



**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
REPORT**

MEETING DATE: 12/9/2019

ITEM NO: 2

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DATE: December 3, 2019  
TO: Council Finance Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.

**RECOMMENDATION:**

Discuss and provide comments to the Town Council regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.

**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. The FY 2018/19 audit was performed by Badawi & Associates, an experienced firm specializing in audit services for California public agencies. The firm also prepared 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 the credit rating agencies review annually to affix a credit rating for the Town's outstanding debt obligations. In 2019, Moody's rating service affirmed the Town's general credit rating of Aaa, the highest rating possible.

**PREPARED BY:** Stephen Conway  
Finance Director

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Reviewed by: Town Manager and Assistant Town Manager

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SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended  
June 30, 2019

DATE: December 9, 2019

DISCUSSION:

At the meeting, Finance staff will present to the Town Council Finance Committee the draft audited Comprehensive Annual Financial Report (CAFR) dated June 30, 2019. The Town's independent auditor will be available for the Committee's discussion.

Highlights of the draft audited financial results include:

Independent Auditor's Report (pages 14 through 15)

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2019 (see the fourth 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 33)

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, 2018 and June 30, 2019. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2018/19 (page 28 through 31).

Statement of Net Position (page 38)

The Statement of Net Position serves as a useful indicator of a government's financial position. The Town had net assets of \$114.8 million at fiscal year end as compared to \$110.5 million the prior year, an overall increase of \$4.3 million over the prior fiscal year.

The increase is largely attributable to the restatement of the amounts placed in trust for the Town's pension and other post-employment benefits (OPEB) this fiscal year. Assets in the trust increased by \$3.8 million from an \$1.2 million balance as of June 30, 2018 to a current balance of \$5.6 million in restricted assets. Additionally, another \$0.6 million of the total increase in net position was generated by Town operations.

The largest portion of the net assets, \$107.5 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$11.9 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2019, unrestricted net position reports a deficit of approximately \$4.6 million. The unrestricted net position reported the prior year was approximately \$171K. The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's General Fund Appropriated Reserve (GFAR) fund during the year to invest in the Town's infrastructure and equipment.

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SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended  
June 30, 2019

DATE: December 9, 2019

DISCUSSION (Cont'd):

Basic Financial Statements (pages 36 through 91, 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 66), its long term obligations (Certificates of Participation) related to bonded debt (Note 6 page 72), the net pension liability for both the Town’s miscellaneous and safety pension plans (Note 9 page 76), and a discussion of the Town’s other post-employment benefit plan (Note 10 page 84).

Required Supplementary Information (pages 94 through 98)

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

Supplementary Information (pages 100 through 115)

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 119 through 151)

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:

Mr. Ahmed Badawi, C.P.A., managing partner of Badawi & Associates, will be participating in the Committee meeting. If you have questions prior to the meeting, please contact Director Conway and staff will share responses to the questions to the full Committee. Upon review and discussion of the draft CAFR by the Council Finance Committee, the final CAFR is scheduled for Town Council consideration on Tuesday, December 17, 2019. The Committee is welcome to provide comments to the Council.

FISCAL IMPACT:

There is no fiscal impact to provide recommendation to the Town Council for this report.

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SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended  
June 30, 2019

DATE: December 9, 2019

Attachment:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.