



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 12/17/2019

ITEM NO: 17

DATE: December 11, 2019
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, 2019, and
b. Adopt a Resolution Confirming June 30, 2019 Fund Balances in Accordance Fiscal Year 2018/19 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, 2019 (Attachment 1), and
b. Adopt a Resolution Confirming June 30, 2019 Fund Balances in Accordance 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. The FY 2018/19 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 2019, 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, 2019

DATE: December 11, 2019

DISCUSSION:

The Council Finance Committee met on Monday, December 9, 2019 to review and provide comments on the draft Fiscal Year (FY) 2018/19 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.

The Council Finance Committee received written public comments and provided an opportunity for public testimony although members of the audience chose not to speak. The Committee reviewed, discussed, and provided comments on the Draft CAFR. The redline version of the attached CAFR represents the culmination of recommended enhancements and changes based on continued staff analysis, public comments, auditor review, and Committee members' comments.

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 \$4.4 million over the prior fiscal year.

The increase is largely attributable to the excess of governmental revenues over expenditures of approximately \$3.0 million and the excess of revenue above expenses in proprietary funds in the amount of approximately \$1.6 million for the year. Net position was restated for the prior fiscal, increasing by \$1,206,851 for amounts placed into trust formerly reported as part of the Fiduciary Funds statements which are now reported as General Fund restricted assets for the Town's pension liabilities. An additional \$3.6 million was placed into the pension trust

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

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DISCUSSION (continued):

during the fiscal year with investment earnings bringing the total restricted assets to the balance of approximately \$5.0 million for year ended June 30, 2019.

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.

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.

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30, 2019

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CONCLUSION:

As noted in the auditor's opinion, the CAFR fairly presents the fiscal year ending June 30, 2019 financial activity for the Town of Los Gatos.

FISCAL IMPACT:

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

Attachments:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.
2. Fund Balance Resolution Establishing June 30, 2019 Fund Balances
3. Independent Auditor Presentation to the Council Finance Committee