

# Town of Los Gatos

## Presentation to The Finance Committee

December 9, 2019

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

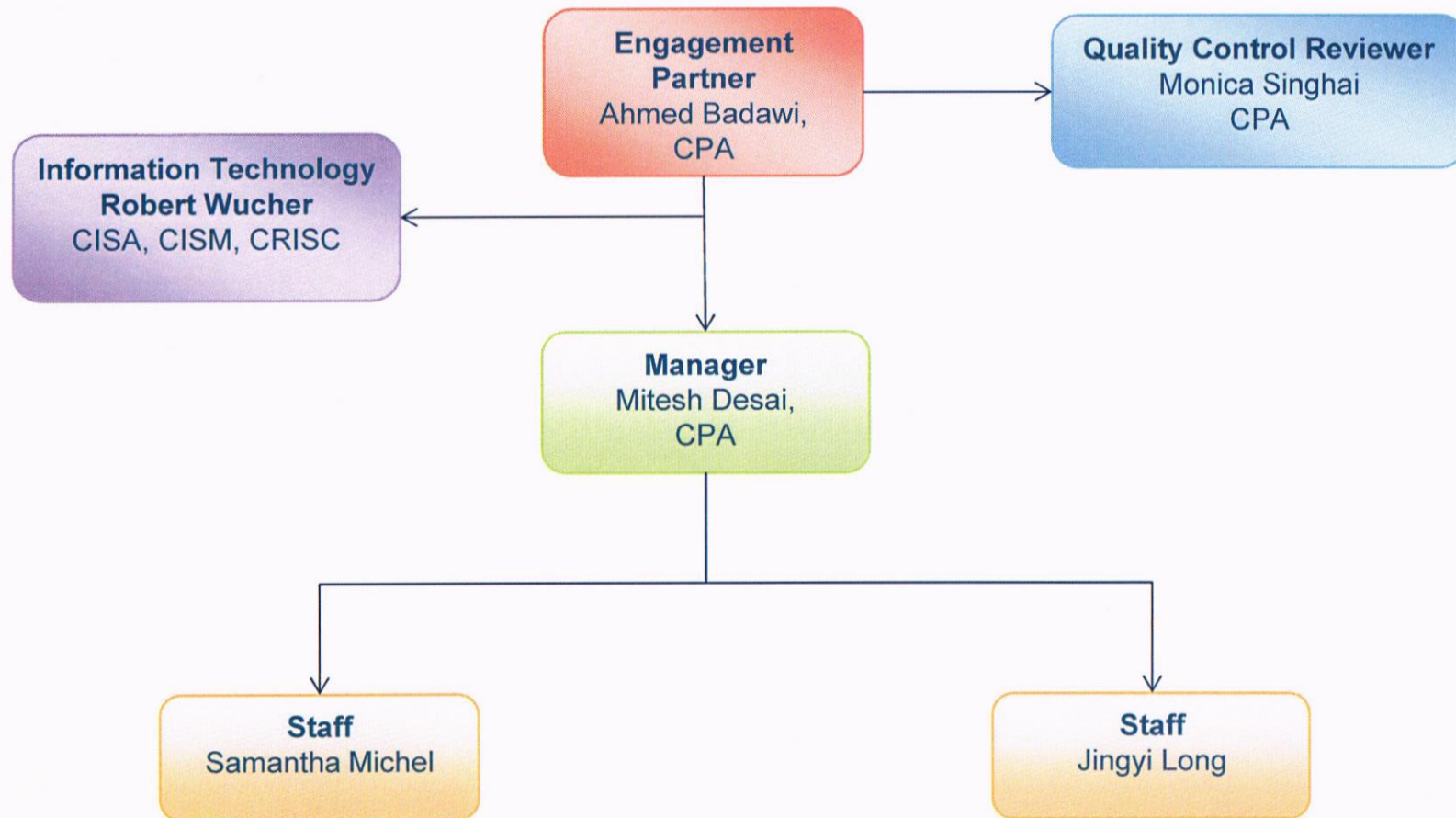


# Engagement Team





# 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

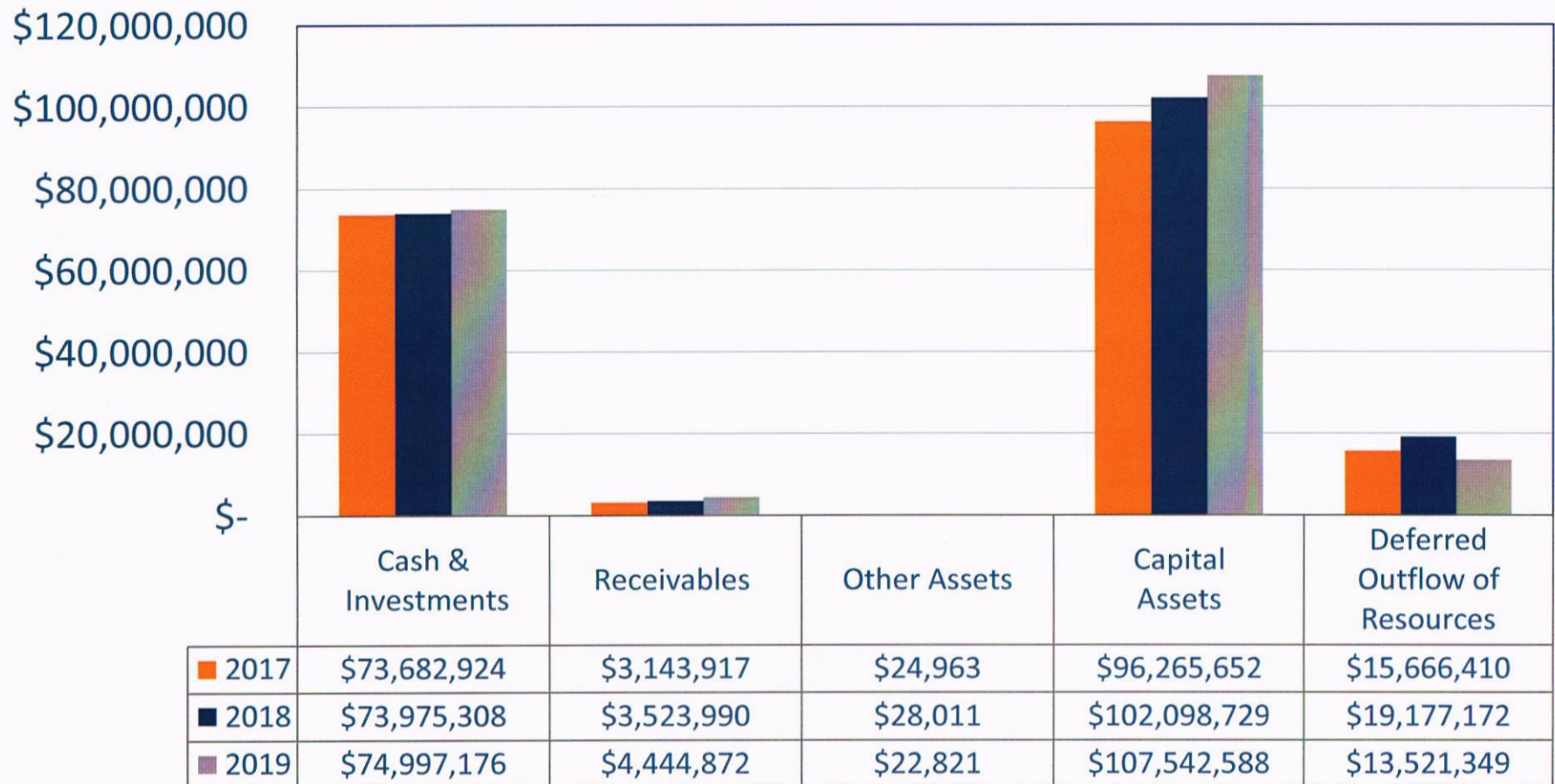
- Unmodified opinion
- Audit performed in accordance with *Generally Accepted Auditing Standards*, and *Government Auditing Standards*
- Financial statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements





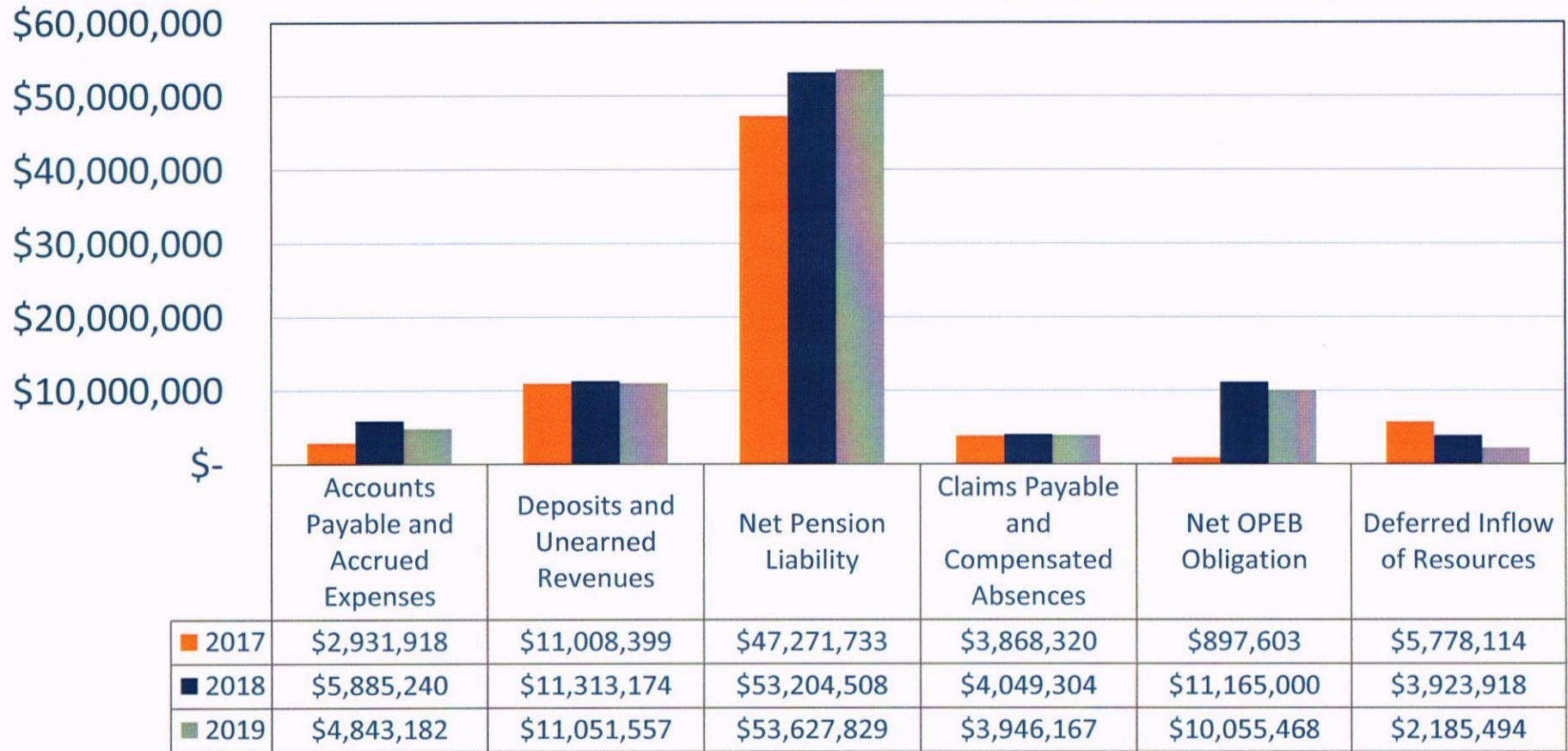
# Government-Wide Financial Statements

## Assets and Deferred Outflows of Resources



# Government-Wide Financial Statements

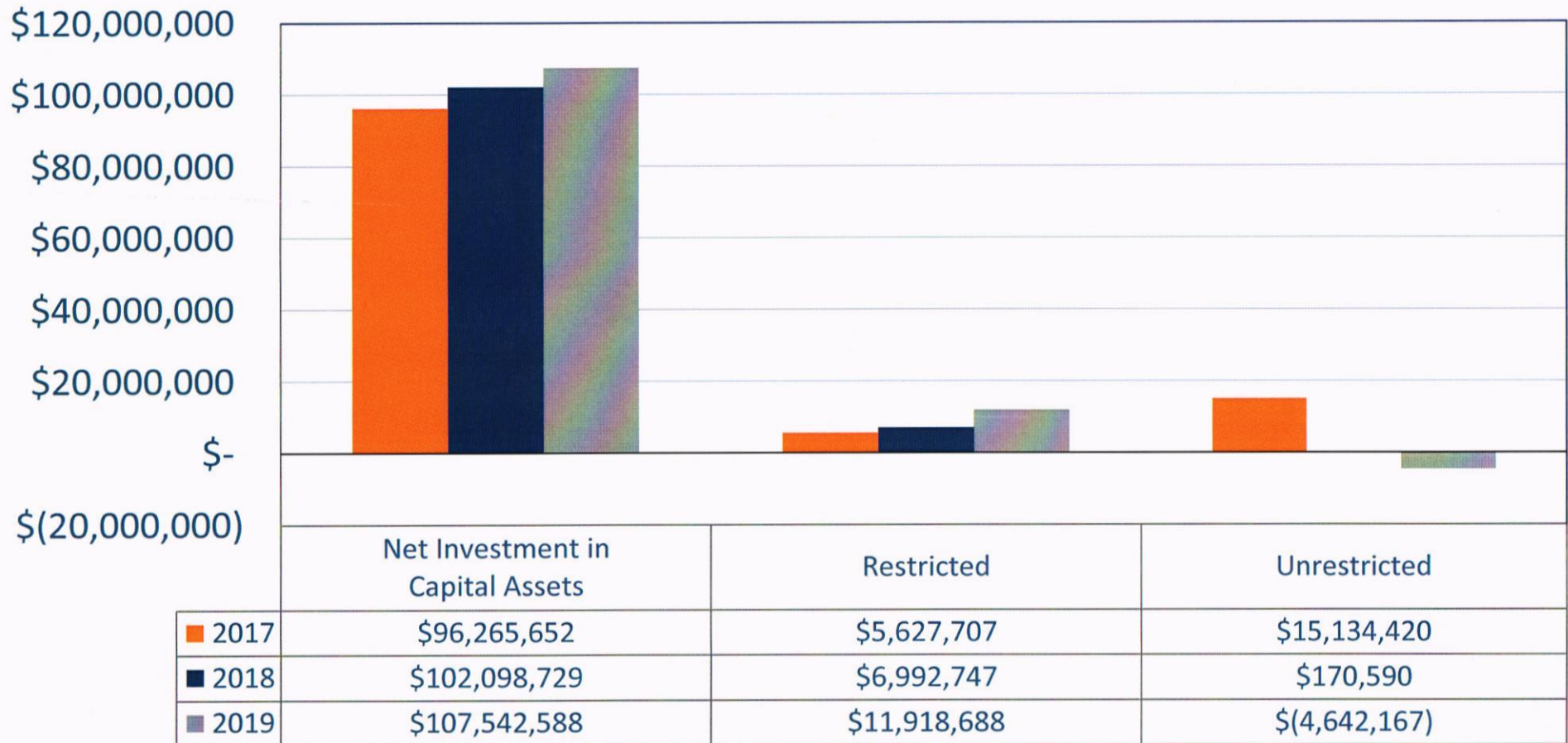
## Liabilities and Deferred Inflows of Resources





# Government-Wide Financial Statements

## Net Position





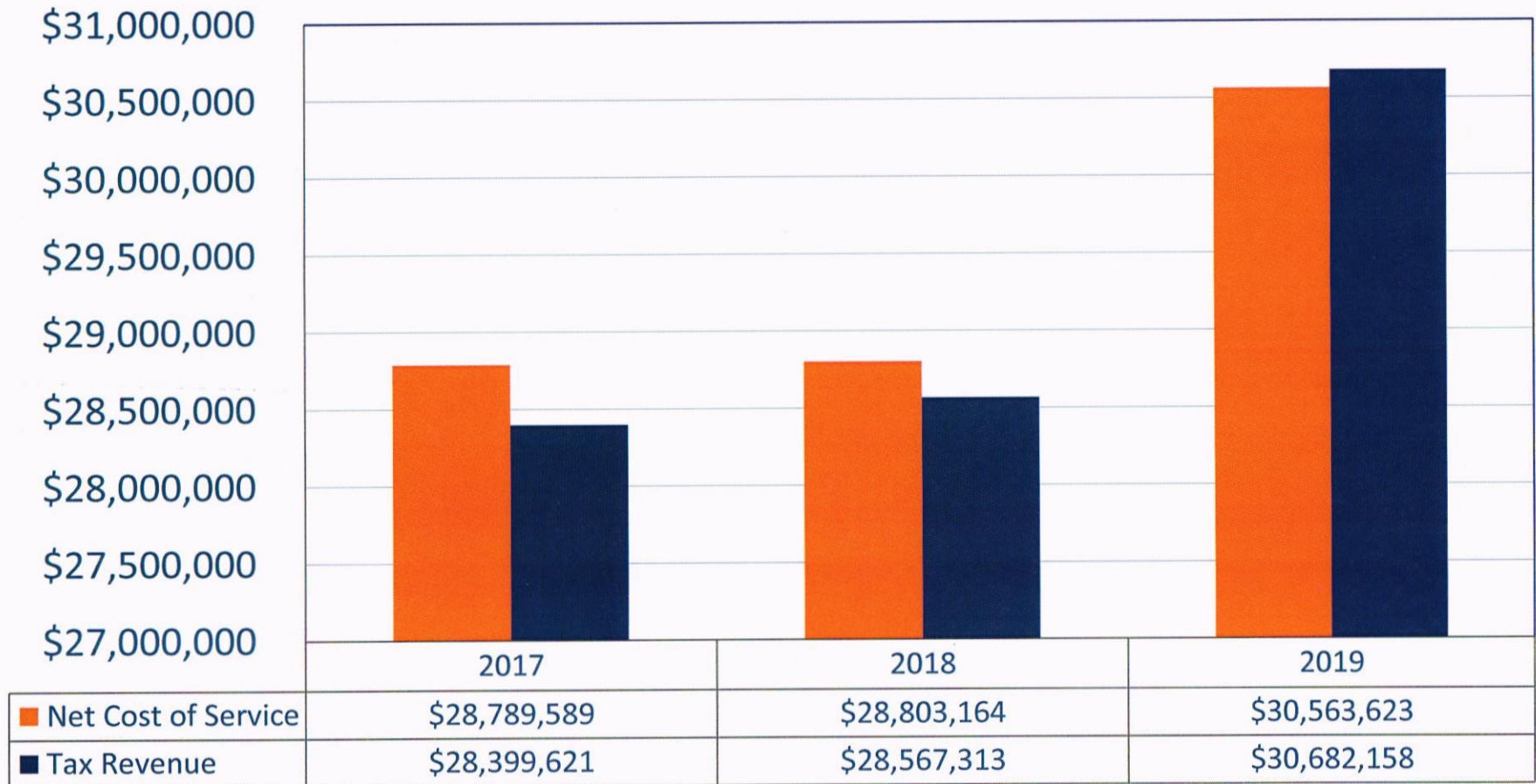
# Government-Wide Financial Statements

## Changes in Net Position



# Government-Wide Financial Statements

## Net Cost of Service to Tax Revenue



# General Fund

## Expenditure Coverage

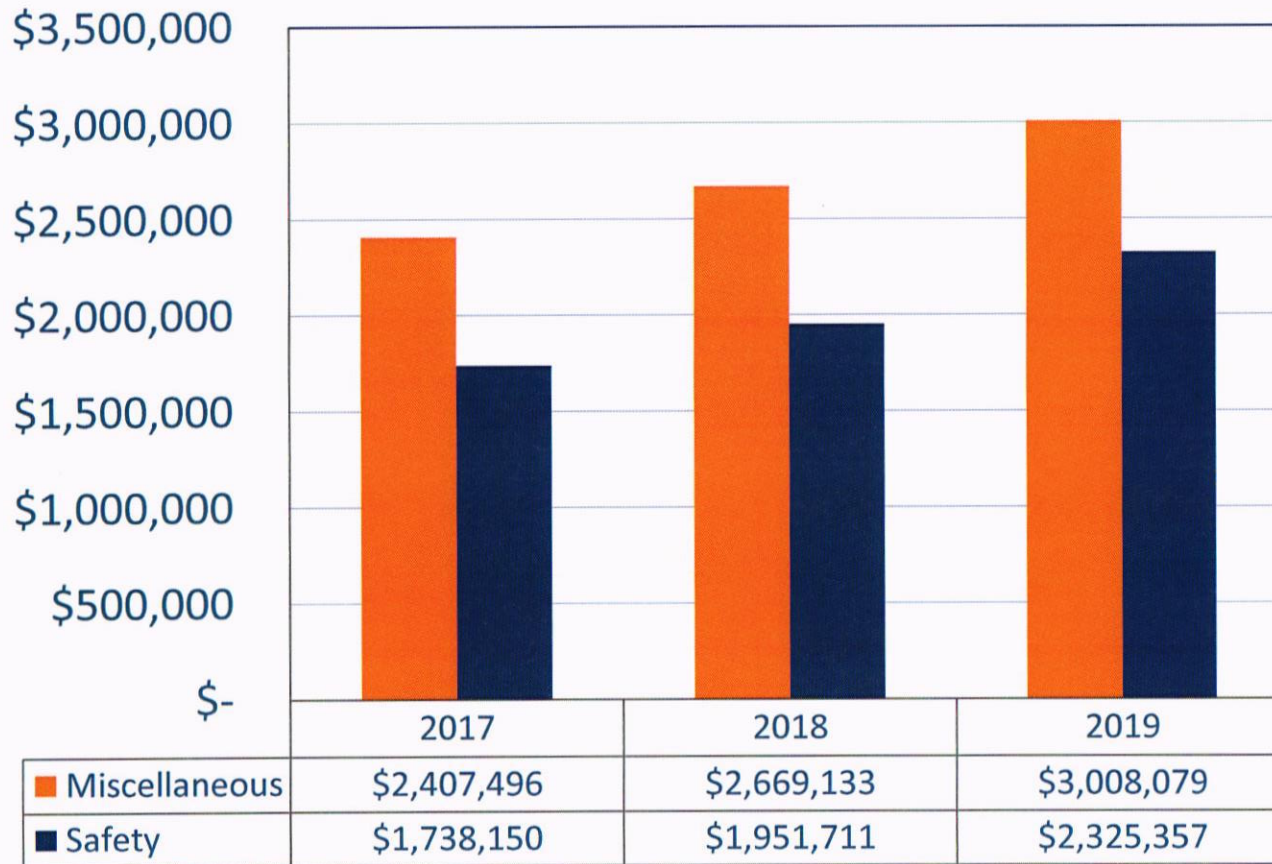
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Unrestricted Fund Balance	<u>\$ 29,180,624</u>	<u>\$ 30,428,684</u>	<u>\$ 32,955,211</u>
Total Expenditures	<u>\$ 34,542,602</u>	<u>\$ 37,014,345</u>	<u>\$ 37,993,949</u>
Unrestricted Fund Balance as a % of Total Expenditures	<u>84.48%</u>	<u>82.21%</u>	<u>86.74%</u>
Number of months	10	10	10
GFOA recommendation		2 - 4	

Measure of Town's ability to operate with no revenues using available fund balance.



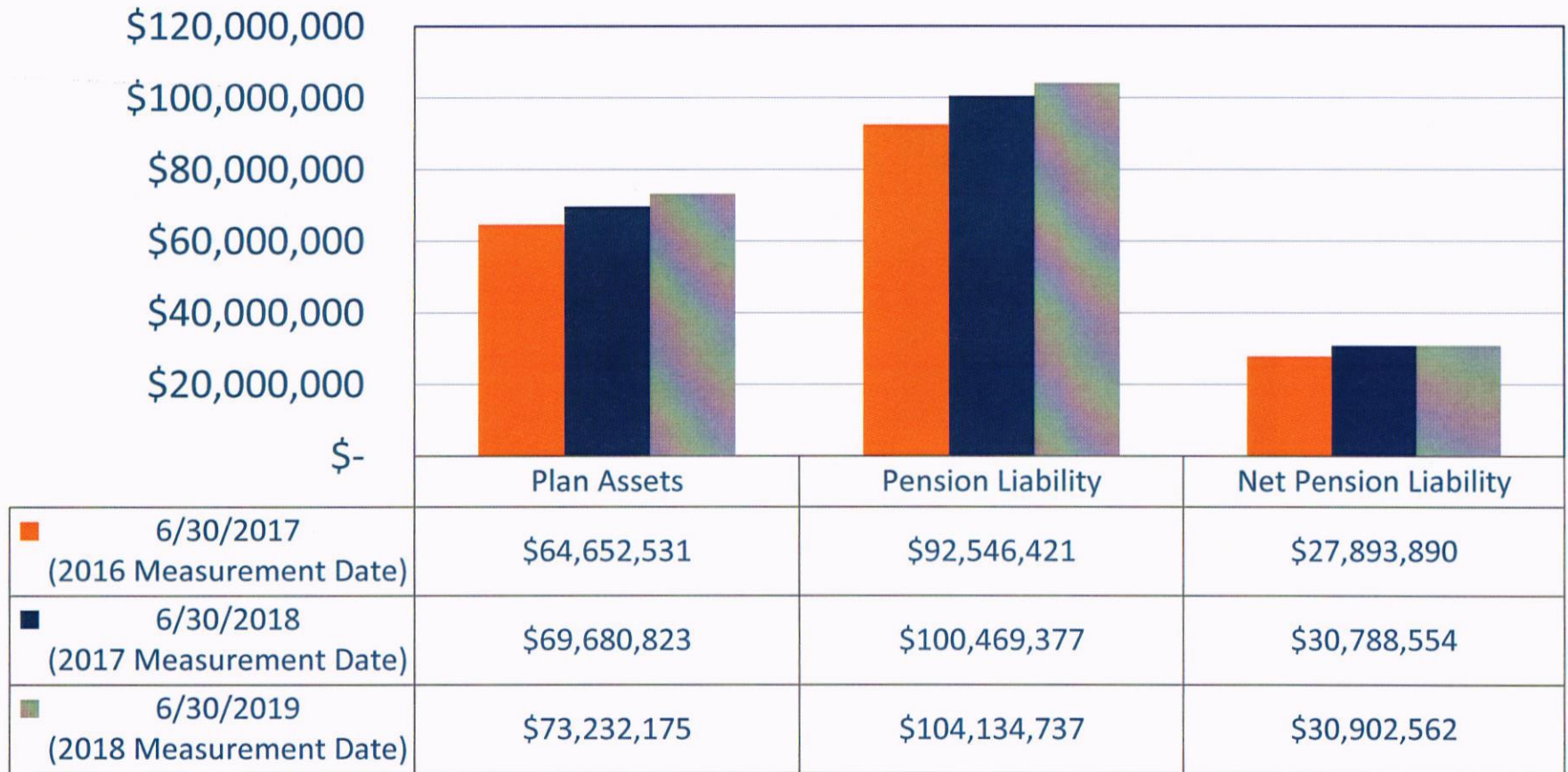
# Other Financial Information

## Town's Annual Pension Contributions



# Pension Plan

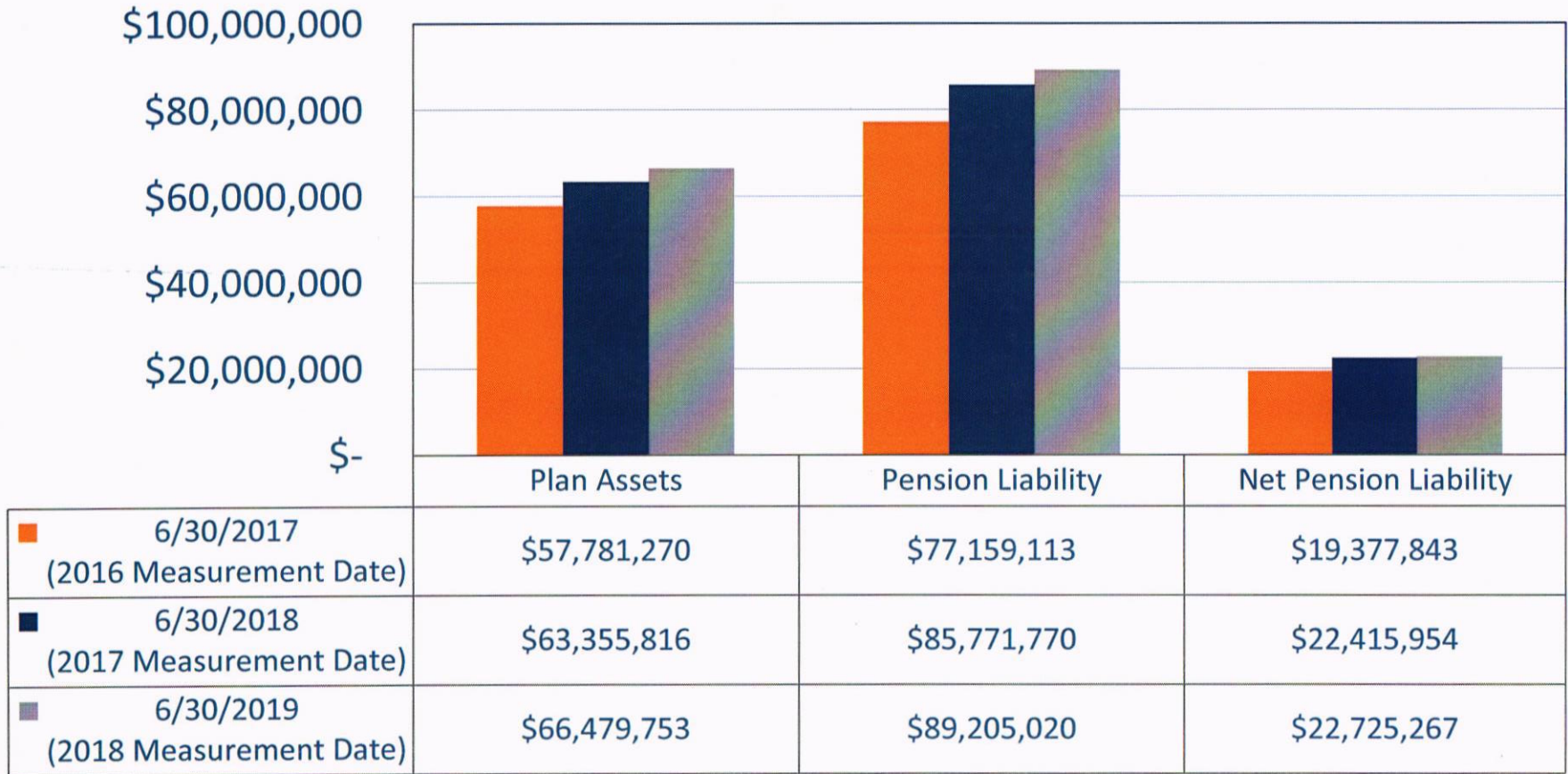
## Town's CalPERS Miscellaneous Pension Plan Funded Status





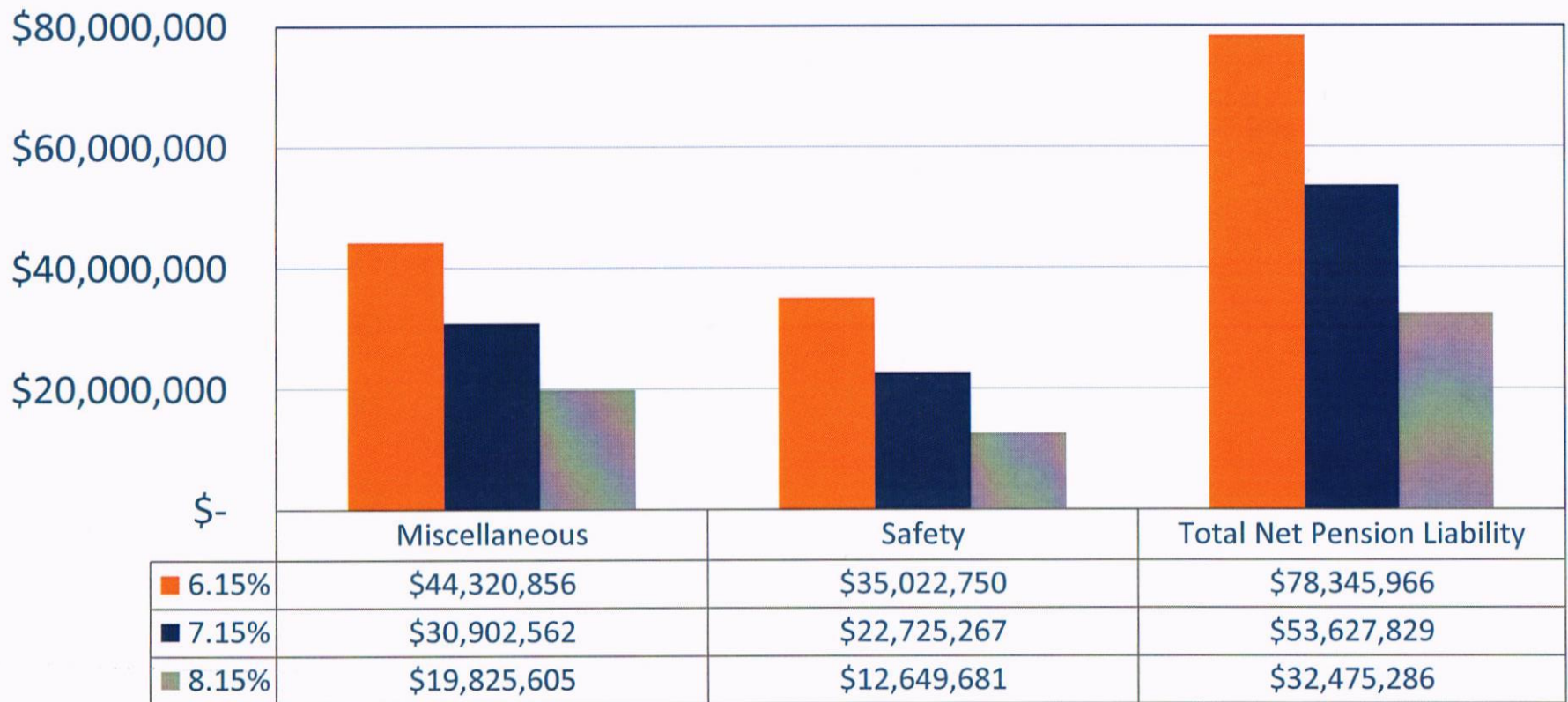
# Pension Plan

## Town's CalPERS Safety Pension Plan Funded Status



# Pension Plan

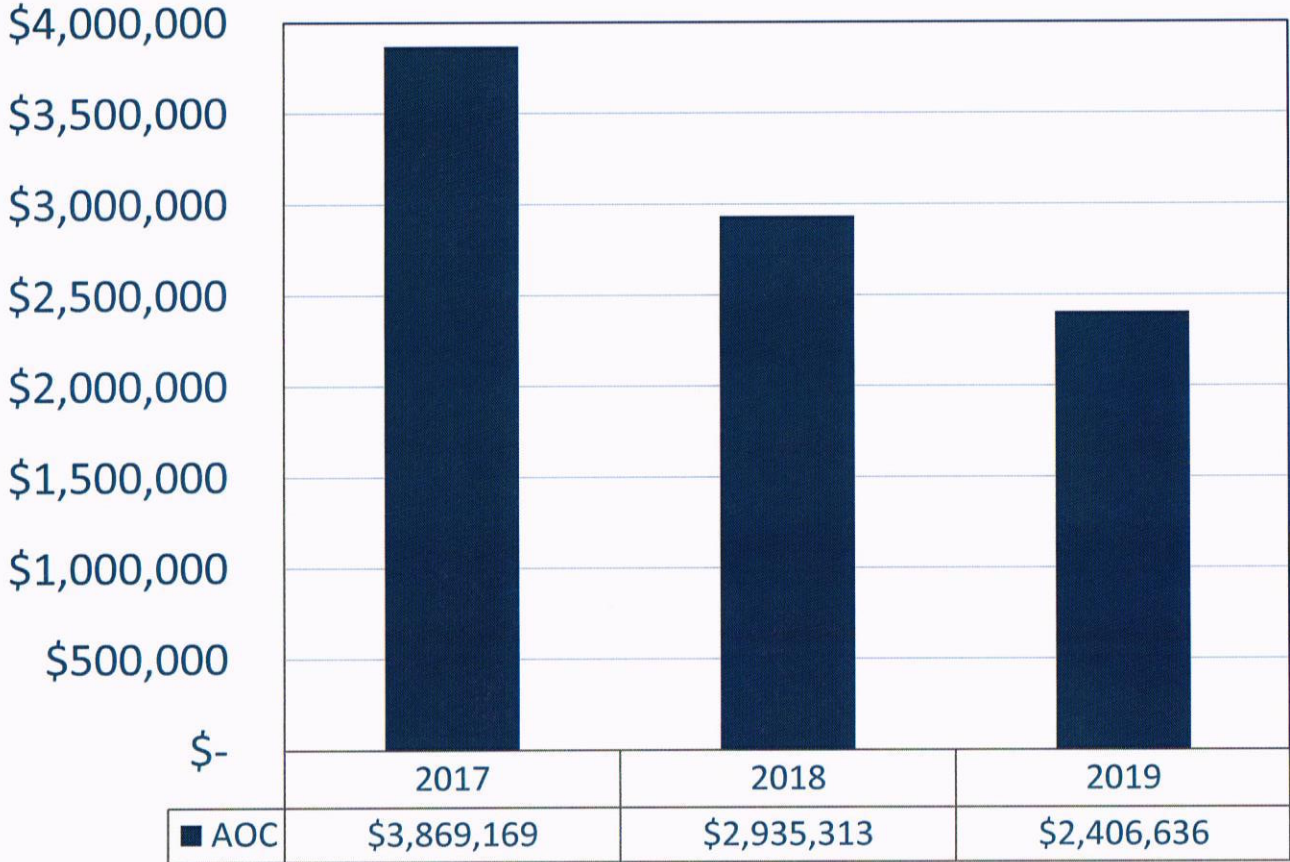
**Town's CalPERS Total Pensions Plan Sensitivity to Discount Rate (2018 Measurement Date)**





# Other Postemployment Benefits

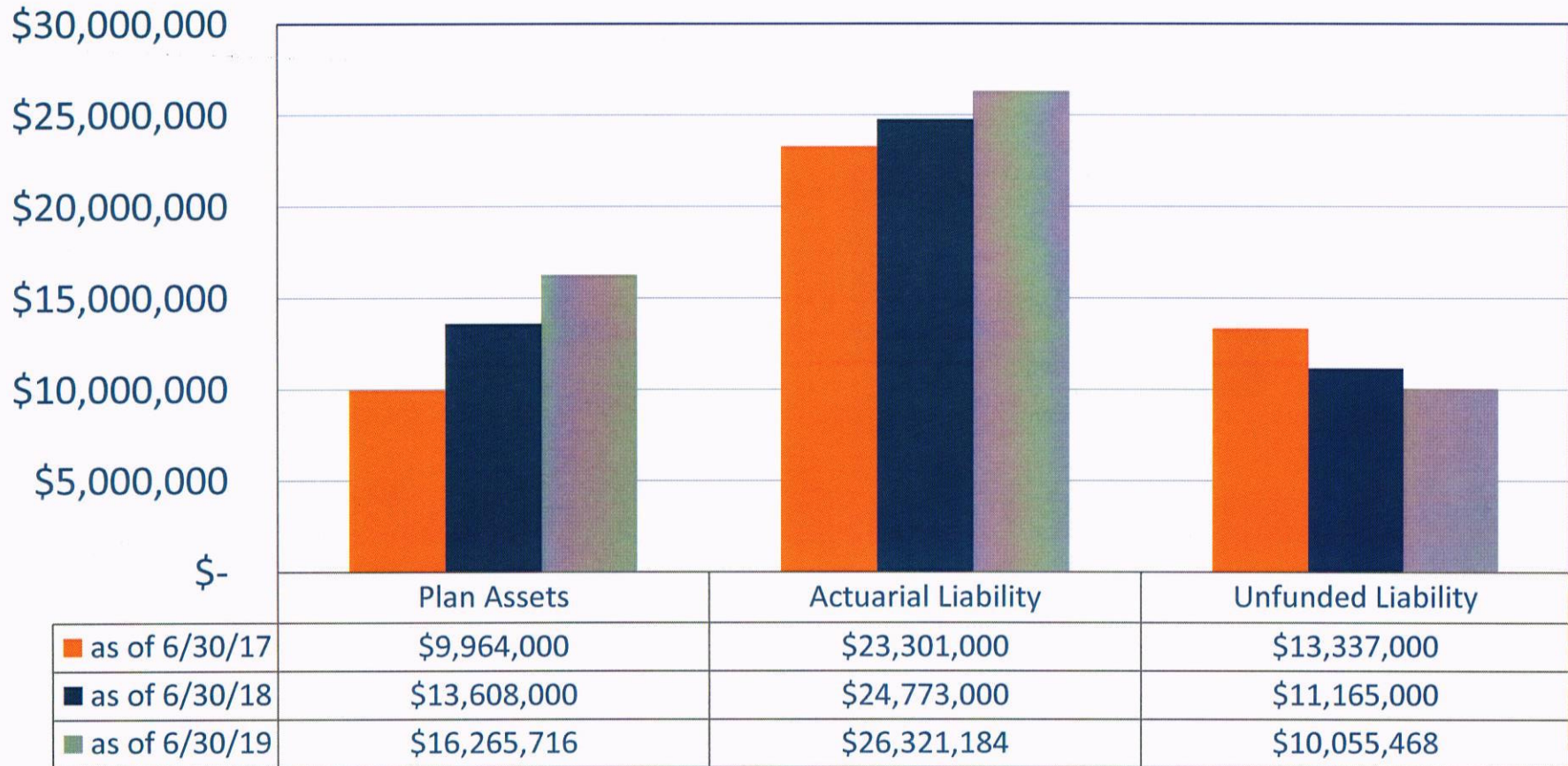
## Town's Annual OPEB Contributions





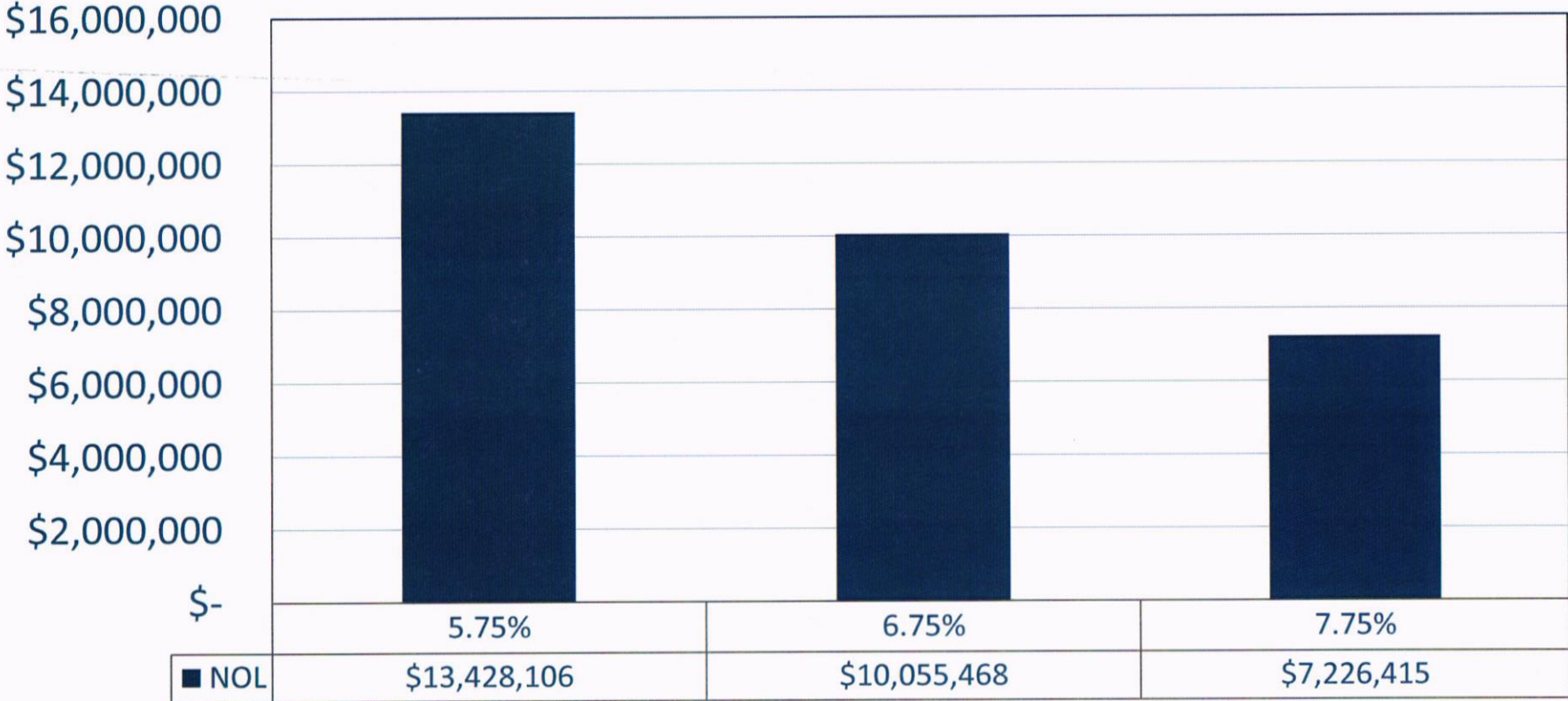
# Other Postemployment Benefits

## Town's OPEB Funded Status



# Other Postemployment Benefits

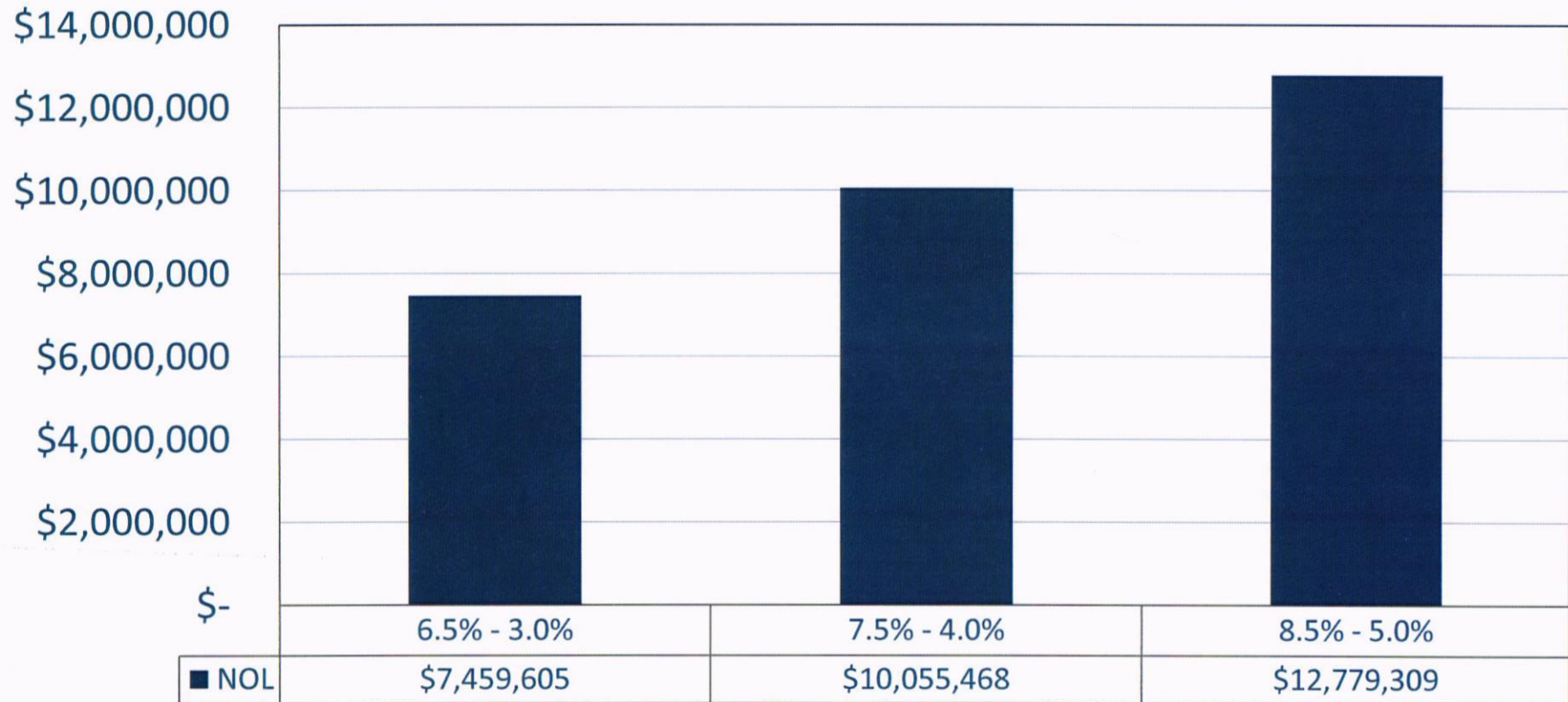
Town's OPEB Plan Sensitivity to Discount Rate  
(2018 Measurement Date)



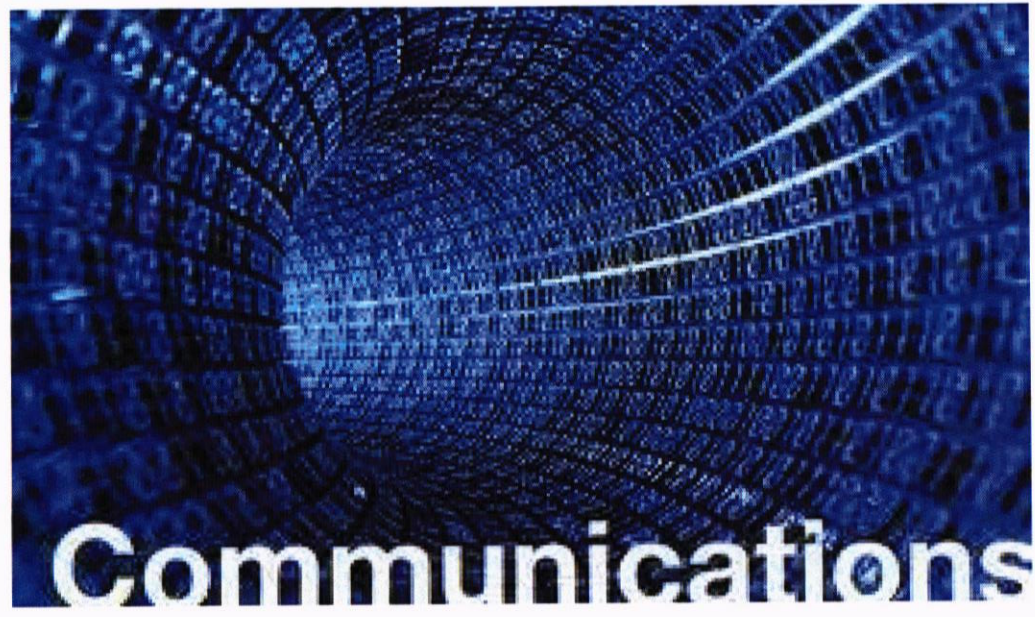


# Other Postemployment Benefits

**Town's OPEB Plan Sensitivity to Healthcare Trend Rate  
(2018 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

- Significant Accounting Policies and Unusual Transactions



The Town adopted the following new pronouncements during the year:

- GASB Statement No. 83
- GASB Statement No. 84
- GASB Statement No. 88

- Management Judgment and Accounting Estimates



Significant management estimates impacting the financial statements include the following:

- Useful lives of Capital Assets
- Pension Plans
- Claims Payable
- OPEB Obligation

# Required Communications

- 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
- Defined Benefit Pension Plan
- Other Post Employment Benefits

- Difficulties Encountered in Performing the Audit



No difficulties were encountered during our audit



# Required Communications

- 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 .

- 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

# Required Communications

- Disagreement with Management  We are pleased to report that there were no disagreements with management
- Deficiencies in Internal Control over Financial Reporting  No material weaknesses identified during our audits



# Required Communications

- Representations Requested of Management



We will be requesting certain representations from management that will be included in the management representation letter.

- Management Consultation with Other Accountants



We are not aware of any significant accounting or auditing matters for which management consulted with other accountants

# Required Communications

- Other Material Written Communications



Other than the engagement letters and management representation letters, there have been no other significant 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 was not disclosed by the Town



# New Accounting Standards

2020

- Statement 90 – Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61

2021

- Statement 87 – Leases
- Statement 89 – Accounting for Interest Cost Incurred before the End of a Construction Period

2022

- Statement 91 – Conduit Debt Obligations

**Thank You**  
**For Allowing Us to Provide Audit Services**  
**to the Town of Los Gatos**

