

# Town of Los Gatos

## Presentation to The Finance Committee

December 7, 2020

Presented by: **Ahmed Badawi, CPA**  
Partner



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

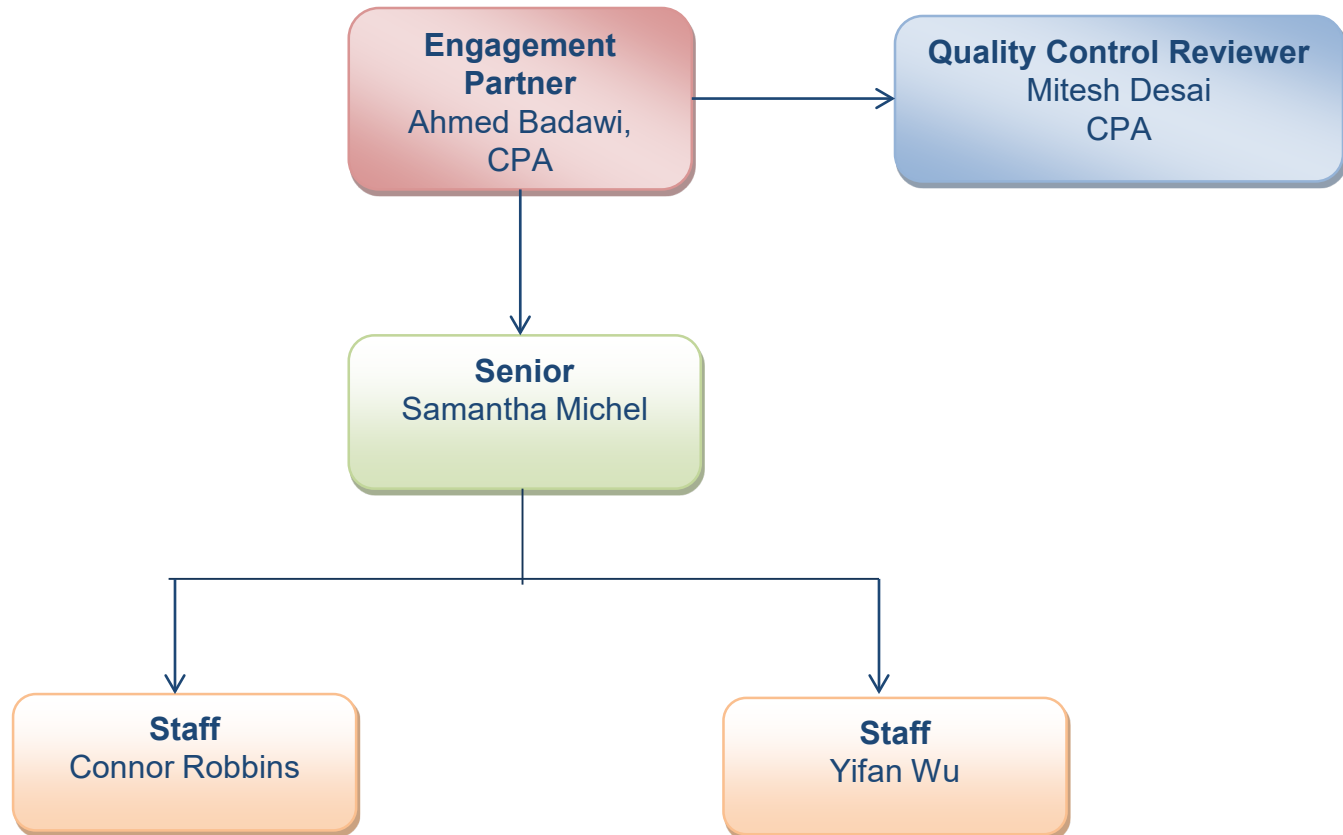
# Agenda

- 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.
- 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





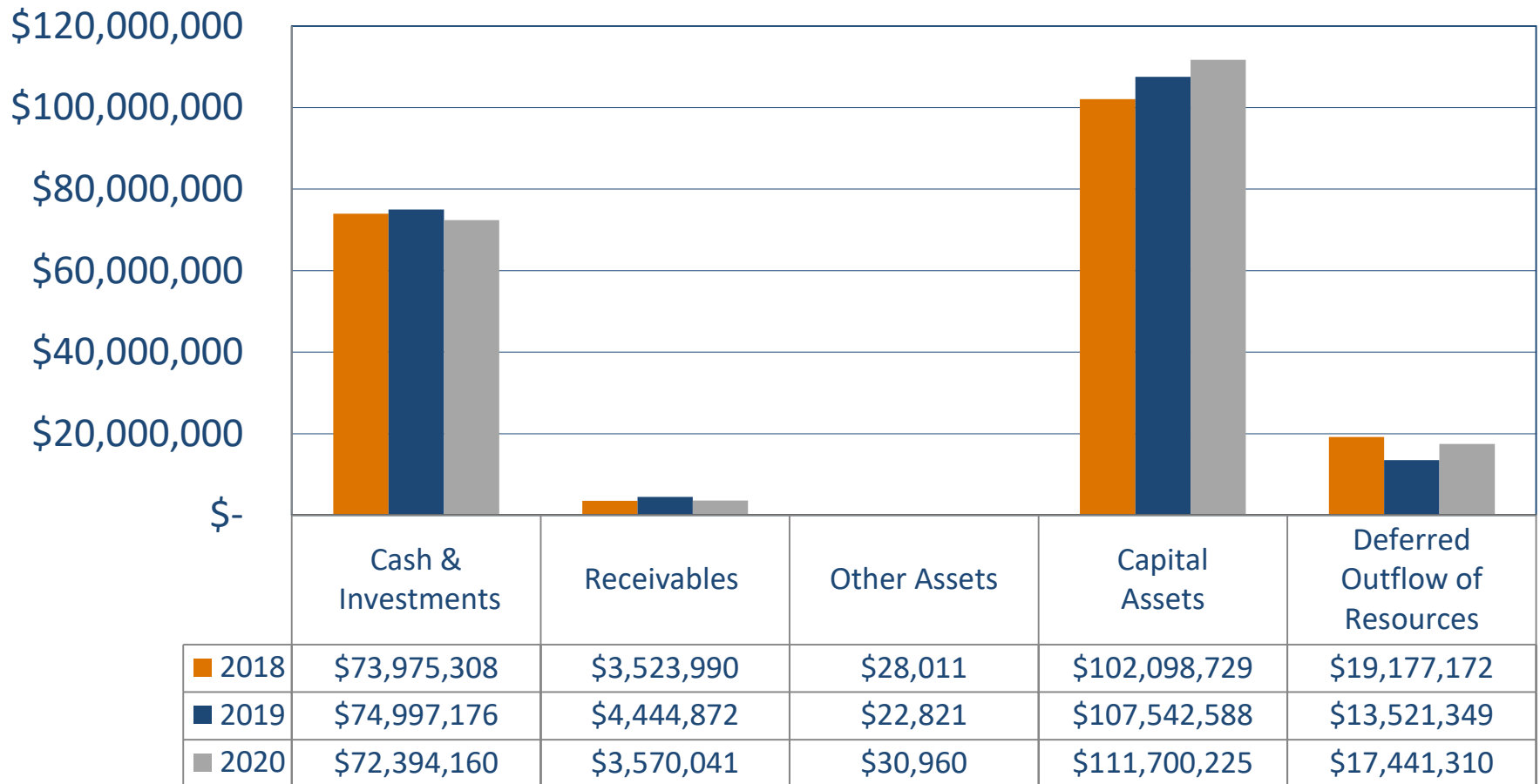
# Auditors Report

- 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



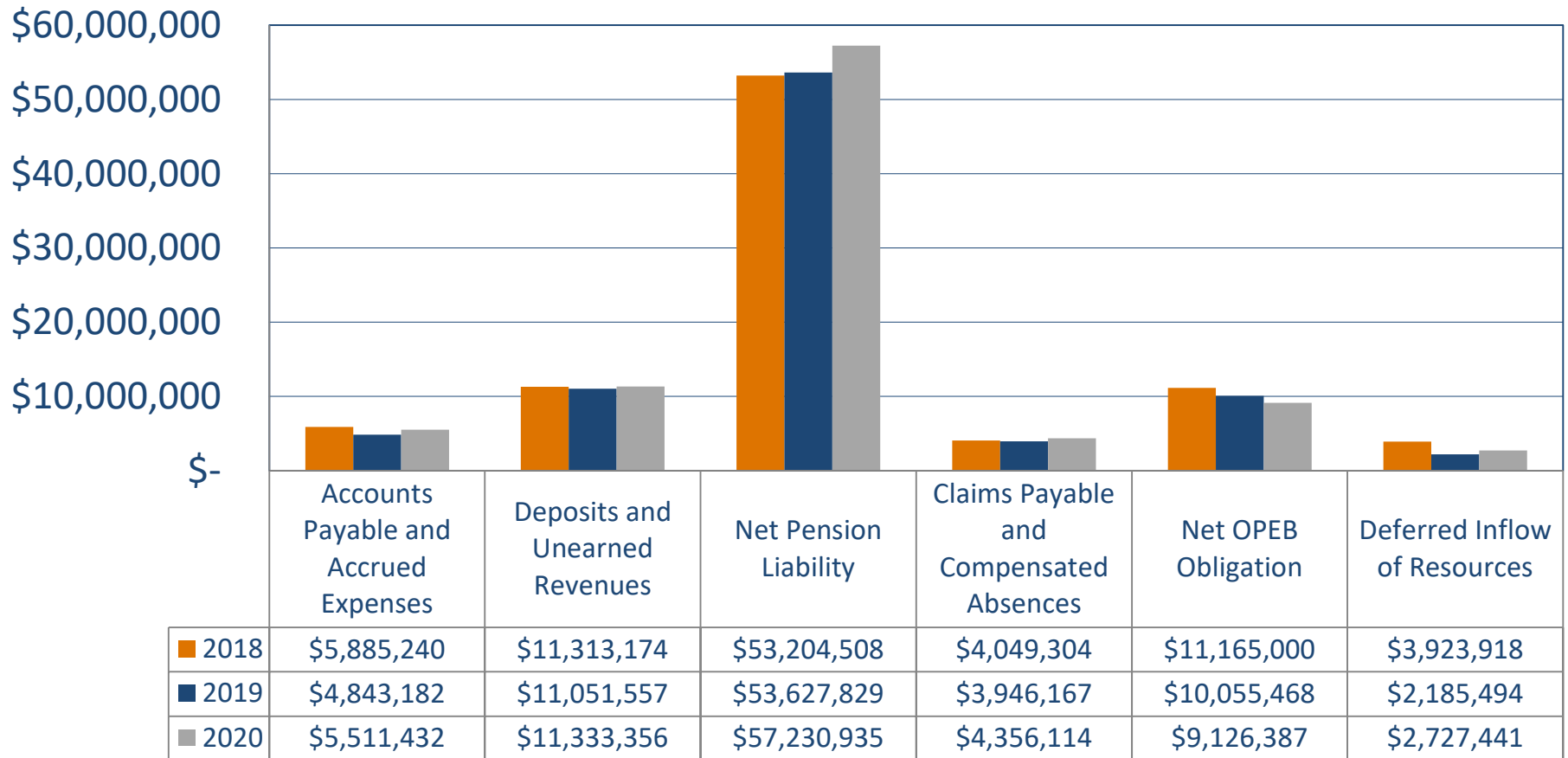
# Government-Wide Financial Statements

## Assets and Deferred Outflows of Resources



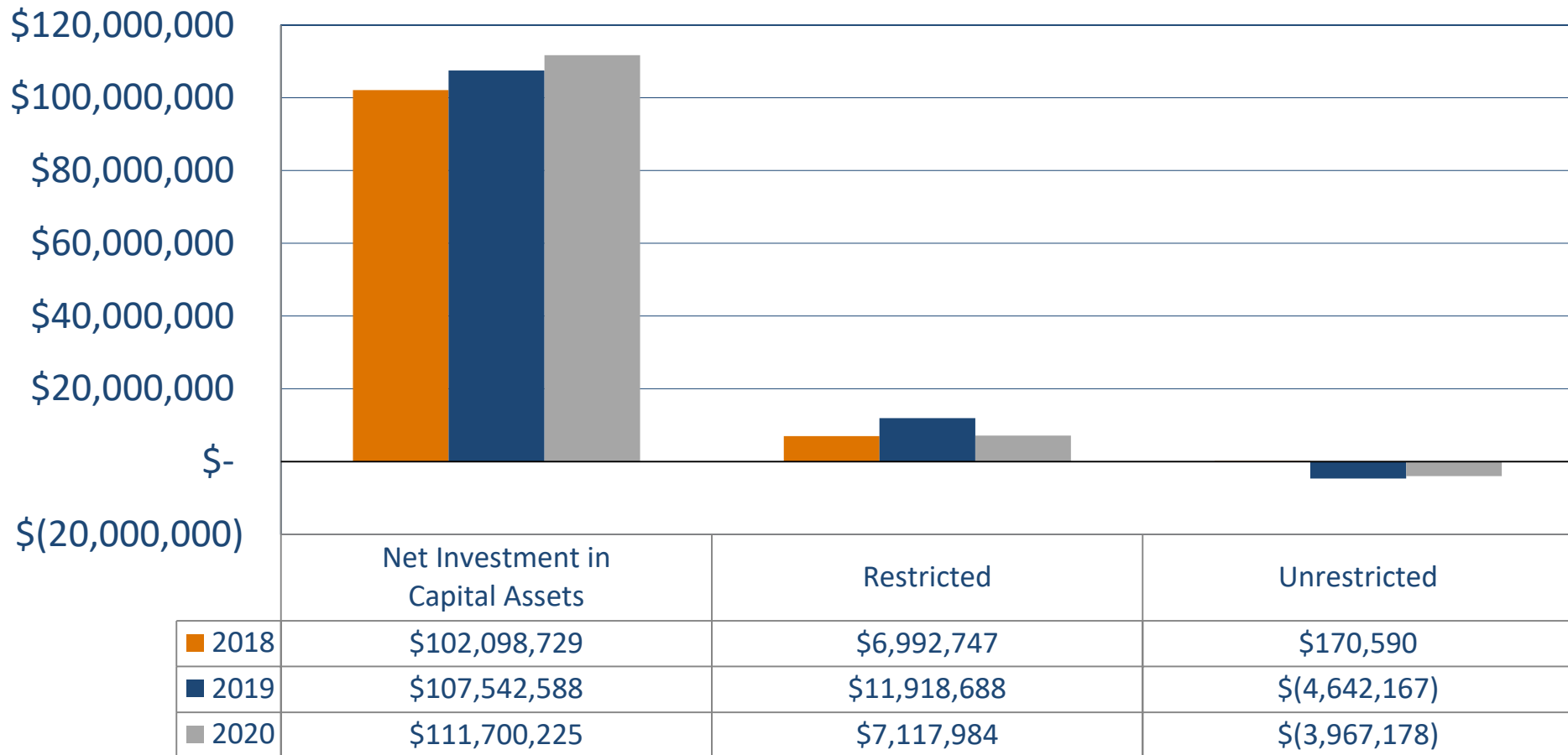
# Government-Wide Financial Statements

## Liabilities and Deferred Inflows of Resources



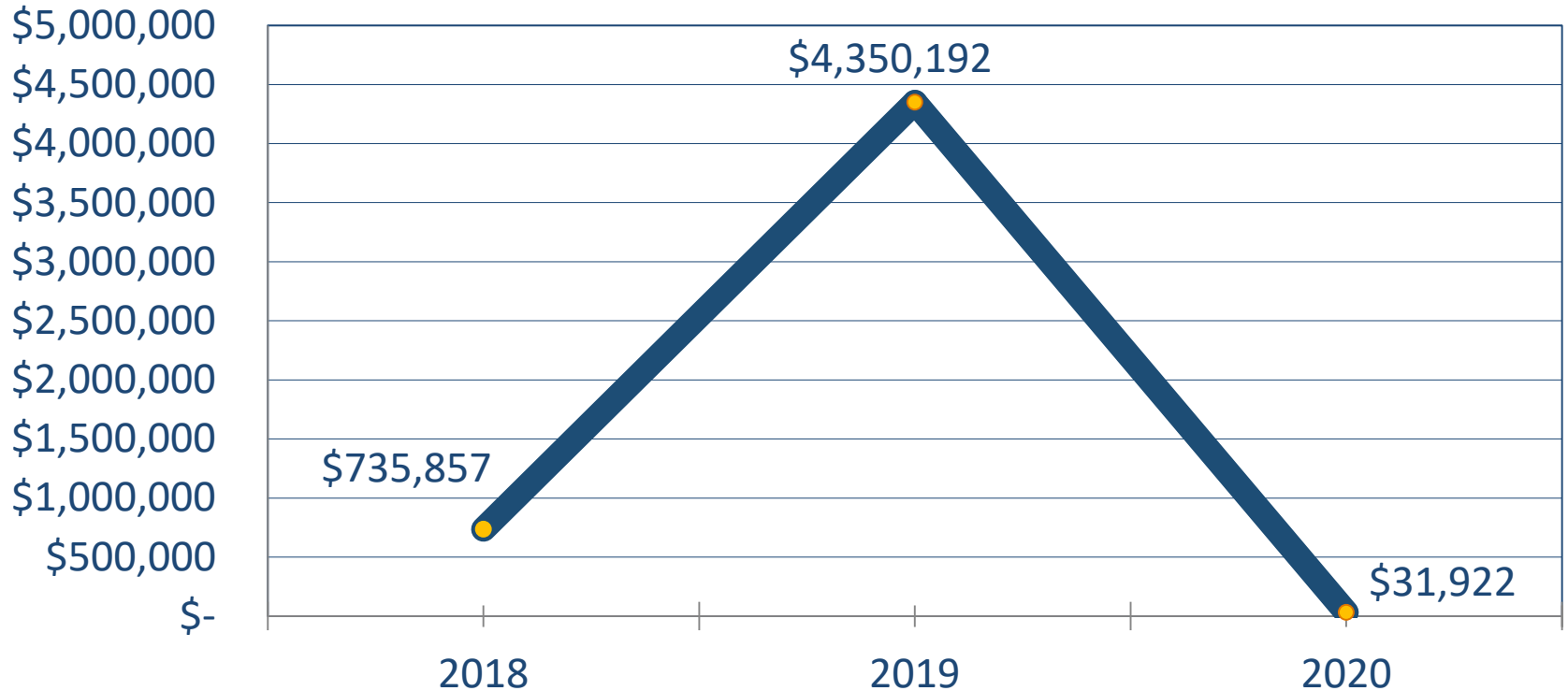
# Government-Wide Financial Statements

## Net Position



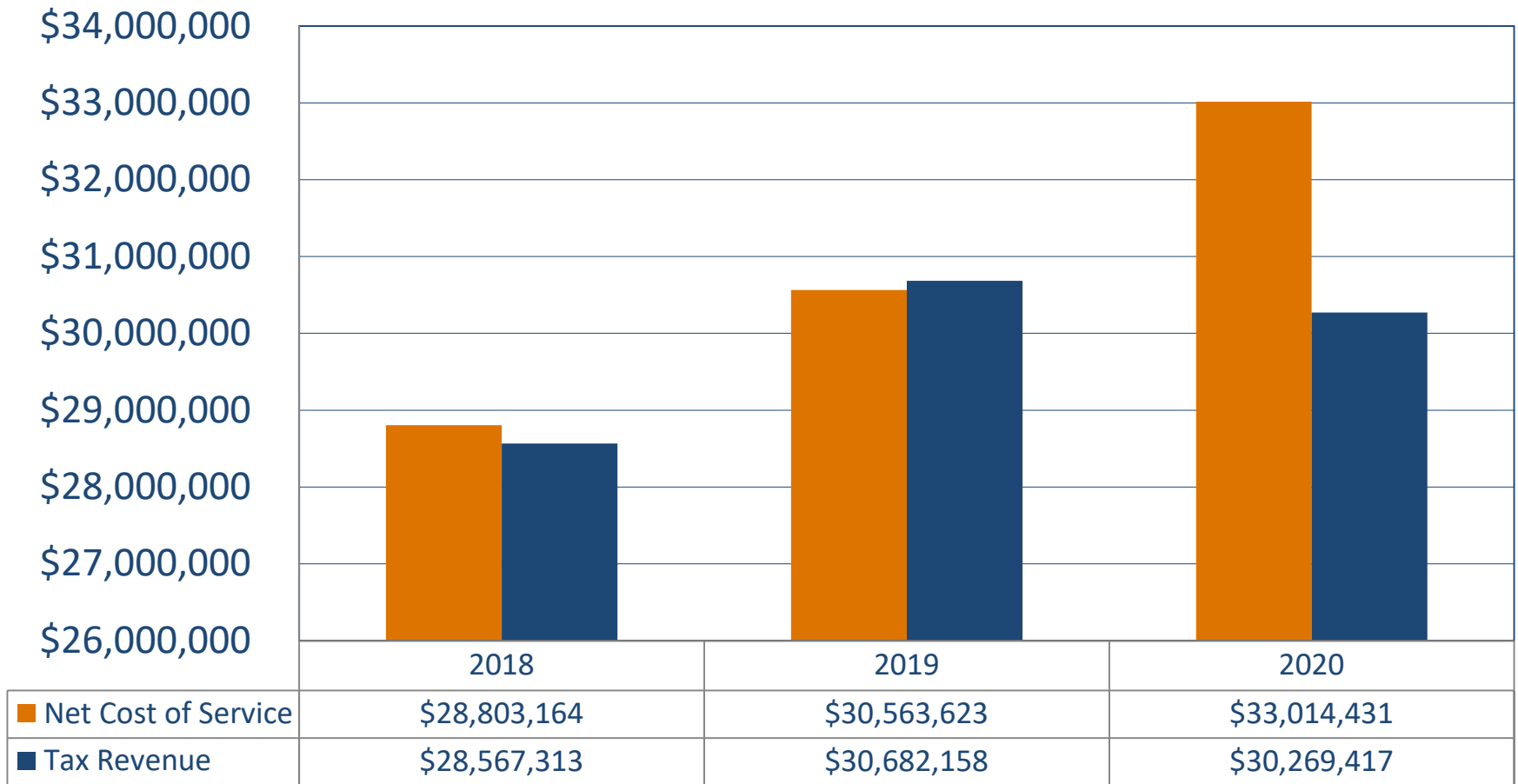
# Government-Wide Financial Statements

## Changes in Net Position



# Government-Wide Financial Statements

## Net Cost of Service to Tax Revenue



# General Fund

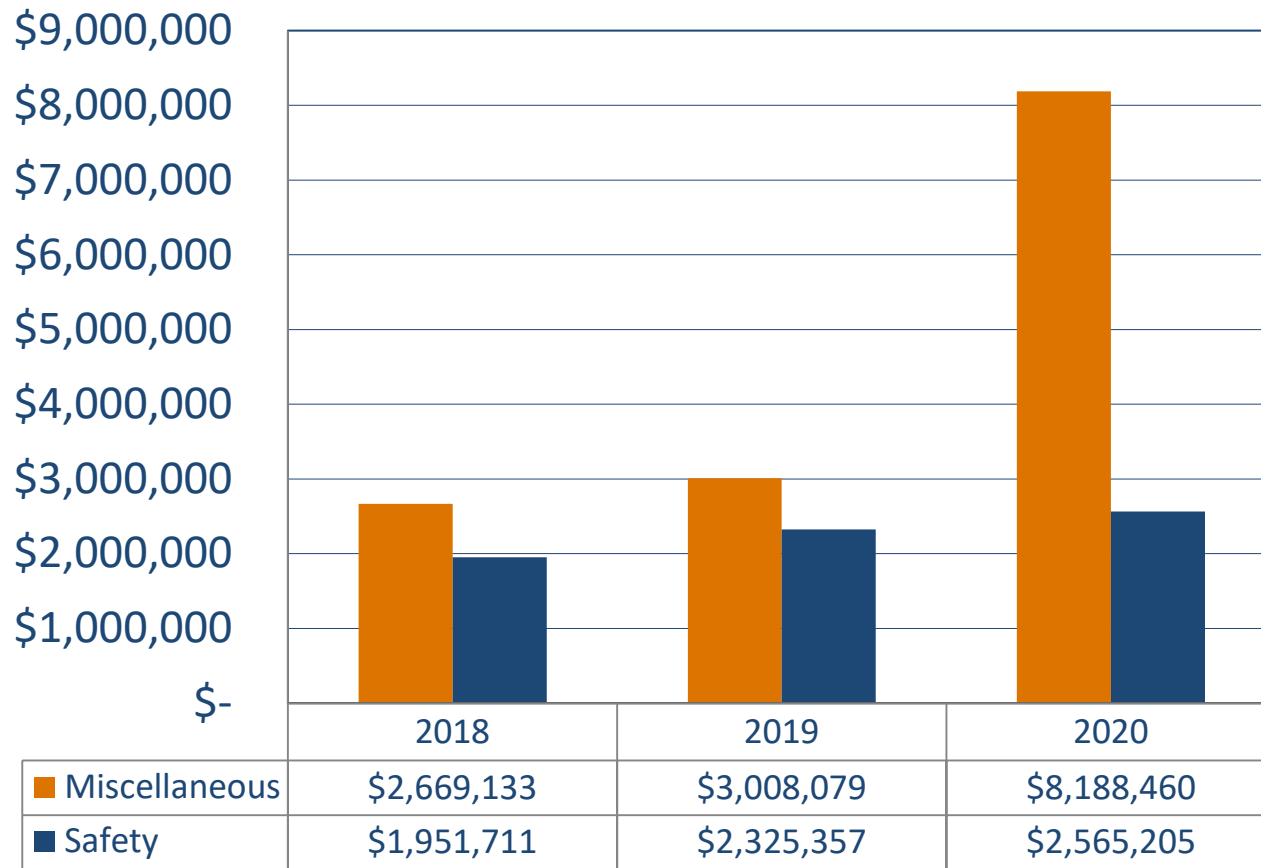
## Expenditure Coverage

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Unrestricted Fund Balance	<u>\$ 30,428,684</u>	<u>\$ 32,955,211</u>	<u>\$ 28,665,519</u>
Total Expenditures	<u>\$ 37,014,345</u>	<u>\$ 37,993,949</u>	<u>\$ 44,270,043</u>
Unrestricted Fund Balance as a % of Total Expenditures	<u>82.21%</u>	<u>86.74%</u>	<u>64.75%</u>
Number of months	10	10	8
GFOA recommendation	2 - 4		
Measure of Town's ability to operate with no revenues using available fund balance.			



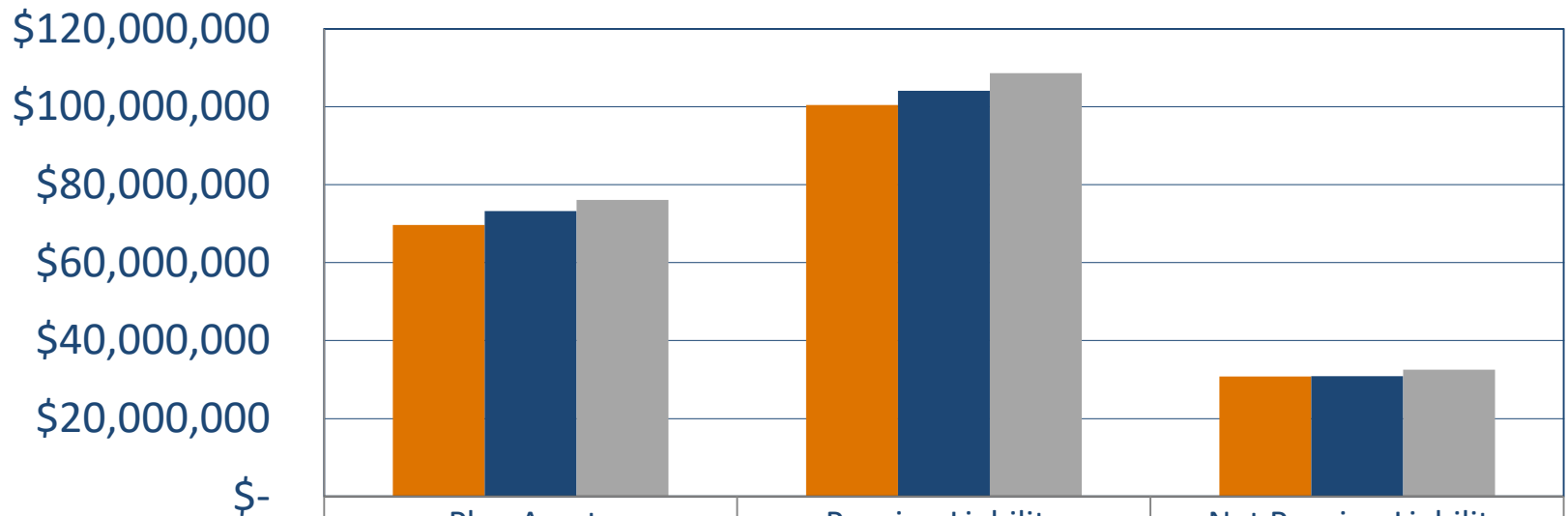
# Other Financial Information

## Town's Annual Pension Contributions



# Pension Plan

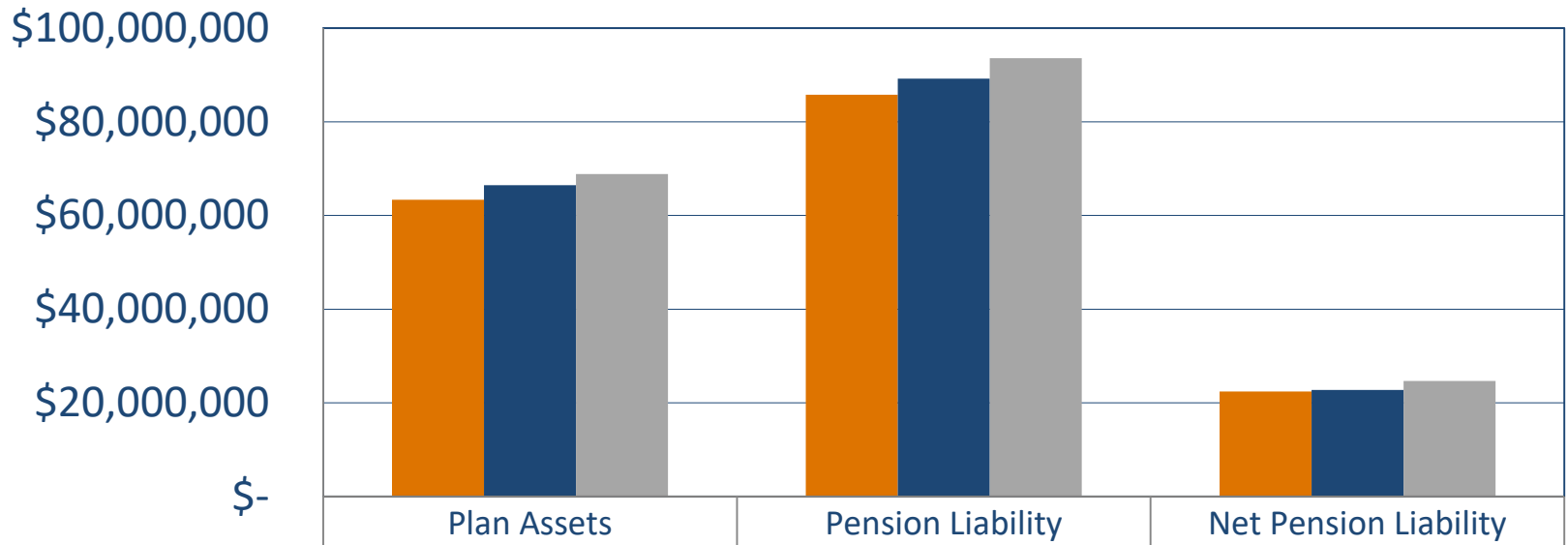
## Town's CalPERS Miscellaneous Pension Plan Funded Status



	Plan Assets	Pension Liability	Net Pension Liability
<span style="color: orange;">■</span> 6/30/2018 (2017 Measurement Date)	\$69,680,823	\$100,469,377	\$30,788,554
<span style="color: darkblue;">■</span> 6/30/2019 (2018 Measurement Date)	\$73,232,175	\$104,134,737	\$30,902,562
<span style="color: gray;">■</span> 6/30/2020 (2019 Measurement Date)	\$76,114,760	\$108,650,008	\$32,535,248

# Pension Plan

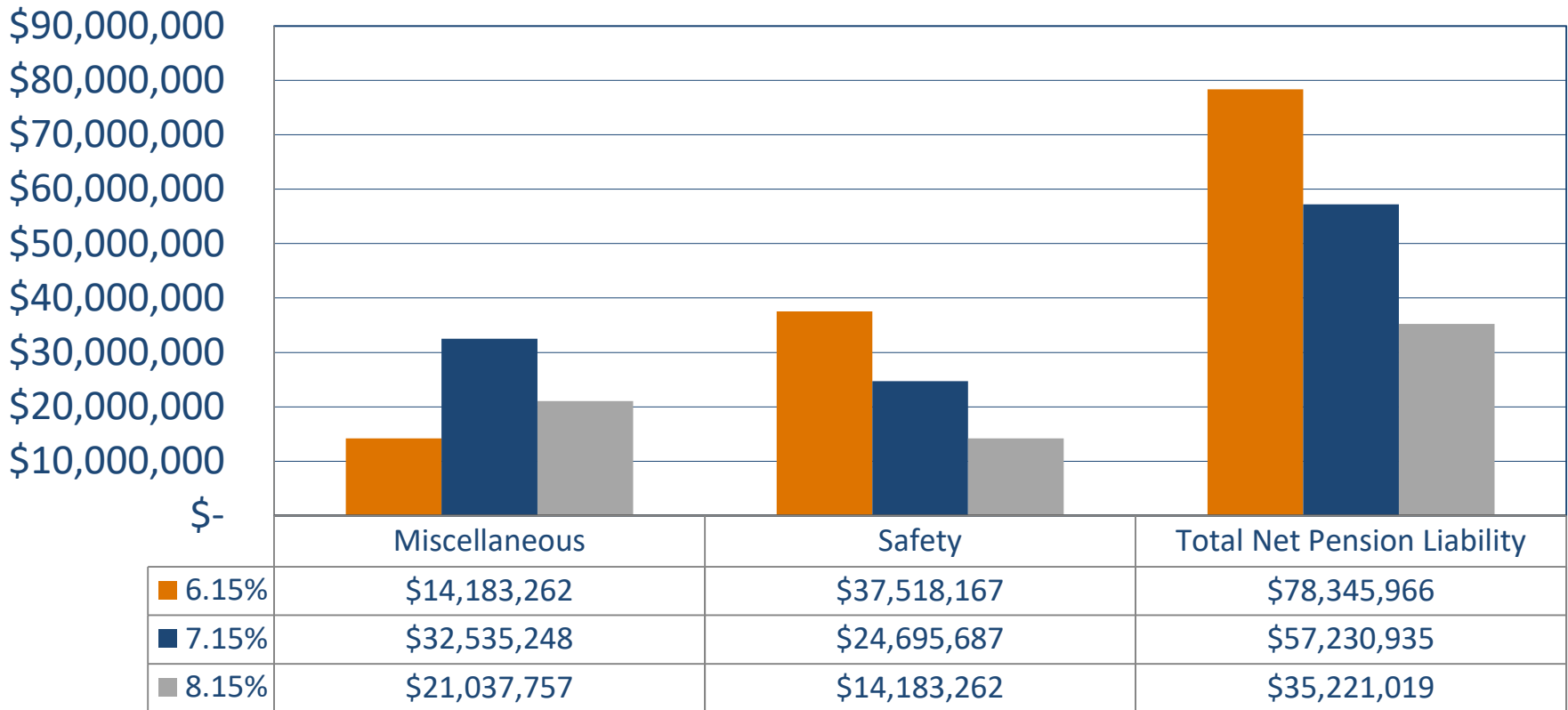
## Town's CalPERS Safety Pension Plan Funded Status



	Plan Assets	Pension Liability	Net Pension Liability
6/30/2018 (2017 Measurement Date)	\$63,355,816	\$85,771,770	\$22,415,954
6/30/2019 (2018 Measurement Date)	\$66,479,753	\$89,205,020	\$22,725,267
6/30/2020 (2019 Measurement Date)	\$68,869,426	\$93,565,113	\$24,695,687

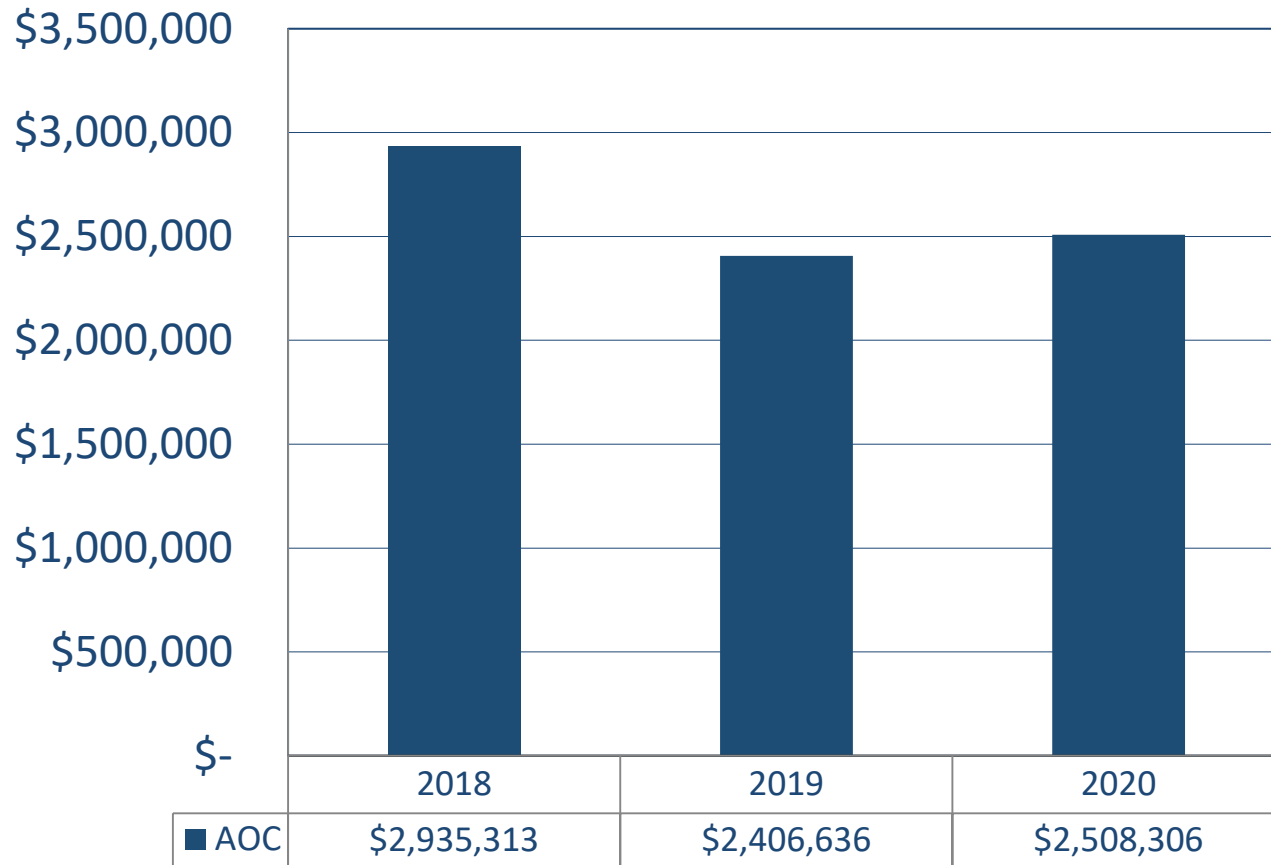
# Pension Plan

## Town's CalPERS Total Pensions Plan Sensitivity to Discount Rate (2019 Measurement Date)



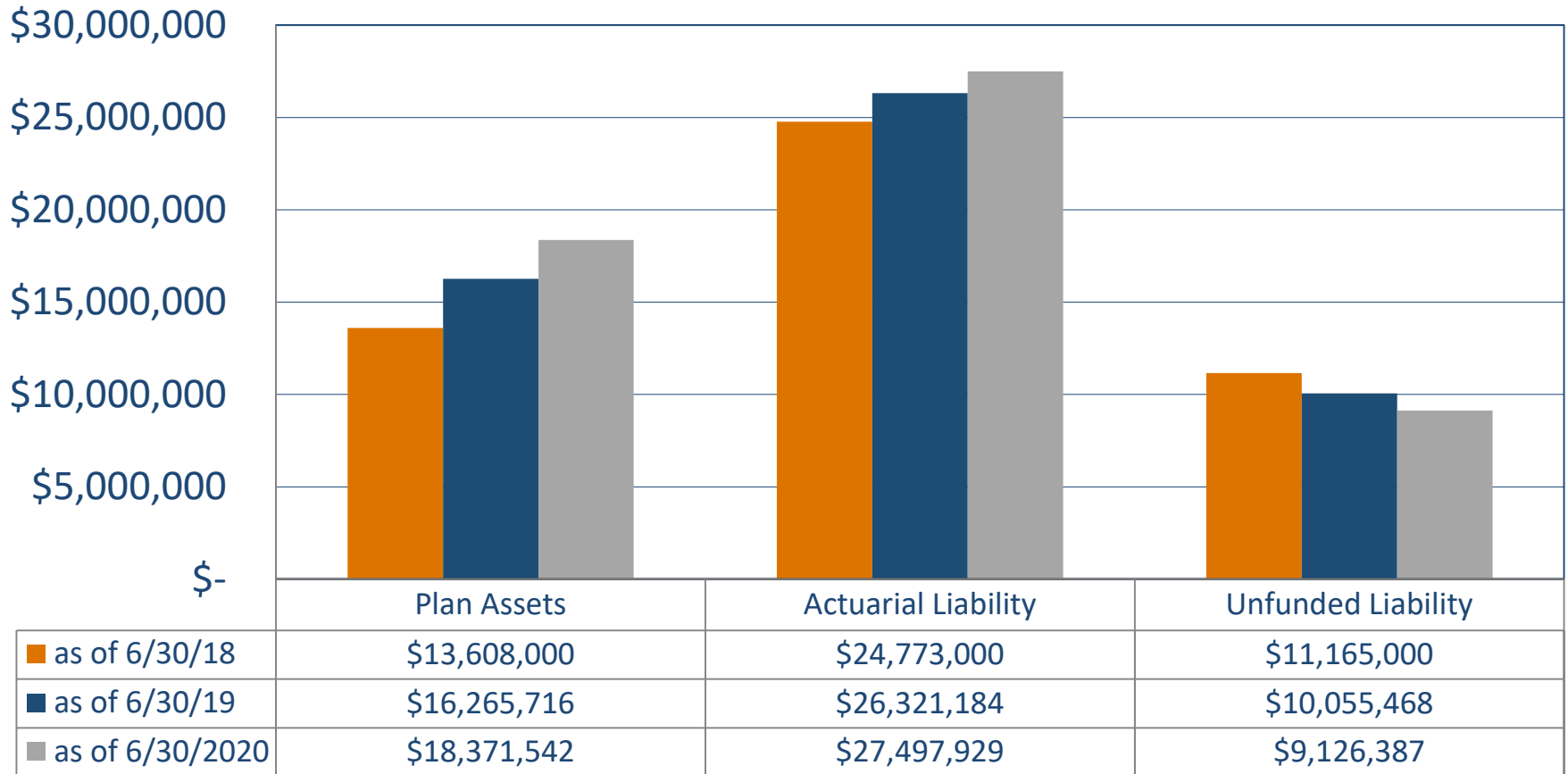
# Other Postemployment Benefits

## Town's Annual OPEB Contributions



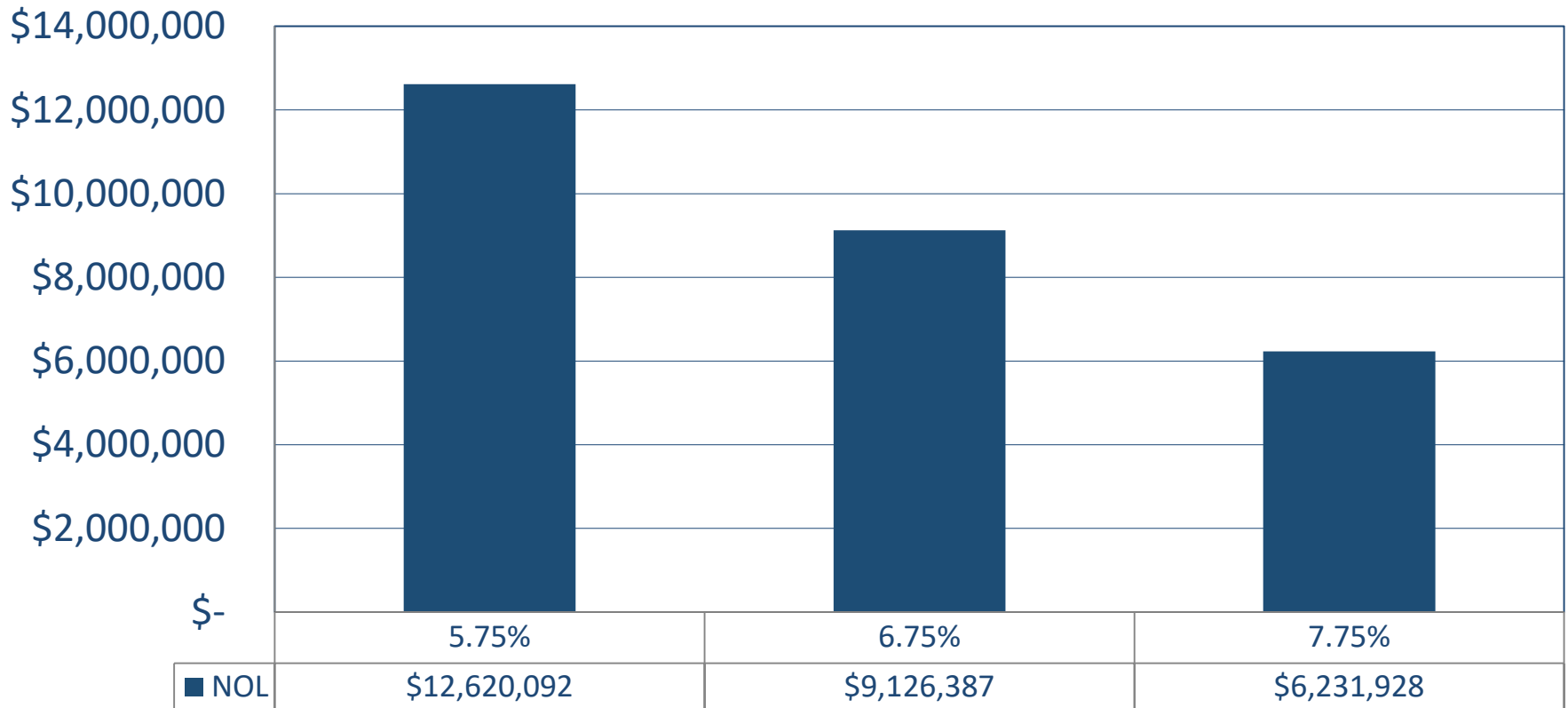
# Other Postemployment Benefits

## Town's OPEB Funded Status



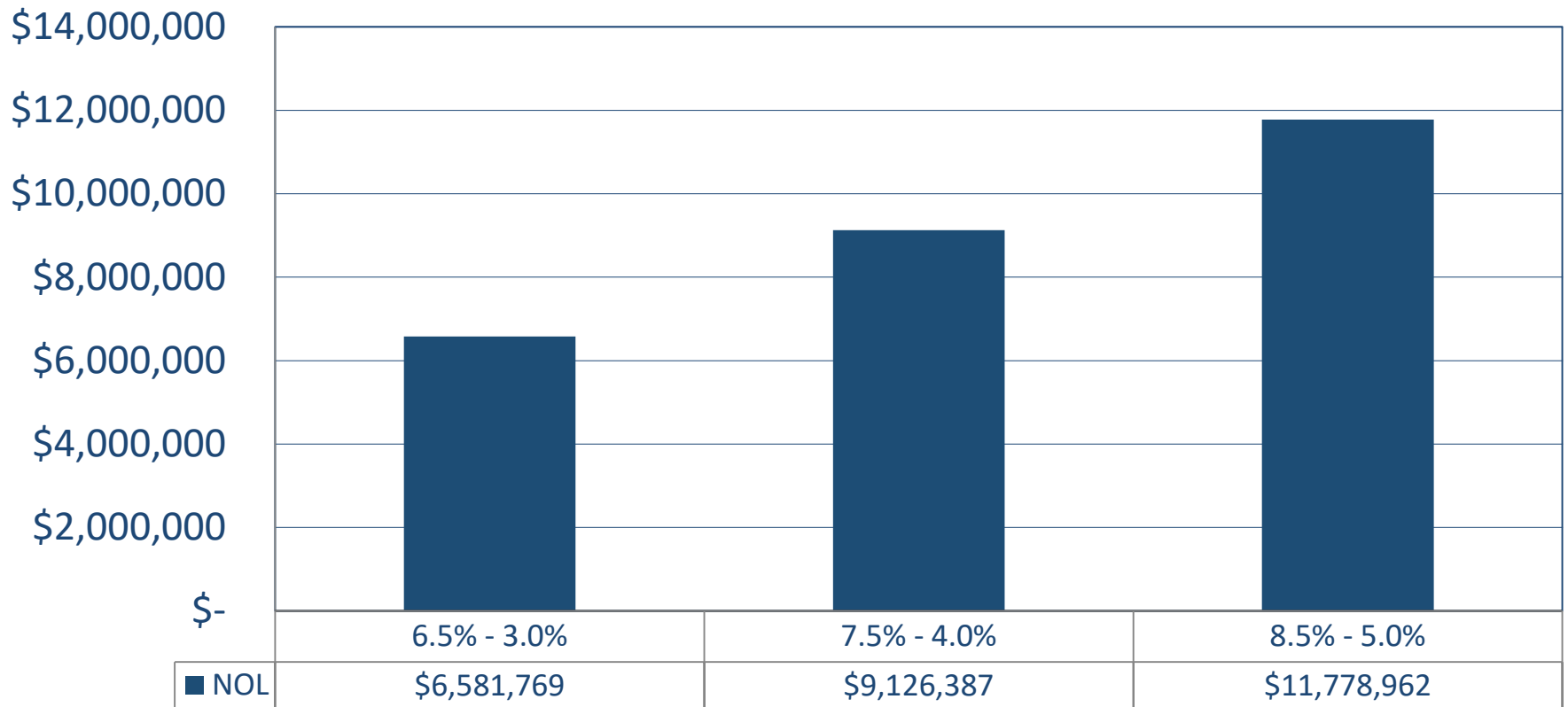
# Other Postemployment Benefits

## Town's OPEB Plan Sensitivity to Discount Rate (2019 Measurement Date)



# Other Postemployment Benefits

**Town's OPEB Plan Sensitivity to Healthcare Trend Rate  
(2019 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)

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
- GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

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**

