



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 12/19/2023

ITEM NO: 12

DATE: December 12, 2023
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, 2023, and
b. Adopt a Resolution Confirming June 30, 2023 Fund Balances in Accordance With Fiscal Year 2022/23 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, 2023 as recommended by the Finance Commission (Attachment 1), and
- b. Adopt a Resolution Confirming June 30, 2022 Fund Balances in Accordance with Fiscal Year 2022/23 Final Audit and Town Council General Fund Reserve Policy.(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 2022/23 audit was performed by Chavan and Associates, LLP an experienced firm specializing in audit services for California public agencies. The firm also assisted with 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.

PREPARED BY: Gitta Ungvari
Finance Director

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

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 27, 2023, the Draft FY 2022/23 Annual Comprehensive Financial Report (ACFR) was posted to the Town's website and the link was provided to the Finance Commission. Finance Commissioners had an opportunity to submit written questions and comments to staff. At the Finance Commission special meeting on December 4, 2023, the Town's independent auditor and staff addressed the Commissioners' questions and comments. The Finance Commission began to formulate its comments and recommendations to the Town Council. The Commission had a consensus on shortening and streamlining the Management Discussion and Analysis (MD&A).

Staff requested Commissioners to provide any additional comments before the December 11, 2023 regular Finance Commission meeting.

The Finance Commission concluded its review of the draft ACFR and unanimously recommended that the Town Council receive the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2023 with recommended modifications (see Attachment 3 for redlined version).

The redlined draft ACFR (Attachment 3) includes corrections of typos, clarifying language, additional details in schedules, summary presentation, graphs, and elimination of text based on Commissioners' comments. The redlined ACFR balances requests for more information with brevity.

DISCUSSION (continued):

The Town Manager's responses to Commissioners' questions and comments are included in Attachment 4. The questions and comments are organized by the following categories:

- General comments;
- Suggestions for modifying the presentation and correcting typographical errors;
- Requests for additional information regarding Town Finances; and
- Additional detailed questions and comments.

While Commissioners wanted a more simplified presentation, there were additional questions raised regarding Town finances. In particular, there was an interest to normalize the data and the auditor suggested that a separate document would be more appropriate than the ACFR. Detailed information regarding Town Finances, Pension and Other Post-Employment Benefits, Financial Policies, and the Forecast is available in the Town's Adopted Budget and other Town reports.

The Finance Commission recommended to include in its 2024 workplan a discussion of the format and level of detail in the Management Discussion and Analysis (MD&A) to further improve the presentation for next ACFR.

The Finance Commission also recommended that the Town should hire a separate accounting firm to assist the Town with the preparation of financial statements contained in the Annual Comprehensive Financial Report. Staff will bring forward government best practices and cost analysis to Council consideration with the Proposed FY 2023/24 operating budget discussion.

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, 2023 giving reasonable assurance that the financial statements are "free of material misstatement" (Attachment 1).

Management's Discussion and Analysis (MD&A)

The MD&A section of the report summarizes 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, 2022, and June 30, 2023. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY2022/23.

DISCUSSION (continued):

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 \$153.5 million at fiscal year-end as compared to \$138.4 million the prior year, an overall increase of \$15.1 million over the prior fiscal year. The increase was a result of general revenue collection of 39.4 million and a \$1.6 million litigation settlement combined with governmental activities expense of \$25.8 million.

The largest portion of the net assets, \$132.7million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$11.1 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2023, unrestricted net position is \$11.8 million compared to \$1.8 million the prior year.

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 7), Note 8 which illustrates the new implementation of GASB 96 for subscription-based information technology agreements, the net pension liability for both the Town's miscellaneous and safety pension plans (Note 11), and a discussion of the Town's other post-employment benefit plan (Note 12).

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, principal 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, 2023 financial activity for the Town of Los Gatos.

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SUBJECT: Receive 2023 Annual Comprehensive Financial Report

DATE: December 12, 2023

FISCAL IMPACT:

There is no fiscal impact associated with this item.

Attachments:

1. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2023
2. Fund Balance Resolution Establishing June 30, 2023 Fund Balances
3. Redlined Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2023
4. Town Manager's Responses to Commissioners' Questions and Comments