TOWN OF LOS GATOS
COUNCIL AGENDA REPORT

MEETING DATE: 12/20/2022
ITEM NO: 7

DATE: December 13, 2022

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, 2022, and
b. Adopt a Resolution Confirming June 30, 2022 Fund Balances in Accordance Fiscal Year 2021/22 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, 2022 (Attachment 1) as recommended by the Finance Commission, and
b. Adopt a Resolution Confirming June 30, 2022 Fund Balances in Accordance with Fiscal Year 2021/22 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 2021/22 audit was performed by Chavan and Associates, LLP an experienced firm specializing in audit services for California public agencies. The firm also compiled 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 December 12, 2022, the Commission received the Fiscal Year 2021/22 Draft Annual Comprehensive Financial Report (ACFR) for the Commission's consideration per Measure A including a presentation from the Town's auditor Chavan and Associates, LLP (Attachment 3). During the meeting, the Commission provided feedback on the Fiscal Year 2021/22 Draft Annual Comprehensive Financial Report (Attachment 1). Of note the Commission requested that given recent inflationary trends, staff should provide language that illustrates the effect long-term inflation could have on the Town's pension liabilities (pg. 4). In addition, the Commission requested that staff expand Note 15 to include the FY 2020/21 ARPA expenditures of $200,000 (pg. 97). Commissioners also requested that Note 16 make it clear that the potential waste hauler revenue loss is an annual number (pg. 98).

On December 15, 2022, the Finance Commission will conclude its review of the Fiscal Year 2021/22 Draft Annual Comprehensive Financial Report (ACFR). Any additional recommendations received from the Commission at the December 15th meeting will be communicated to the Town Council through the addendum process.

In addition to the review and input provided by the Finance Commission, staff also provided continuous review and updates to the Fiscal Year 2021/22 Draft Annual Comprehensive Financial Report (ACFR) accordingly (pages 4, 19, 31, 83, and 85).

DISCUSSION (continued):

The redline version of the attached ACFR represents the culmination of recommended enhancements and changes based on Finance Commission comments, continued staff analysis, and continued auditor review while maintaining appropriate ACFR presentation based on governmental accounting and municipal standards.

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, 2022 giving reasonable assurance that the financial statements are "free of material misstatement." (Attachment 3)

Management's Discussion and Analysis (MD&A)
The MD&A section of the report summaries 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, 2020, June 30, 2021, and June 30, 2022. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2021/22.

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 $138.4 million at fiscal year-end as compared to $113.5 million the prior year, an overall increase of $24.9 million over the prior fiscal year. The increase was largely attributed to the combined net result of an approximate $37 million decrease in total long-term liabilities outstanding, a $16 million dollar increase in capitalized assets including a $12.2 million historic Los Gatos Theatre contribution and a $3.7 million addition to non-capitalized capital outlay expenses from the prior year

The largest portion of the net assets, $127.8 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of $10.2 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2022, unrestricted net position is $1.8 million compared to a negative ($4.7 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), Note 4 which illustrates the new implementation of GASB 87 for leases, its long term obligations (Certificates of Participation) related to bonded debt (Note 7), the net pension liability for both the Town's

DISCUSSION (continued):

miscellaneous and safety pension plans (Note 10), and a discussion of the Town's other post-employment benefit plan (Note 11).

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, principle 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, 2022 financial activity for the Town of Los Gatos.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

Attachments:
1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2022.
2. Fund Balance Resolution Establishing June 30, 2022 Fund Balances
3. Independent Auditor Presentation to the Council Finance Commission