



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 9

DATE: December 9, 2020
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Comprehensive Annual Financial Report (CAFR):
a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020, and
b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance Fiscal Year 2019/20 Final Audit and Town Council General Fund Reserve Policy

RECOMMENDATION:

Comprehensive Annual Financial Report (CAFR):

- a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020 (Attachment 1), and
- b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance with Fiscal Year

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 2019/20 audit was performed by Badawi & Associates, an experienced firm specializing in audit services for California public agencies. The firm also compiled the Draft CAFR for the Town of Los Gatos (see Attachment 1).

The information contained in the CAFR 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 2020, Moody's rating service affirmed the Town's general credit rating of Aaa, the highest rating possible.

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

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SUBJECT: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020

DATE: December 9, 2020

DISCUSSION:

The Council Finance Committee met on Monday, December 7, 2020 to review and provide comments on the draft Fiscal Year (FY) 2019/20 CAFR. Mr. Badawi presented the highlights of the CAFR through a series of slides (see Attachment 3) and Committee members discussed the information in an interactive format with staff and Mr. Badawi. In addition, prior to the Committee meeting, Committee Members provided staff with questions regarding their CAFR review for which staff provided responses that can be found in the Desk Item portion of Attachment 4.

The Council Finance Committee also received written public comments and provided an opportunity for public testimony. The Committee reviewed, discussed, and provided comments on the Draft CAFR and its accompanying Desk Item. Based upon the suggestions from the Committee to expand or highlight specific areas of concern, staff has made changes to the draft CAFR and its narratives. These changes include an expanded discussion of COVID-19 impacts to the final quarter of FY 19/20 and ongoing known and significant impacts to FY 20/21 in the Management's Discussion and Analysis Financial Highlights section beginning on page 18 of the CAFR. Staff also highlighted the increasing costs of net governmental expenses (governmental cost by function less revenues generated by that function) as reported in the Town's Statement of Activities. In addition, staff also added more discussion regarding the growth of the Town's unfunded pension obligation to the CAFR's Transmittal Letter which begins on page 1 of the CAFR.

In light of the recognition of operating surpluses of revenue above expenditures of approximately \$5.6M (2019) and \$3.2M in 2020, staff is recommending assignment of Measure G 2018 District Sales Tax collected to date. Per the Town's General Fund Reserve Policy, surplus revenues above expenditures are placed into the Town's Reserve for Capital/Special Projects. Staff recommends an additional assignment of General Fund Reserves recognizing a total of \$1,224,521.96 in District Taxes collected less \$43,060 in State of California administration fees from first date of receipt in FY 2018/19 through June 30, 2020. The recommendations reassign the District tax net proceed amounts in the draft CAFR previously assigned for General Fund Capital/Special Projects Reserve by \$1,181,162 and increases the amount assigned for District Sales Tax in the same amount. This assignment facilitates the Town's ability to track both receipt and use of this source of funding as required by Town ordinance and described in the FY 2020/21 – 2024/25 Five-Year Capital Improvement Program (CIP) transmittal letter.

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

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SUBJECT: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020

DATE: December 9, 2020

DISCUSSION (continued):

In addition to the above-mentioned disclosures in the CAFR, staff has prepared a separate agenda item for the December 15, 2020 Council meeting to provide an update on the status of major operating revenues including property tax, sales tax, and transient occupancy taxes. Given the unprecedented economic impacts related to COVID-19, staff wanted the Council and the public to have an update prior to the Mid-Year Budget review currently scheduled for late February 2021. The update includes the current status of how these revenues are performing as compared to the FY 2020/21 Adopted Budget and prior FY actuals.

Highlights of the draft audited financial results include:

Independent Auditor's Report (pages 13 through 15)

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2020 (see the first paragraph on Page 14) giving reasonable assurance that the financial statements are "free of material misstatement."

Management's Discussion and Analysis (MD&A) (pages 18 through 37)

Page 18 of the CAFR begins the MD&A section of the report wherein summaries are presented 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 and June 30, 2020. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2019/20 (page 31 through 33).

Statement of Net Position (page 41)

The Statement of Net Position serves as a useful indicator of a government's financial position. The Town had net assets of \$114.85 million at fiscal year-end as compared to \$114.82 million the prior year, an overall small increase of \$30K over the prior fiscal year.

The largest portion of the net assets, \$111.7 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$7.1 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2020, unrestricted net position reports a deficit of approximately \$3.97 million, a small improvement from the prior year. The unrestricted net position reported the prior year was a deficit of approximately \$4.64 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.

DISCUSSION (continued):

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SUBJECT: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020

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Basic Financial Statements (pages 41 through 98, including footnotes)

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 beginning on page 70), its long term obligations (Certificates of Participation) related to bonded debt (Note 6 page 76), the net pension liability for both the Town’s miscellaneous and safety pension plans (Note 9 pages 81-89), and a discussion of the Town’s other post-employment benefit plan (Note 10 pages 89-94).

Required Supplementary Information (pages 100 through 104)

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

Supplementary Information (pages 106 through 121)

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 (pages 125 through 155)

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 CAFR fairly presents the fiscal year ending June 30, 2020 financial activity for the Town of Los Gatos.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

Attachments:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.
2. Fund Balance Resolution Establishing June 30, 2020 Fund Balances
3. Independent Auditor Presentation to the Council Finance Committee
4. Finance Committee December 7, 2020 Staff Report with Desk Item