiscal years ending June 30, 2022, 2023 and 2024, with options for 2025 and 2026. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. In addition, we will audit the Town's compliance over major federal award programs, and perform the services as noted in **Exhibit A**, as applicable each fiscal year. We are pleased to confirm our acceptance of this audit engagement by means of this letter. Our audits will be conducted with the objectives of our expressing an opinion on each opinion unit and an opinion on compliance regarding the Town's major federal award programs.

Accounting principles generally accepted in the United States of America, (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), require that the items noted below be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP and will be subjected to certain limited procedures but will not be audited:

1. Management's discussion and analysis.
2. Major fund budget to actual schedules.
3. Pension schedules.
4. Other postemployment benefit schedules.

Supplementary Information Other than RSI

Supplementary information other than RSI will accompany the Town's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with U.S. GAAS.



Chavan and Associates, llp
Certified Public Accountants

We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

1. Nonmajor governmental fund combining balance sheets and statements of revenues, expenditures and changes in fund balances.
2. Nonmajor budgetary comparison schedules.
3. Proprietary funds combining balance sheets and statements of revenues, expenditures and changes in net position, and cash flows, as applicable.
4. Fiduciary fund statements, as applicable.

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. ACFR introductory section.
2. Statistical tables.

Schedule of Expenditures of Federal Awards

We will subject the schedule of expenditures of federal awards to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the schedule to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements as a whole.

Data Collection Form

Prior to the completion of our engagement, we will complete the sections of the Data Collection Form that are our responsibility. The form will summarize our audit findings, amounts and conclusions. It is management's responsibility to submit a reporting package including financial statements, schedule of expenditure of federal awards, summary schedule of prior audit findings and corrective action plan along with the Data Collection Form to the federal audit clearinghouse. The financial reporting package must be text searchable, unencrypted, and unlocked. Otherwise, the reporting package will not be accepted by the federal audit clearinghouse. We will assist you in the electronic submission and certification. You may request from us copies of our report for you to include with the reporting package submitted to pass-through entities.

The Data Collection Form is required to be submitted within the *earlier* of 30 days after receipt of our auditors' reports or nine months after the end of the audit period, unless specifically waived by a federal cognizant or oversight agency for audits. Data Collection Forms submitted untimely are one of the factors in assessing programs at a higher risk.



Chavan and Associates, LLP

Certified Public Accountants

Audit of the Financial Statements

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America (GAGAS), and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 the basic 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 error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

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. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or noncompliance (whether caused by errors, fraudulent financial reporting, misappropriation of assets, detected abuse, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards* of the Comptroller General of the United States of America. Please note that the determination of abuse is subjective and *Government Auditing Standards* does not require auditors to detect abuse.

In making our risk assessments, we consider internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit. Our responsibility as auditors is limited to the period(s) covered by our audit and does not extend to any other periods.

We will issue a written report upon completion of our audit of the Town's basic financial statements. Our report will be addressed to the governing body of the Town. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is



Chavan and Associates, LLP
Certified Public Accountants

necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

Audit of Major Program Compliance

Our audit of the Town's major federal award program(s) compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget's (OMB) Uniform Guidance; and will include tests of accounting records, a determination of major programs in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. We cannot provide assurance that an unmodified opinion on compliance will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement.

Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the Town has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Town's major programs. The purpose of those procedures will be to express an opinion on the Town's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Uniform Guidance.

Also, as required by the Uniform Guidance, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of the Town's major federal award programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the Town's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.



Chavan and Associates, LLP

Certified Public Accountants

Management's Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For 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 error fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements;
3. For identifying, in its accounts, all federal awards received and expended during the period and the federal programs under which they were received, including federal awards and funding increments received in accordance with the Uniform Guidance generally received after December 26, 2014;
4. For maintaining records that adequately identify the source and application of funds for federally funded activities;
5. For preparing the schedule of expenses of federal awards (including notes and noncash assistance received) in accordance with the Uniform Guidance requirements;
6. For the design, implementation, and maintenance of internal control over federal awards;
7. For establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the nonfederal entity is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards;
8. For identifying and ensuring that the Town complies with laws, regulations, grants, and contracts applicable to its activities and its federal award programs and implementing systems designed to achieve compliance with applicable laws, regulations, grants, and contracts applicable to activities and its federal award programs;
9. For disclosing accurately, currently, and completely the financial results of each federal award in accordance with the requirements of the award;
10. For identifying and providing report copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented;
11. For taking prompt action when instances of noncompliance are identified;
12. For addressing the findings and recommendations of auditors, for establishing and maintaining a process to track the status of such findings and recommendations and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;
13. For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
14. For submitting the reporting package and data collection form to the appropriate parties;
15. For making the auditor aware of any significant vendor / contractor relationships where the vendor / contractor is responsible for program compliance;



Chavan and Associates, llp
 Certified Public Accountants

16. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, and relevant to federal award programs, such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the Town from whom we determine it necessary to obtain audit evidence.
17. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the Town's auditor;
18. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
19. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
20. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
21. For informing us of any known or suspected fraud affecting the Town involving management, employees with significant role in internal control and others where fraud could have a material effect on compliance and the financials;
22. For the accuracy and completeness of all information provided;
23. For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
24. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the supplementary information and schedule of expenditures of federal awards (SEFA) referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information and SEFA in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding the supplementary information and SEFA, (c) to include our report on the supplementary information and the SEFA in any document that contains the supplementary information and that indicates that we have reported on such supplementary information and the SEFA, and (d) to present the supplementary information and the SEFA with the audited financial statements, or if the supplementary information and the SEFA will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information and the SEFA no later than the date of issuance by you of the supplementary information and the SEFA and our reports thereon.

As part of our audit process, we will request from management, written confirmation concerning representations made to us in connection with the audit. We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.



Chavan and Associates, LLP

Certified Public Accountants

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Audit Administration and Fees

Our all-inclusive maximum fee for these services will be as follows (see Exhibit A):

Fiscal year ending June 30, 2022	\$36,500
Fiscal year ending June 30, 2023	\$36,500
Fiscal year ending June 30, 2024	\$36,500
Fiscal year ending June 30, 2025	\$38,750
Fiscal year ending June 30, 2026	\$39,750

Our fees include out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.).

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit as follows:

Engagement Partner	\$175 per hour
Associate Partner	\$125 per hour
Manager	\$95 per hour
Senior Auditor	\$80 per hour
Staff Auditor	\$65 per hour
Administrative	\$50 per hour

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report.

You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If cooperation is not provided as anticipated and at a level that hinders the progress of the services to be provided, we retain the right to terminate the contract for cause with thirty (30) days' notice. During that time, the Town will have the opportunity to provide the cooperation required to complete the audit and C&A may rescind the cancellation.

If the services to be performed by C&A are not performed in an acceptable manner to the Town, the Town may cancel this contract for cause by providing notice to C&A, giving at least thirty (30) days' notice of the proposed cancellation and the reasons for same. During that time period,



Chavan and Associates, LLP
Certified Public Accountants

C&A may seek to bring the performance of services to a level that is acceptable to the Town, and the Town may rescind the cancellation if such action is in Town's best interest. Notwithstanding the above provisions, the Town may, upon the expiration of thirty (30) days written notice to C&A, terminate the agreement at will. Payment for services or goods received prior to termination shall be made by the Town provided those goods or services were provided in a manner acceptable to the Town. Payment for those goods and services shall not be unreasonably withheld.

Sheldon Chavan, CPA, is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Chavan & Associates LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Other Matters

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

The audit documentation for this engagement is the property of Chavan & Associates LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to state and federal agencies and the U.S. Government Accountability Office pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Chavan & Associates LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

We will be available during the year to consult with you on financial management and accounting matters of a routine nature. You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

With respect to any nonattest services we perform, the Town's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed;



Chavan and Associates, LLP

Certified Public Accountants

and (e) establishing and maintaining internal controls, including monitoring ongoing activities. Nonattest services include the preparation of the audited financial statements, note disclosures, supplemental information (as noted above), conversion entries, audit adjusting entries, a template MD&A with tables, the schedule of expenditures of federal awards, the data collection form, the state controller's annual reports; statistical schedules that are derived from the audited financial statements. These items will be prepared from information prepared and provided by the Town during our audit, such as the Town's trial balance.

We will not assume management responsibilities on behalf of the Town. However, we will provide advice and recommendations to assist management in performing its responsibilities.

Our responsibilities and limitations of the engagement are as follows:

- We will perform the services in accordance with applicable professional standards, including GAAS, GAGAS and Uniform Guidance as previously noted.
- This engagement is limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries. Our firm will advise the Town with regard to the nonattest services provided, but the Town must make all decisions with regard to those matters.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

At the conclusion of our audit engagement, we will communicate to management and the Council the following significant items from the audit:

- Our view about the qualitative aspects of the Town's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;



Chavan and Associates, LLP
Certified Public Accountants

- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

In accordance with the requirements of *Government Auditing Standards*, a copy of our latest external peer review report of our firm is available upon request or on our website.

If the foregoing is in accordance with your understanding, please indicate your agreement by signing this letter and emailing it to us at info@cnallp.com. If you have any questions, please let us know.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Very truly yours,

C & A LLP

Sheldon Chavan, CPA, Managing Partner
Chavan & Associates, LLP

RESPONSE:

This letter correctly sets forth the understanding of the Town of Los Gatos.

Signature: 
81BC32FD57BD48F...

Title: Director of Finance

Date: 3/22/2022



Chavan and Associates, llp
Certified Public Accountants

Exhibit A

Services	Hours	Optional				
		2022	2023	2024	2025	2026
Town Audit	288	\$ 24,500	\$ 24,500	\$ 24,500	\$ 26,000	\$ 27,000
Single Audit	30	3,000	3,000	3,000	3,000	3,000
GANN Limit	4	500	500	500	500	500
ACFR Preparation	30	3,000	3,000	3,000	3,000	3,000
Consulting, Updates and Guidance	N/A	Included	Included	Included	Included	Included
Present Reports to Board and Committees	N/A	Included	Included	Included	Included	Included
Conversion Entries	N/A	Included	Included	Included	Included	Included
Subtotal Base Audit	352	31,000	31,000	31,000	32,500	33,500
Annual Financial Transactions Report	16	2,000	2,000	2,000	2,250	2,250
SCO Compensation Report	8	1,000	1,000	1,000	1,250	1,250
Measure G AUP	24	2,500	2,500	2,500	2,750	2,750
Total All-Inclusive Maximum Price	400	\$ 36,500	\$ 36,500	\$ 36,500	\$ 38,750	\$ 39,750