



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

MEETING DATE: 12/7/2020

ITEM NO: 5

DATE: November 30, 2020
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, 2020.

RECOMMENDATION:

Discuss and provide comments to the Town Council regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

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 2019/20 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 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.

DISCUSSION:

At the meeting, Town's Independent Auditor will present to the Town Council Finance Committee the draft audited Comprehensive Annual Financial Report (CAFR) dated June 30,

PREPARED BY: Stephen Conway
Finance Director

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, 2020

DATE: December 7, 2020

DISCUSSION (continued):

2020. Staff and 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 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 36)

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 40)

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. 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.

Basic Financial Statements (pages 39 through 96, 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 69), its long term obligations (Certificates of

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SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended
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DISCUSSION (continued):

Participation) related to bonded debt (Note 6 page 74), the net pension liability for both the Town's miscellaneous and safety pension plans (Note 9 page 78), and a discussion of the Town's other post-employment benefit plan (Note 10 page 88).

Required Supplementary Information (pages 98 through 102)

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

Supplementary Information (pages 104 through 119)

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 123 through 153)

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 15, 2020. 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.

Attachment:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.