



**TOWN OF LOS GATOS
FINANCE COMMISSION SPECIAL MEETING AGENDA
DECEMBER 06, 2021
TELECONFERENCE
5:00 PM**

*Ron Dickel, Chair
Kyle Park, Vice Chair
Stacey Dell, Commissioner
Loreen Huddleston, Commissioner
Rick Tinsley, Commissioner
Rob Rennie, Vice Mayor
Matthew Hudes, Council Member*

IMPORTANT NOTICE

This meeting is being conducted utilizing teleconferencing and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.). Consistent with AB 361 and Town of Los Gatos Resolution 2021-044, this meeting will not be physically open to the public and the Council will be teleconferencing from remote locations. Members of the public can only participate in the meeting by joining the Zoom webinar (log in information provided below).

PARTICIPATION

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar.

- Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join.
<https://losgatosca.gov.zoom.us/j/81801149349?pwd=MDJPWm5MUmNtaFJjc05BOUhZYjhiQT09>
Passcode: 856819. You can also type in 81801149349 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- Join by Telephone: Dial: 877-336-1829 US Toll-free or USA 636 651 0002 US Toll
Conference code: 986172

During the meeting:

- When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Commission meeting.

If you are unable to participate in real-time, you may email to PublicComment@losgatosca.gov with the subject line “Public Comment Item #__” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments will be reviewed and distributed before the meeting if received by 11:00 a.m. on the day of the meeting. All comments received will become part of the record.

RULES OF DECORUM AND CIVILITY

To conduct the business of the community in an effective and efficient manner, please follow the meeting guidelines set forth in the Town Code and State law.

The Town does not tolerate disruptive conduct, which includes but is not limited to:

- addressing the town Council without first being recognized;
- interrupting speakers, Town Council, or Town staff;
- continuing to speak after the allotted time has expired;
- failing to relinquish the microphone when directed to do so;
- repetitiously addressing the same subject.

Town Policy does not allow speakers to cede their commenting time to another speaker. Disruption of the meeting may result in a violation of Penal Code Section 403.

REMOTE LOCATION PARTICIPANTS *The following Committee Members are listed to permit them to appear electronically or telephonically at the Finance Commission meeting: CHAIR RON DICKEL, VICE CHAIR KYLE PARK, COMMISSIONER STACEY DELL, COMMISSIONER LOREEN HUDDLESTON, COMMISSIONER RICK TINSLEY, VICE MAYOR ROB RENNIE, AND COUNCIL MEMBER MATTHEW HUDES. All votes during the teleconferencing session will be conducted by roll call vote.*

MEETING CALL TO ORDER

ROLL CALL

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine Town business and may be approved by one motion. Any member of the Commission may request to have an item removed from the Consent Items for comment and action. Members of the public may provide input on any or multiple Consent Item(s) when the Chair asks for public comments on the Consent Items. If you wish to comment, please follow the Participation Instructions contained on Page 2 of this agenda. If an item is removed, the Chair has the sole discretion to determine when the item will be heard.)*

1. Approve Minutes of the November 8, 2021 Finance Commission Meeting.
2. Receive Other Post Employment Benefit (OPEB) Trust Account Reports
3. Receive CEPPT 115 Trust Statements

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda consistent with the Participation Instructions contained on Page 1 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items.)*

- [4.](#) Provide Comments and Recommendations Regarding the Town Council Consideration to Authorize the Town Manager to Execute a Three-Year Agreement with Chavan & Associates, LLP to Provide Auditing Services for the Town of Los Gatos in Amount Not to Exceed \$117,000
- [5.](#) Review the Town Manager's Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year and Provide Written Comments and Recommendations

ADJOURNMENT



**TOWN OF LOS GATOS
FINANCE COMMISSION
AGENDA REPORT**

MEETING DATE: 12/6/2021

ITEM NO: 1

Item 1.

**DRAFT
Minutes of the Finance Commission Meeting
November 8, 2021**

The Finance Commission of the Town of Los Gatos conducted a regular meeting via teleconference via COVID-19 Guidelines on Monday, November 8, 2021, at 5:00 p.m.

MEETING CALLED TO ORDER AT 5:02 P.M.

ROLL CALL

Present: Chair Ron Dickel, Vice Chair Kyle Park, Commissioner Stacey Dell, Commissioner Loreen Huddleston, Commissioner Rick Tinsley, Vice Mayor Rob Rennie, and Council Member Matthew Hudes. (All participating remotely.)

Staff Present: Town Manager Laurel Prevetti, Assistant Town Manager Arn Andrews, Human Resource Director Lisa Velasco, Finance Director Stephen Conway, Finance and Budget Manager Gitta Ungvari.

COMMISSIONER REPORTS

Receive Subcommittee Report

The two Financial Processes Subcommittee members detailed a positive experience during the Finance Department sit-along meetings. Subcommittee members met the team and observed staff work, processes, procedures, separation of duties, and cross training. Subcommittee members also commented that it is desirable to get a stand-alone software for budget and financial report publication.

Commissioner Park also reported a positive experience working with Town staff as a member of the Audit Selection Committee.

CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Minutes of October 11, 2021 Finance Commission Meeting.
2. Receive the First Quarter Investment Report (July through September 2021) for Fiscal Year 2021/22.

MOTION: Motion by Commissioner Park to approve the consent items **Seconded** by Commissioner Huddleston.

VOTE: Motion passed 5-0.

PAGE 2 OF 3

SUBJECT: Draft Minutes of the Finance Commission Meeting of November 8, 2021

DATE: November 16, 2021

VERBAL COMMUNICATIONS

None

OTHER BUSINESS

3. Management Discussion & Analysis (MD&A) Review

Arn Andrews, Assistant Town Manager, presented the report.

The Commission discussed the item and provided feedback on information that they would like emphasized in the MD&A to provide a better understanding for the reader including:

- Include recent relevant information (i.e., COVID pandemic effects and American Rescue Plan Act data) in the Financial Highlights
- Present additional trend information (3 years where appropriate)
- Provide additional pension discussion information in the Financial Highlights
- Present data for operating expenditures as a percentage of available tax revenue.

In addition, the Commission added a Special Finance Commission Meeting for the Annual Comprehensive Financial Report review on December 6, 2021.

Opened Public Comment

None

Closed Public Comment.

4. Discussion of Key Performance Indicators (KPIs)

Arn Andrews, Assistant Town Manager, presented the report.

Opened Public Comment

None.

Closed Public Comment.

The Commission discussed the item.

Commissioners requested staff add:

- Prior year same period quarterly data to compare to current year actual period data,
- Break down Department expenditures by discretionary and nondiscretionary items,

PAGE 3 OF 3

SUBJECT: Draft Minutes of the Finance Commission Meeting of November 8, 2021

DATE: November 16, 2021

- Salary and pension projections, and
- Employee headcounts and vacancies by Department.

5. Discuss Topics for Future Commission Agendas.

Commissioners requested that staff summarize the recently passed Infrastructure Bill.

Chair Dickel encouraged Commissioners to reach out to him for further topics of discussion.

Opened Public Comment.

None.

Closed Public Comment.

ADJOURNMENT:

The meeting adjourned at 6:10 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the November 8, 2021 meeting as approved by the Finance Commission.

Gitta Ungvari, Finance and Budget Manager



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/06/2021

ITEM NO: 2

Item 2.

DATE: November 22, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Other Post Employment Benefit (OPEB) Trust Account Reports

RECOMMENDATION:

Receive OPEB Trust Account Reports.

DISCUSSION:

Attachment 1 contains reports provided to the Town Council Pension/OPEB Oversight Committee on November 16, 2021.

Attachments:

1. OPEB Trust Account Reports

PREPARED BY: Arn Andrews
Assistant Town manager

Reviewed by: Town Manager and Finance Director



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 11/16/2021

ITEM NO: 2

Item 2.

DATE: November 10, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive OPEB Trust Account Update Summary Quarterly Report for the Period Ending June 30, 2021 (Attachment 1) and September 30, 2021 (Attachment 2).

RECOMMENDATION:

Receive OPEB Trust Account Update Summary Report for the Period Ending June 30, 2021 (Attachment 1) and September 30, 2021 (Attachment 2).

BACKGROUND:

In 2009, the Council approved participating in the California Employer's Retiree Benefit Trust (CERBT) Fund. The CERBT Fund is an IRS Section 115 trust fund dedicated to the prefunding of other post-employment benefits ("OPEB"). The CERBT Strategy 1 is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan").

DISCUSSION:

As of June 30, 2021, the CERBT Strategy 1 fund returned 27.54% for the year and 6.59% for the quarter. The ending account balance as of June 30, 2021 was \$26,234,531 compared to \$20,124,351 as of June 30, 2020.

As of September 30, 2021, the CERBT Strategy 1 fund returned -0.41% for the quarter. The ending account balance as of September 30, 2021 was \$26,121,803.

Attachments:

1. CERBT 115 Trust Account Update Summary as of June 30, 2021
2. CERBT 115 Trust Account Update Summary as of September 30, 2021

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

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CERBT Account Update Summary

Town of Los Gatos

as of June 30, 2021



ATTACHMENT 1

OPEB Valuation Report Summary

OPEB Actuarial Valuation Report by Bartel Associates, LLC	
Valuation Date	6/30/2017
Total OPEB Liability (TOL)	\$24,773,000
Valuation Assets	\$13,605,000
Net OPEB Liability (NOL)	\$11,168,000
Funded Status	55%
Actuarially Determined Contribution (ADC)	\$2,108,000
CERBT Asset Allocation Strategy	Strategy 1
Discount Rate	6.75%

CERBT Account Summary

As of June 30, 2021	Strategy 1
Initial contribution (06/29/2009)	\$400,000
Additional contributions	\$14,751,000
Disbursements	\$0
CERBT expenses	(\$101,574)
Investment earnings	\$11,185,105
Total assets	\$26,234,531
Annualized net rate of return (06/29/2009-06/30/2021 = 12. years)	9.97%

Cash Flow Summary by Fiscal Year

Fiscal Year	Contributions	Disbursements	Cumulative Investment Gains (Losses)	Cumulative Fees	Cumulative Ending Assets
2006-07	\$0	\$0	\$0	\$0	\$0
2007-08	\$0	\$0	\$0	\$0	\$0
2008-09	\$400,000	\$0	(\$28)	(\$2)	\$399,971
2009-10	\$550,000	\$0	\$60,907	(\$462)	\$1,010,445
2010-11	\$0	\$0	\$312,877	(\$1,958)	\$1,260,919
2011-12	\$1,910,000	\$0	\$416,755	(\$4,373)	\$3,272,382
2012-13	\$1,200,000	\$0	\$815,342	(\$9,740)	\$4,865,602
2013-14	\$1,300,000	\$0	\$1,717,930	(\$17,124)	\$7,060,806
2014-15	\$1,300,000	\$0	\$1,709,948	(\$24,242)	\$8,345,705
2015-16	\$1,500,000	\$0	\$1,828,698	(\$31,133)	\$9,957,565
2016-17	\$2,600,000	\$0	\$2,881,199	(\$39,994)	\$13,601,205
2017-18	\$1,600,000	\$0	\$3,968,811	(\$52,247)	\$16,276,565
2018-19	\$1,100,000	\$0	\$4,985,901	(\$66,129)	\$18,379,772
2019-20	\$1,100,000	\$0	\$5,646,311	(\$81,960)	\$20,124,351
2020-21	\$591,000	\$0	\$11,185,105	(\$101,574)	\$26,234,531

CERBT/CEPPT Investment Returns Outperform Benchmarks

Periods ended June 30, 2021

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$13,042,036,647	1.45%	6.59%	27.54%	27.54%	11.95%	10.88%	8.42%	6.29%
Benchmark		1.40%	6.54%	27.31%	27.31%	11.66%	10.49%	8.13%	5.86%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,815,456,223	1.59%	6.05%	19.71%	19.71%	10.57%	9.02%	-	8.44%
Benchmark		1.56%	6.00%	19.50%	19.50%	10.35%	8.66%	-	8.15%
CERBT Strategy 3 (Inception January 1, 2012)	\$818,674,420	1.59%	5.49%	13.60%	13.60%	9.02%	7.16%	-	6.60%
Benchmark		1.57%	5.45%	13.45%	13.45%	8.84%	6.85%	-	6.29%
CERBT Total	\$15,676,167,290								
CEPPT Strategy 1 (Inception October 1, 2019)	\$38,556,782	1.02%	4.74%	18.31%	18.31%	-	-	-	12.14%
Benchmark		0.91%	4.63%	18.07%	18.07%	-	-	-	12.16%
CEPPT Strategy 2 (Inception January 1, 2020)	\$19,387,858	0.79%	3.24%	8.00%	8.00%	-	-	-	7.19%
Benchmark		0.78%	3.24%	7.75%	7.75%	-	-	-	7.01%
CEPPT Total	\$57,944,640								

CERBT Expected Rates of Return & Risk

Portfolios	CERBT Strategy 1	CERBT Strategy 2	CERBT Strategy 3
Expected Return	7.59%	7.01%	6.22%
Risk	11.83%	9.24%	7.28%

CERBT Portfolio Details

Asset Classification	Benchmark	CERBT Strategy 1	CERBT Strategy 2	CERBT Strategy 3
Global Equity	MSCI All Country World Index	59% ±5%	40% ±5%	22% ±5%
Fixed Income	Barclays Capital Long Liability Index (CERBT)	25% ±5%	43% ±5%	49% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid Index	8% ±5%	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Barclays Capital Global Real: US TIPS Index	5% ±3%	5% ±3%	16% ±3%
Commodities	S&P GSCI Total Return Index	3% ±3%	4% ±3%	5% ±3%
Cash	3-Month Treasury Bill	0% +2%	0% +2%	0% +2%

Total Participation Cost Fee Rate

- Total all-inclusive cost of participation
 - Combines administrative, custodial, and investment fees
 - Separate trust funds
 - Self-funded, fee rate may change in the future
 - Fee is applied daily to assets under management
 - 10 basis points - CERBT
 - 25 basis points - CEPPT

CEPPT/CERBT Consistently Low Fee Rate History

Fiscal Year	CERBT	CEPPT
2007-2008	2.00 basis points	-
2008-2009	6.00 basis points	-
2009-2010	9.00 basis points	-
2010-2011	12.00 basis points	-
2011-2012	12.00 basis points	-
2012-2013	15.00 basis points	-
2013-2014	14.00 basis points	-
2014-2015	10.00 basis points	-
2015-2016	10.00 basis points	-
2016-2017	10.00 basis points	-
2017-2018	10.00 basis points	-
2018-2019	10.00 basis points	-
2019-2020	10.00 basis points	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points
2021-2022	10.00 basis points	25.00 basis points

595 Prefunding Program Employers

585 CERBT and 43 CEPPT

- State of California
- 152 Cities or Towns
- 10 Counties
- 76 School Employers
- 31 Courts
- 325 Special Districts and other Public Agencies
 - (99 Water, 34 Sanitation, 33 Fire, 25 Transportation)

Financial Reporting

- CERBT is the Plan
 - Provides audited and compliant GASB 74 report in a Schedule of Changes in Fiduciary Net Position (FNP)
 - Published in February each year

FNP Fiscal Year	Availability
2015-16	Available at https://www.calpers.ca.gov/cerbt
2016-17	
2017-18	
2018-19	
2019-20	
2020-21	February 2022

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Matt Goss	Outreach & Support Program Manager	Matthew.Goss@calpers.ca.gov	(916) 795-9071	(916) 382-6487
Karen Lookingbill	Outreach & Support Manager	Karen.Lookingbill@calpers.ca.gov	(916) 795-1387	(916) 501-2219
Jasper Jacobs	Outreach & Support Analyst	Jasper.Jacobs@calpers.ca.gov	(916) 795-0432	(916) 717-3886
Jean MacDonald	Outreach & Support Analyst	Jean.MacDonald@calpers.ca.gov	(916) 795-0675	(916) 291-1325
Colleen Cain-Herrback	Administration & Reporting Program Manager	Colleen.Cain-Herrback@calpers.ca.gov	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CERBT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CERBT
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CEPPT
CERBTACCOUNT@calpers.ca.gov – Online Record Keeping System	

CERBT Account Update Summary

Town of Los Gatos

as of September 30, 2021



ATTACHMENT 2

OPEB Valuation Report Summary

OPEB Actuarial Valuation Report by Bartel Associates, LLC	
Valuation Date	6/30/2019
Total OPEB Liability (TOL)	\$27,017,000
Valuation Assets	\$18,341,000
Net OPEB Liability (NOL)	\$8,676,000
Funded Status	68%
Actuarially Determined Contribution (ADC)	\$1,860,000
CERBT Asset Allocation Strategy	Strategy 1
Discount Rate	6.75%

CERBT Account Summary

As of September 30, 2021	Strategy 1
Initial contribution (06/29/2009)	\$400,000
Additional contributions	\$14,751,000
Disbursements	\$0
CERBT expenses	(\$107,277)
Investment earnings	\$11,078,080
Total assets	\$26,121,803
Annualized net rate of return (06/29/2009-09/30/2021 = 12.25 years)	9.5%

Cash Flow Summary by Fiscal Year

Fiscal Year	Contributions	Disbursements	Cumulative Investment Gains (Losses)	Cumulative Fees	Cumulative Ending Assets
2006-07	\$0	\$0	\$0	\$0	\$0
2007-08	\$0	\$0	\$0	\$0	\$0
2008-09	\$400,000	\$0	(\$28)	(\$2)	\$399,971
2009-10	\$550,000	\$0	\$60,907	(\$462)	\$1,010,445
2010-11	\$0	\$0	\$312,877	(\$1,958)	\$1,260,919
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2019-20	\$1,100,000	\$0	\$5,646,311	(\$81,960)	\$20,124,351
2020-21	\$591,000	\$0	\$11,185,105	(\$101,574)	\$26,234,531
as of 9/30/2021	\$0	\$0	\$11,078,080	(\$107,277)	\$26,121,803

CERBT/CEPPT Investment Returns Outperform Benchmarks

Periods ended August 31, 2021

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$13,514,349,182	1.44%	4.23%	2.75%	21.39%	12.06%	10.79%	9.33%	6.41%
Benchmark		1.42%	4.16%	2.72%	21.18%	11.77%	10.43%	9.01%	5.99%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,888,078,451	0.90%	4.11%	2.48%	15.73%	10.77%	9.01%	-	8.56%
Benchmark		0.89%	4.05%	2.46%	15.53%	10.56%	8.68%	-	8.27%
CERBT Strategy 3 (Inception January 1, 2012)	\$835,538,812	0.39%	3.92%	2.30%	11.28%	9.37%	7.26%	-	6.73%
Benchmark		0.39%	3.89%	2.29%	11.14%	9.19%	6.98%	-	6.42%
CERBT Total	\$16,237,966,445								
CEPPT Strategy 1 (Inception October 1, 2019)	\$42,198,265	0.98%	3.21%	2.17%	14.49%	-	-	-	12.26%
Benchmark		0.99%	3.10%	2.17%	14.30%	-	-	-	12.28%
CEPPT Strategy 2 (Inception January 1, 2020)	\$19,957,503	0.30%	2.44%	1.64%	6.85%	-	-	-	7.48%
Benchmark		0.30%	2.42%	1.63%	6.62%	-	-	-	7.32%
CEPPT Total	\$62,155,768								

CERBT Expected Rates of Return & Risk

Portfolios	CERBT Strategy 1	CERBT Strategy 2	CERBT Strategy 3
Expected Return	7.59%	7.01%	6.22%
Risk	11.83%	9.24%	7.28%

CERBT Portfolio Details

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2011-2012	12.00 basis points	-
2012-2013	15.00 basis points	-
2013-2014	14.00 basis points	-
2014-2015	10.00 basis points	-
2015-2016	10.00 basis points	-
2016-2017	10.00 basis points	-
2017-2018	10.00 basis points	-
2018-2019	10.00 basis points	-
2019-2020	10.00 basis points	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points
2021-2022	10.00 basis points	25.00 basis points

598 Prefunding Program Employers

587 CERBT and 47 CEPPT

- State of California
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Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CERBT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CERBT
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CEPPT
CERBTACCOUNT@calpers.ca.gov – Online Record Keeping System	

Town of Los Gatos

CERBT Strategy 1

Entity #: SKB0-4589482285

Quarter Ended September 30, 2021



Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$26,234,530.84	\$26,234,530.84
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(107,025.01)	(107,025.01)
Administrative Expenses	(3,294.42)	(3,294.42)
Investment Expense	(2,408.74)	(2,408.74)
Other	0.00	0.00
Ending Balance	\$26,121,802.67	\$26,121,802.67
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$26,121,802.67	\$26,121,802.67

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,180,781.789	1,180,781.789
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,180,781.789	1,180,781.789
Period Beginning Unit Value	22.217933	22.217933
Period Ending Unit Value	22.122464	22.122464

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT-4J@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 09/30/2021

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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Item 2.

Client Contact:
CERBT4U@CalPERS.ca.gov

If you have any questions or comments regarding the new statement format please contact CERBT4U@CalPERS.ca.gov



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/06/2021

ITEM NO: 3

Item 3.

DATE: November 22, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive CEPPT 115 Trust Statements

RECOMMENDATION:

Receive CEPPT 115 Trust Statements.

DISCUSSION:

Attachment 1 contains staff report provided to the Town Council Pension/OPEB Oversight Committee on November 16, 2021.

Attachments:

1. CEPPT Statements

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 11/16/2021

ITEM NO: 3

Item 3.

DATE: November 10, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Town of Los Gatos IRS Section 115 Pension Trust Statement

RECOMMENDATION:

Receive on the Town of Los Gatos IRS Section 115 Pension Trust statement.

BACKGROUND:

On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the CEPPT program.

The CEPPT Fund is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. On March 3, 2020, the Town Pension and OPEB Trusts Oversight Committee adopted CEPPT Strategy 2 as the asset allocation for the Town's Section 115 Trust pension assets.

DISCUSSION:

On April 14, 2021, the remaining CEPPT balance of approximately \$700,000 was liquidated for inclusion in a \$2,050,942 additional discretionary payment toward the June 30, 2013 gain/loss amortization base. The CEPPT account remains open with no assets at no cost.

Attachments:

1. CEPPT September 30, 2021 Statement

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

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CEPPT Account Update Summary

Town of Los Gatos

as of September 30, 2021



ATTACHMENT 1

CEPPT Account Summary

As of September 30, 2021	Strategy 1	Strategy 2	Total
Initial contribution (05/18/2020)	\$0	\$268,000	\$268,000
Additional contributions	\$0	\$393,400	\$393,400
Disbursements	\$0	(\$706,988)	(\$706,988)
CEPPT expenses	\$0	(\$1,300)	(\$1,300)
Investment earnings	\$0	\$46,888	\$46,888
Total assets (05/18/2020-09/30/2021 = 1.37 years)	\$0	\$0	\$0

CEPPT/CERBT Investment Returns Outperform Benchmarks

Periods ended August 31, 2021

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$13,514,349,182	1.44%	4.23%	2.75%	21.39%	12.06%	10.79%	9.33%	6.41%
Benchmark		1.42%	4.16%	2.72%	21.18%	11.77%	10.43%	9.01%	5.99%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,888,078,451	0.90%	4.11%	2.48%	15.73%	10.77%	9.01%	-	8.56%
Benchmark		0.89%	4.05%	2.46%	15.53%	10.56%	8.68%	-	8.27%
CERBT Strategy 3 (Inception January 1, 2012)	\$835,538,812	0.39%	3.92%	2.30%	11.28%	9.37%	7.26%	-	6.73%
Benchmark		0.39%	3.89%	2.29%	11.14%	9.19%	6.98%	-	6.42%
CERBT Total	\$16,237,966,445								
CEPPT Strategy 1 (Inception October 1, 2019)	\$42,198,265	0.98%	3.21%	2.17%	14.49%	-	-	-	12.26%
Benchmark		0.99%	3.10%	2.17%	14.30%	-	-	-	12.28%
CEPPT Strategy 2 (Inception January 1, 2020)	\$19,957,503	0.30%	2.44%	1.64%	6.85%	-	-	-	7.48%
Benchmark		0.30%	2.42%	1.63%	6.62%	-	-	-	7.32%
CEPPT Total	\$62,155,768								

CEPPT Expected Rates of Return & Risk

Portfolios	CEPPT Strategy 1	CEPPT Strategy 2
Expected Return	5.0%	4.0%
Risk	8.2%	5.2%

CEPPT Portfolio Details

Asset Classification	Benchmark	CEPPT Strategy 1	CEPPT Strategy 2
Global Equity	MSCI All Country World Index	40% ±5%	14% ±5%
Fixed Income	Bloomberg Barclays U.S. Aggregate Bond Index	47% ±5%	73% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid Index	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Barclays Capital Global Real: US TIPS Index	5% ±3%	5% ±3%
Cash	3-Month Treasury Bill	0% +2%	0% +2%

Total Participation Cost Fee Rate

- Total all-inclusive cost of participation
 - Combines administrative, custodial, and investment fees
 - Separate trust funds
 - Self-funded, fee rate may change in the future
 - Fee is applied daily to assets under management
 - 10 basis points - CERBT
 - 25 basis points - CEPPT

CEPPT/CERBT Consistently Low Fee Rate History

Fiscal Year	CERBT	CEPPT
2007-2008	2.00 basis points	-
2008-2009	6.00 basis points	-
2009-2010	9.00 basis points	-
2010-2011	12.00 basis points	-
2011-2012	12.00 basis points	-
2012-2013	15.00 basis points	-
2013-2014	14.00 basis points	-
2014-2015	10.00 basis points	-
2015-2016	10.00 basis points	-
2016-2017	10.00 basis points	-
2017-2018	10.00 basis points	-
2018-2019	10.00 basis points	-
2019-2020	10.00 basis points	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points
2021-2022	10.00 basis points	25.00 basis points

598 Prefunding Program Employers

587 CERBT and 47 CEPPT

- State of California
- 153 Cities or Towns
- 10 Counties
- 77 School Employers
- 31 Courts
- 326 Special Districts and other Public Agencies
 - (99 Water, 35 Sanitation, 33 Fire, 25 Transportation)

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Matt Goss	Outreach & Support Program Manager	Matthew.Goss@calpers.ca.gov	(916) 795-9071	(916) 382-6487
Karen Lookingbill	Outreach & Support Manager	Karen.Lookingbill@calpers.ca.gov	(916) 795-1387	(916) 501-2219
Jasper Jacobs	Outreach & Support Analyst	Jasper.Jacobs@calpers.ca.gov	(916) 795-0432	(916) 717-3886
Jean MacDonald	Outreach & Support Analyst	Jean.MacDonald@calpers.ca.gov	(916) 795-0675	(916) 291-1325
Colleen Cain-Herrback	Administration & Reporting Program Manager	Colleen.Cain-Herrback@calpers.ca.gov	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CEPPT
CERBT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CERBT
CERBTACCOUNT@calpers.ca.gov – Online Record Keeping System	



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/06/2021

ITEM NO: 4

Item 4.

DATE: November 15, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Comments and Recommendations Regarding the Town Council Consideration to Authorize the Town Manager to Execute a Three-Year Agreement with Chavan & Associates, LLP to Provide Auditing Services for the Town of Los Gatos in Amount Not to Exceed \$117,000

RECOMMENDATION:

Provide comments and recommendations regarding the Town Council consideration to authorize the Town Manager to execute a three-year agreement with Chavan & Associates, LLP to provide auditing services for the Town of Los Gatos in Amount Not to Exceed \$117,000.

BACKGROUND:

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:
- (9} Provide written comments and recommendations regarding the selection of auditors for the Comprehensive Annual Financial Report (now called the Annual Comprehensive Financial Report).

For the past five years, the Town's annual audits were completed by Badawi and Associates. Consistent with Governmental Accounting Standards Board best practices and State law, it is the Town's practice to solicit audit proposals every five years to ensure audit independence and competitive prices. If the Town is satisfied with the current audit firm's work, then that firm may submit a proposal but must propose with an alternate audit engagement partner.

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

PAGE 2 OF 2

SUBJECT: Authorize the Town Manager to Execute an Agreement with Chavan & Associates, LLP to provide auditing services for the Town of Los Gatos

DATE: November 15, 2021

DISCUSSION:

The Town of Los Gatos sent Requests for Proposals (RFP) to qualified independent certified public accounting firms to audit its financial statement for three fiscal years, with an option to extend the agreement an additional two fiscal years with Town Council approval. The RFP was sent to thirty-four qualified firms known to provide local government auditing services. Six firms responded with proposals: Badawi & Associates, Chavan & Associates, Eadie & Payne, Edie Baily, Maze & Associates, and R.J. Ricciardi.

A selection panel consisting of one Finance Commissioner, the Finance Director, Assistant Town Manager, Finance and Budget Manager, and Finance Accountant scored the six proposals. The firms were evaluated based on their technical expertise with local government audits, qualified personnel, and responsiveness to the RFP. These qualities were weighted at seventy percent and fees weighted at thirty percent. The cost for audit services were submitted in sealed envelopes and not opened until after the proposals were scored based on technical expertise, local government experience, and responsiveness. Based on this analysis, three firms (Chavan & Associates, Edie Baily, and Maze & Associates) were selected to participate in an interview.

Based upon the proposals, interviews and reference checks, Town staff has selected the firm of Chavan & Associates. The managing partner is Mr. Sheldon Chavan, who began his career in public accounting over 20 years ago. He is a CPA licensed in California and a member of American Institute of Certified Public Accountants (AICPA), California Society of Certified Public Accountants (CalCPA), California Society of Municipal Finance Officers (CSMFO), Governmental Audit Quality Center (GAQC), and Government Finance Officers Association (GFOA). He has also been a member of the GFOA Special Review Committee, with responsibility for reviewing Annual Comprehensive Financial Reports (ACFR) for award of the Certificate of Excellence in Financial Reporting. The firm's current audit client list includes City of Oroville, City of Saratoga, and the City of Pacific Grove amongst a list of many other California cities that are audited by Chavan and Associates.

The firm will provide the following services for the Town:

- The annual audit of the basic financial statements in accordance with Governmental Accounting Standards and preparation of the Town's Annual Comprehensive Financial Report;
- A report communicating information related to the audit to those in charge of governance (Town Council) at the conclusion of the audit;
- A management letter containing any comments or recommendations resulting from the review of systems of internal controls in connection with the financial audit;
- A Single Audit for grant funding if required under the Title 2 U.S. Code of Federal Regulations;
- Measure G district sales tax audit;

PAGE 3 OF 2

SUBJECT: Authorize the Town Manager to Execute an Agreement with Chavan & Associates, LLP to provide auditing services for the Town of Los Gatos
DATE: November 15, 2021

DISCUSSION (cont'd):

- Pension trust audit; and
- Optional services including the preparation of the annual report of financial transactions to the State Controller.

FISCAL IMPACT:

Sufficient funds for auditing services are included in the Town's proposed FY 2021/22 Operating and Capital Budget.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachment:

1. Agreement to provide auditing and optional services with Chavan & Associates, LLP.

AGREEMENT FOR CONSULTANT SERVICES

THIS AGREEMENT is made and entered into on _____ by and between TOWN OF LOS GATOS, a California municipal corporation, ("Town") and Chavan & Associates, LLP, ("Consultant"), whose address is 15105 Concord Circle, Suite 130, Morgan Hill CA 95037. This Agreement is made with reference to the following facts.

I. RECITALS

- 1.1 The Town desire to engage Consultant to provide professional auditing services.
- 1.2 The Consultant represents and affirms that it is willing to perform the desired work pursuant to this Agreement.
- 1.3 Consultant warrants it possesses the distinct professional skills, qualifications, experience, and resources necessary to timely perform the services described in this Agreement. Consultant acknowledges Town has relied upon these warranties to retain Consultant.

II. AGREEMENTS

- 2.1 Scope of Services. Consultant shall provide services as described in that certain proposal sent to the Town on October 8, 2021, which is hereby incorporated by reference and attached as Exhibit A.
- 2.2 Term and Time of Performance. This contract will remain in effect from _____ to _____.
- 2.3 Compliance with Laws. The Consultant shall comply with all applicable laws, codes, ordinances, and regulations of governing federal, state and local laws. Consultant represents and warrants to Town that it has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for Consultant to practice its profession. Consultant shall maintain a Town of Los Gatos business license pursuant to Chapter 14 of the Code of the Town of Los Gatos.
- 2.4 Sole Responsibility. Consultant shall be responsible for employing or engaging all persons necessary to perform the services under this Agreement.
- 2.5 Information/Report Handling. All documents furnished to Consultant by the Town and all reports and supportive data prepared by the Consultant under this Agreement are the Town's property and shall be delivered to the Town upon the completion of Consultant's services or at the Town's written request. All reports, information, data, and exhibits prepared or assembled by Consultant in connection with the performance of its services pursuant to this Agreement are confidential until released by the Town to the public, and

the Consultant shall not make any of the these documents or information available to any individual or organization not employed by the Consultant or the Town without the written consent of the Town before such release. The Town acknowledges that the reports to be prepared by the Consultant pursuant to this Agreement are for the purpose of evaluating a defined project, and Town's use of the information contained in the reports prepared by the Consultant in connection with other projects shall be solely at Town's risk, unless Consultant expressly consents to such use in writing. Town further agrees that it will not appropriate any methodology or technique of Consultant which is and has been confirmed in writing by Consultant to be a trade secret of Consultant.

- 2.6 Compensation. Compensation for Consultant's professional services **shall not exceed \$117,000**, inclusive of all costs. Payment shall be based upon Town approval of each task.
- 2.7 Billing. Billing shall be monthly by invoice within thirty (30) days of the rendering of the service and shall be accompanied by a detailed explanation of the work performed by whom at what rate and on what date. Also, plans, specifications, documents or other pertinent materials shall be submitted for Town review, even if only in partial or draft form.

Payment shall be net thirty (30) days. All invoices and statements to the Town shall be addressed as follows:

Invoices:

Town of Los Gatos

Attn: Accounts Payable

P.O. Box 655

Los Gatos, CA 95031-0655

- 2.8 Availability of Records. Consultant shall maintain the records supporting this billing for not less than three years following completion of the work under this Agreement. Consultant shall make these records available to authorized personnel of the Town at the Consultant's offices during business hours upon written request of the Town.
- 2.9 Assignability and Subcontracting. The services to be performed under this Agreement are unique and personal to the Consultant. No portion of these services shall be assigned or subcontracted without the written consent of the Town.
- 2.10 Independent Contractor. It is understood that the Consultant, in the performance of the work and services agreed to be performed, shall act as and be an independent contractor and not an agent or employee of the Town. As an independent contractor he/she shall not obtain any rights to retirement benefits or other benefits which accrue to Town employee(s). With prior written consent, the Consultant may perform some obligations under this Agreement by subcontracting, but may not delegate ultimate responsibility for performance or assign or transfer interests under this Agreement. Consultant agrees to testify in any litigation brought regarding the subject of the work to be performed under

this Agreement. Consultant shall be compensated for its costs and expenses in preparing for, traveling to, and testifying in such matters at its then current hourly rates of compensation, unless such litigation is brought by Consultant or is based on allegations of Consultant's negligent performance or wrongdoing.

- 2.11 Conflict of Interest. Consultant understands that its professional responsibilities are solely to the Town. The Consultant has and shall not obtain any holding or interest within the Town of Los Gatos. Consultant has no business holdings or agreements with any individual member of the Staff or management of the Town or its representatives nor shall it enter into any such holdings or agreements. In addition, Consultant warrants that it does not presently and shall not acquire any direct or indirect interest adverse to those of the Town in the subject of this Agreement, and it shall immediately disassociate itself from such an interest, should it discover it has done so and shall, at the Town's sole discretion, divest itself of such interest. Consultant shall not knowingly and shall take reasonable steps to ensure that it does not employ a person having such an interest in this performance of this Agreement. If after employment of a person, Consultant discovers it has employed a person with a direct or indirect interest that would conflict with its performance of this Agreement, Consultant shall promptly notify Town of this employment relationship, and shall, at the Town's sole discretion, sever any such employment relationship.
- 2.12 Equal Employment Opportunity. Consultant warrants that it is an equal opportunity employer and shall comply with applicable regulations governing equal employment opportunity. Neither Consultant nor its subcontractors do and neither shall discriminate against persons employed or seeking employment with them on the basis of age, sex, color, race, marital status, sexual orientation, ancestry, physical or mental disability, national origin, religion, or medical condition, unless based upon a bona fide occupational qualification pursuant to the California Fair Employment & Housing Act.

III. INSURANCE AND INDEMNIFICATION

3.1 Minimum Scope of Insurance:

- i. Consultant agrees to have and maintain, for the duration of the contract, General Liability insurance policies insuring him/her and his/her firm to an amount not less than: one million dollars (\$1,000,000) combined single limit per occurrence for bodily injury, personal injury and property damage.
- ii. Consultant agrees to have and maintain for the duration of the contract, an Automobile Liability insurance policy ensuring him/her and his/her staff to an amount not less than one million dollars (\$1,000,000) combined single limit per accident for bodily injury and property damage.
- iii. Consultant shall provide to the Town all certificates of insurance, with original endorsements effecting coverage. Consultant agrees that all

certificates and endorsements are to be received and approved by the Town before work commences.

- iv. Consultant agrees to have and maintain, for the duration of the contract, professional liability insurance in amounts not less than \$1,000,000 which is sufficient to insure Consultant for professional errors or omissions in the performance of the particular scope of work under this agreement.

General Liability:

- i. The Town, its officers, officials, employees and volunteers are to be covered as insured as respects: liability arising out of activities performed by or on behalf of the Consultant; products and completed operations of Consultant, premises owned or used by the Consultant. This requirement does not apply to the professional liability insurance required for professional errors and omissions.
- ii. The Consultant's insurance coverage shall be primary insurance as respects the Town, its officers, officials, employees and volunteers. Any insurance or self-insurances maintained by the Town, its officers, officials, employees or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.
- iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Town, its officers, officials, employees or volunteers.
- iv. The Consultant's insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the insurer's liability.

3.2 All Coverages. Each insurance policy required in this item shall be endorsed to state that coverage shall not be suspended, voided, cancelled, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the Town. Current certification of such insurance shall be kept on file at all times during the term of this agreement with the Town Clerk.

3.3 Workers' Compensation. In addition to these policies, Consultant shall have and maintain Workers' Compensation insurance as required by California law and shall provide evidence of such policy to the Town before beginning services under this Agreement. Further, Consultant shall ensure that all subcontractors employed by Consultant provide the required Workers' Compensation insurance for their respective employees.

- 3.4 Indemnification. The Consultant shall save, keep, hold harmless and indemnify and defend the Town its officers, agent, employees and volunteers from all damages, liabilities, penalties, costs, or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of, or in the course of performing work which may be occasioned by a willful or negligent act or omissions of the Consultant, or any of the Consultant's officers, employees, or agents or any subconsultant.

IV. GENERAL TERMS

- 4.1 Waiver. No failure on the part of either party to exercise any right or remedy hereunder shall operate as a waiver of any other right or remedy that party may have hereunder, nor does waiver of a breach or default under this Agreement constitute a continuing waiver of a subsequent breach of the same or any other provision of this Agreement.
- 4.2 Governing Law. This Agreement, regardless of where executed, shall be governed by and construed to the laws of the State of California. Venue for any action regarding this Agreement shall be in the Superior Court of the County of Santa Clara.
- 4.3 Termination of Agreement. The Town and the Consultant shall have the right to terminate this agreement with or without cause by giving not less than fifteen days (15) written notice of termination. In the event of termination, the Consultant shall deliver to the Town all plans, files, documents, reports, performed to date by the Consultant. In the event of such termination, Town shall pay Consultant an amount that bears the same ratio to the maximum contract price as the work delivered to the Town bears to completed services contemplated under this Agreement, unless such termination is made for cause, in which event, compensation, if any, shall be adjusted in light of the particular facts and circumstances involved in such termination.
- 4.4 Amendment. No modification, waiver, mutual termination, or amendment of this Agreement is effective unless made in writing and signed by the Town and the Consultant.
- 4.5 Disputes. In any dispute over any aspect of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, including costs of appeal.
- 4.6 Notices. Any notice required to be given shall be deemed to be duly and properly given if mailed postage prepaid, and addressed to:

Town of Los Gatos
Attn: Town Clerk
110 E. Main Street
Los Gatos, CA 95030

Chavan & Associates, LLP
Attn: Sheldon Chavan
15105 Concord Circle, Suite 130
Morgan Hill, CA 95037

or personally delivered to Consultant to such address or such other address as Consultant designates in writing to Town.

- 4.7 Order of Precedence. In the event of any conflict, contradiction, or ambiguity between the terms and conditions of this Agreement in respect of the Products or Services and any attachments to this Agreement, then the terms and conditions of this Agreement shall prevail over attachments or other writings.
- 4.8 Entire Agreement. This Agreement, including all Exhibits, constitutes the complete and exclusive statement of the Agreement between the Town and Consultant. No terms, conditions, understandings or agreements purporting to modify or vary this Agreement, unless hereafter made in writing and signed by the party to be bound, shall be binding on either party.

IN WITNESS WHEREOF, the Town and Consultant have executed this Agreement.

Town of Los Gatos by:

Consultant, by:

Laurel Prevetti, Town Manager

Recommended by:

Stephen Conway, Finance Director

Chavan & Associates, LLP

Approved as to Form:

Robert Schultz, Town Attorney

Attest:

Shelley Neis, MMC, CPMC
Town Clerk

**TECHNICAL PROPOSAL FOR CONDUCTING
THE ANNUAL INDEPENDENT AUDIT
OF THE
TOWN OF LOS GATOS**

Submitted October 8, 2021



Chavan & Associates, LLP
Certified Public Accountants
15105 Concord Circle, Suite 130
Morgan Hill, CA 95037
Phone: (650) 346-1329
Fax: (408) 872-4159
E-mail: sheldon@cnaillp.com
Contact: Sheldon Chavan, Partner

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Attachment G – Statement Regarding Insurance Coverage and Worker's Compensation Insurance Ack. Certificate

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Chavan and Associates, LLP
Certified Public Accountants

October 8, 2021

Gitta Ungvari, Finance and Budget Manager
Town of Los Gatos, Finance Department
110 E. Main Street
Los Gatos, CA 95030

We are pleased to have this opportunity to submit our proposal to provide auditing services for the Town of Los Gatos (the "Town"). Our understanding of the work outlined in the request for proposal is that we will audit the financial statements of the Town for fiscal years ending June 30, 2022, 2023 and 2024, with two option years.

Our audits will be performed in accordance with auditing standards generally accepted in the United States of America, the standards set forth for financial audits in the United States General Accounting Office's (GAO) *Government Auditing Standards*, the provisions of the Federal Single Audit Act of 1984 and the Single Audit Act Amendments of 1996; the U. S. Office of Management and Budget's (OMB) guidance for federal awards and agreements as provided in the Code of Federal Regulation (CFR) 2 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and relevant Governmental Accounting Standards Board (GASB) Statements. We will also apply the necessary procedures to prepare the reports as requested in the RFP, such as the ACFR, single audit reports, management letter, optional measure G AUP's, and preparation of the financial transactions and compensation report.

As a result of our audit, we will express an opinion on the fair presentation of the basic financial statements, as listed in the RFP, in accordance with GAAP. We will also issue a report on internal controls over financial reporting and on compliance with applicable laws and regulations in accordance with *Government Auditing Standards*.

Throughout the contract period, we will provide consultation on accounting and compliance issues and attend meetings to discuss the audit and management comments. **It is our commitment to the Town that we will complete the work within the agreed time frame and that we have the resources, time and personnel to dedicate to this engagement for the entirety of the contract.** We are confident Chavan & Associates LLP ("C&A") is the best-qualified firm to serve as your independent auditors. A brief list of reasons includes:

- We specialize in the audits of local governments and not for profit entities.
- Our partners have 37 years of combined experience auditing local governments.
- Our firm and key professionals are properly licensed to practice in the state of California.
- Our service will be dependable, reliable and timely.
- We will be sensitive to your workload. We understand you and your staff must keep up with your current work as well as deal with the audit.



Chavan and Associates, LLP

Certified Public Accountants

- Our staff and partners are available twelve months of the year to serve our audit clients. You are important to our firm and we promise a high level of involvement and enthusiasm at all levels.
- Our managing partner will be the lead for your audit. He will attend all conferences and meetings and will supervise the audit directly during each year and phase of the engagement. Our Managing Partner will be the person that prepares your Annual Comprehensive Report which will then be reviewed by our Associate Partner.
- We offer flexible staffing and scheduling, especially during COVID-19. We can send a full team onsite, work 100% remotely, or send a small team on site to minimize exposure. All of our team members are vaccinated and will follow your policies in regard to COVID-19.
- To improve the efficiency of the audit process, we use an online software, Engagement Organizer (EO), to provide a list of information and monitor the workflow during the audit. The link to EO is provided early during the planning process and includes items for both interim and year-end work, such that we can edit the list as needed moving forward. All documents can be uploaded here and notes, status updates and comments are done through EO. We also have a secure portal as an additional way to share information.

We are secure in our belief that our firm is the best qualified to meet your needs. Once you have examined our proposal and contacted our references, we feel you will agree.

Staffing for the audit will include one Engagement Partner, one Associate Partner, one Supervisor, one Senior Auditor, one Professional Staff and one Administrative Staff. The Engagement Partner, one Senior and two Staff will be assigned to visit your offices, as feasible with regard to COVID-19 circumstances. The Engagement Partner, Associate Partner, Supervisor and Senior Auditor will be available throughout the entire contract period.

Sheldon Chavan (15105 Concord Circle, Suite 130, Morgan Hill, CA, 95037, 650-346-1329, Sheldon@cnallp.com) is the partner authorized to sign and obligate the firm contractually and represent the firm. He is empowered to submit the bid and authorized to sign a contract. This proposal is a firm and irrevocable offer for 90 days.

We look forward to being of service to you.

Very truly yours,

Sheldon Chavan, C.P.A., Partner
Chavan & Associates, LLP

Section A

*Independence, License to Practice in California,
and Firm's Qualifications & Experience*

Section A

Independence, License to Practice in California, and Firm's Qualifications & Experience

Town of Los Gatos Proposal for Auditing Services

Independence

C&A is independent of the Town and all of its component units as defined by generally accepted auditing standards and the **U.S. General Accountability Office's Government Auditing Standards**. *In all matters relating to the audit work, the audit organization and individual auditors, whether government or public, should be free from personal and external impairments to independence, should be fiscally independent, and should maintain an independent attitude and appearance.*

C&A did not have any professional relationships involving the Town of Los Gatos, or any of its agencies and component units, for the past five (5) years that would cause a conflict of interest relative to the scope of services identified in the request for proposal. However, C&A did provide the Town's auditing services for the fiscal year ended June 30, 2016 and the 4 years prior. Providing audit services to an entity does not create a conflict of interest, nor compromise independence.

License to Practice in the State of California

C&A and all key professionals are properly licensed to practice as certified public accountants in the State of California and do not have any record of substandard work or unsatisfactory performance pending with the State Board of Accountancy. C&A is registered with the California State Board of Accountancy and our stat number is PAR 7294.

Contractor Identification and Introduction

Company Name: Chavan & Associates, LLP (C&A)
 Address: 15105 Concord Circle, Suite 130, Morgan Hill, CA 95037
 Office: 408-217-8749
 Fax: 408-872-4159
 E-mail: Sheldon@cnallp.com
 CA File Number: 202009218003
 FEIN: 27-0630496
 Authorized to Sign: Sheldon Chavan, Partner; Paul Pham, Partner

Our partners have performed audits under Governmental Auditing Standards, the Single Audit Act and the State Controller's Office Minimum Audit Requirements for a combined 37 years; Sheldon for 23 years and Paul Pham for 14 years. In August of 2009, we established C&A as a limited liability partnership. C&A is a local audit firm in San Jose, CA specializing in local government auditing and consulting. We have audited and prepared Annual Comprehensive Financial Reports (**ACFRs**) and basic financial statements as required by the Government Finance Officers Association (**GFOA**) and the Governmental Accounting Standards Board (**GASB**) for cities, fire districts, water districts, sanitation districts, JPAs and other types of special districts. Our partners have been reviewers of ACFRs for the **GFOA** and **CSMFO**. Most recently, C&A prepared **ACFRs** of City of Saratoga, the City of Oroville, City of Suisun, City of Pacific Grove, and City of Carmel-by-the Sea for the year ending June 30, 2020 (working on 2021). Our goal at C&A is to provide premium audit services at a

*Single Audit
Experience*

Section A
Independence, License to Practice in California,
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Town of Los Gatos Proposal for Auditing Services

reasonable fee. We believe that continuous partner involvement helps us achieve our goal, which is why our partners are constantly involved in every audit. Ultimately, minimizing on-the-job training allows us to focus exclusively on servicing our clients.

After starting the firm with only 9 clients in 2009, we currently have **100 government**, nonprofit and grant **clients**, 40 of which were required to have a single audit under uniform guidance in 2019-20. Our firm's experience includes numerous audits under state and federal compliance audit guides, including the Minimum Audit Requirements and Reporting Guidelines for Cities as required by the State Controller's Office. **What makes us unique from other audit firms** is that we eliminate "on-the-job" training through intensive in-house training, audit planning, and by having partners in the field throughout the entire engagement (not just "spot-checking"). The daily interaction with our Engagement Partner has been invaluable to our clients as it provides the opportunity for immediate feedback and the chance to ask questions related to accounting, account coding, grant requirements, ACFR requirements, budgeting, and much more. Auditing is the main focus of our practice and we are available to start as early as February 1st, however **our calendar is flexible**.

C&A is also a member of the **AICPA's Government Audit Quality Center** which promotes the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. GAQC is a voluntary membership center for CPA firms and state audit organizations that perform governmental audits.

Firm Size, Staff Size, Location and Staffing

We also have **twelve** professional, full-time staff in addition to our three partners and one administrative person that will be available to assist as needed throughout the engagement. Our engagement partners are directly involved with the audits. Our central office is located in Morgan Hill, CA. Staffing for the Town's audit will include the following professionals (audit experience):

Sheldon Chavan, CPA, Managing Partner (23 years)

Paul Pham, CPA, Partner (14 years)

Niru Machiraju, CPA, Supervisor (6 years)

Andrew Quintero, Senior Auditor (4 years)

Matthew Ojeda, Senior Auditor (6 years)

One of the professional staff could change from year to year. The Town will be notified of any staff changes prior to field work. The Engagement Partner, manager, and supervisor will be the same during each year of the engagement.

Section A
Independence, License to Practice in California,
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Town of Los Gatos Proposal for Auditing Services

Range of Services

The following summarizes the range of services we provide:

Entity Type	Number of Clients	Percent by Entity	Auditing	Management, Accounting & Other	Contractor Prequalification Services	Nonprofit Tax
Local Education Agencies	37	37%	89%	0%	14%	0%
Charter Schools	11	11%	100%	0%	0%	100%
Non-profit Organizations	17	17%	94%	0%	0%	82%
Cities and Towns	10	10%	90%	0%	0%	0%
Special Districts	17	17%	88%	12%	0%	0%
Privately Held	7	7%	71%	29%	0%	0%

	GAS Audit	GAGAS Audit	Single Audit	Bond Audit	EAAP Audit	Other
Percent by Service Type	91%	73%	40%	22%	41%	39%

Contract Terminations and Affirmation Concerning Substandard Audit Work

C&A and all assigned personnel do not have any record of substandard work, contract failures, outstanding claims, litigation, investigations, or other unsatisfactory performance issues against us or pending with the State Board of Accountancy or any other entity. In addition, we have not had any federal or state desk review or field reviews of our audits. C&A has no record of lost clients or contract failures.

Equal Opportunity Employer

C&A is an equal opportunity employer and is in compliance with the Civil Rights Act of 1964, the State Fair Employment Practice Act, and all applicable federal and state laws and regulations relating to equality.

Subcontractor

C&A will not be engaged with any subcontractors during this engagement.

Business Licenses

C&A will obtain and maintain a valid business license with throughout the duration of the contract, as applicable.

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Town of Los Gatos Proposal for Auditing Services

Insurance

C&A maintains the following insurance:

- Commercial General Liability Insurance (bodily injury and property damage) is \$4,000,000 per occurrence. The carrier is Hartford Insurance Company.
- Automobile Bodily Injury and Property damage liability insurance is \$2,000,000 per occurrence. The carrier is Hartford Insurance Company.
- Professional Liability Insurance carrier is Philadelphia Insurance Company. The per claim/aggregate limit of the liability is \$3,000,000.
- Workers Compensation Insurance carrier is Twin City Insurance Company. The per claim/aggregate limit of the liability is \$1,000,000.

Quality Control Review

We are enrolled in the AICPA quality control peer review program. Our peer review was performed in compliance with AICPA and GAO requirements and included a selection of government audit engagements. Our audits complied with auditing standards generally accepted in the United States of America and Generally Accepted Governmental Auditing Standards.

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Section B

Partner, Supervisory and Staff Qualifications and Resumes

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

We are aware of the need for continuity of personnel on the engagement and promise that the Engagement Partner will be directly involved in the audit **during each year** of the contract. We believe that extensive partner involvement provides continuity that could not be achieved in any other way. All staff committed in this proposal will be available for the entire June 30, 2022 audit and are available 12 months a year for questions, comments and implementation support. We understand that the Engagement Partners, managers and other supervisory staff and specialists may be changed only with the express prior written permission of the Town. Other audit personnel may be changed at our discretion as long as the replacements have substantially the same or better qualifications or experience. The Town retains the right to approve or reject replacements.

Sheldon Chavan, CPA

Managing Partner (Member CalCPA, AICPA, GFOA, CSMFO, GAQC)



Sheldon holds a B.S. in Accounting from San Jose State University. He began his career in public accounting in **1998** and has been auditing local governments and nonprofit organizations ever since. Sheldon is a CPA licensed in California and a member of AICPA, CalCPA, CSMFO, GAQC and GFOA. **He has also been a member of the GFOA Special Review Committee, with responsibility for reviewing ACFR's for award of the Certificate of Excellence in Financial Reporting.** Sheldon has prepared/reviewed ACFR's for the City of Berkeley, City of Sunnyvale, City of Pittsburg and many others over his career. Most recently, Sheldon prepared the ACFR of the City of Oroville, City of Saratoga and the City of Pacific Grove for the fiscal years ended June 30, 2020 (partial listing).

*ACFR
Preparation*

Sheldon has managed governmental audits his entire career, which includes the technical review of all work papers, staffing, scheduling, reporting, state compliance, federal compliance, state controllers reports and much more. He is responsible for running the audit in the field and providing accounting and auditing technical support to other partners and staff, primarily in the areas of compliance with auditing standards generally accepted in the United States of America, the standards set forth for financial audits in the United States General Accounting Office's (GAO) *Government Auditing Standards*, and the provisions of the Federal Single Audit Act and the United States Office of Management and Title 2 CFR Part 200 (Uniform Guidance). Sheldon also ensures that each staff has met the continuing professional education requirements under these standards and teaches several in-house seminars a year. He also administers our firm's quality control system as required by GAAS and Yellow Book standards. Sheldon has been performing audits under the Single Audit Act his entire career. Understanding the complexities of the various federal programs is one of his specialties. Over the years, Sheldon has audited major programs such as National School Lunch, Title II Education Technology, IDEA Special Education Local Assistance, Title I, Education Jobs Fund, Title IV Drug Free Schools, NCLB Title III, Title II Improving Teacher Quality, CDBG, Shelter Plus Care, Home Investment in Affordable Housing, HUD Section 8, Highway Planning and Construction, Medi-Cal, Low-income Low Energy Assistance, and many more.

Sheldon has extensive experience auditing government bond programs and can assist the Town with bond covenant calculations, bond compliance, tax filings, bond arbitrage issues and any other general

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

Item 4.

reporting requirements. In addition, we currently have multiple clients for which we complete special bond performance audits each year. We also provide contractor prequalification services for some clients who use restricted bond funds for modernization and infrastructure improvements.

Sheldon's recent continuing professional education:

Description of Program/Training
Yellow Book: Revised Government Auditing Standards
Government Auditing Standards - Yellow Book
Frequent Government and NPO Frauds: Misuse of Assets
Governmental and Nonprofit Annual Update: Federal Government Activities
Single Audit Lighting Round
Governmental Audit Quality Center Annual Update Webcast
Program-Specific Audits' plus 'Audit Tools and Guidance'
Applying Risk Assessment Standards: Understanding the Entity and Its Environment
GASB Updates
Governmental Accounting and Auditing Conference Webcast - 5121266C
Not-for-Profit Organizations Conference Webcast - 5121343C
Cases in NFP Acct. & Auditing: 'Financial Statement Requirements' plus 'Net Asset Classifications'
Governmental Auditing: Course Two Performance Audits
Governmental Auditing: Course Three Financial Audits, Attestation Engagements, and..
Governmental Accounting and Reporting
Ethics: AA&C LLP - Accounting Firm Practice Development Committee
State and Local Govt Planning Considerations
Cases in NFP Acct. & Auditing: Contributions
Field Work Documentation: Preparation, Maintenance, Types of Workpapers
School District Update Including LCFF and LCAP Compliance
School Districts Conference
Understanding the Changes to Yellow Book Independence
California Regulatory Review Course
Fraud Audit Techniques Using Excel
Applying the Uniform Guidance in Your Single Audits
Testing Compliance' plus 'Reporting Requirements
Fid Act Understanding impacts of GASB 84
Its Here! Fid Act Implementation Considerations
Accounting and Auditing Conference
Bernard Madoff Investment Securities' Auditor'
The Detection and Prevention of Fraud in Financial Statements
Governmental Auditing: Course One Fundamental Principles for Government Auditing

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

The following is a **partial list** of Sheldon's clients over the years:

Cities and Towns	Special Districts/JPA's	School Districts/COE's	Nonprofits and Other
City of Albany	Bay Area Water Services & Cons	Antelope Elementary	2006 Washington St.
City of Berkeley	Central Marin Sanitation Agency	Belmont Redwood Shores	Bay Area Special Education JPA
City of Carmel-by-the-Sea	East Bay Dischargers Authority	Burlingame	Bay Area Water Users Association
City of Del Rey Oaks	Fairfield-Suisan Sanitation	Cabrillo Unified	Black Adoption Placement
City of Marina	Half Moon Bay Fire Protection	Campbell Union	Boys and Girls Clubs of Sonoma
City of Novato	Hayward Area Parks and Rec	Cloverdale Unified	Center for Empowering Refugees
City of Oroville	Highland Recreation District	Cotati Rohnert Park	Children of Grace
City of Pacific Grove	Los Trancos Water District	Hillsborough City	Collective Roots
City of Pittsburg	Mckinney Water District	La Honda Pescadero	Credo High School
City of Point Arena	Menlo Park Fire Protection	Lakeside	Diagnostics for the Real World
City of Salinas	Midpen Regional Open Space	Las Lomas Elementary	Hidaya Foundation
City of San Rafael	Pleasant Hill Parks and Rec	Lassen View Elementary	Livebooks
City of Saratoga	Point Montara Fire District	Los Altos Elementary	Mashery
City of Scotts Valley	Santa Clara Regional Open Space	Luther Burbank	Mission Charter
City of Sonoma	Saratoga Cemetery District	Manton Joint Union	Mission Language and Vocational
City of South San Francisco	South Bayside System Authority	Menlo Park City	Morgan Hill Charter Foundation
City of Suisun City	South San Francisco Conf. Ctr.	Millbrae Elementary	Morgan Hill Charter School
City of Sunnyvale	Sausalito-Marin City Sanitation	Mineral	Nob Hill Home Owners Assoc.
City of Tracy	Tahoe Regional Planning Agency	Mountain View Whisman	O'Conner Water
Town of Los Gatos	The Cities Group	Orchard	One Million Lights
Town of Windsor	Valley of the Moon Fire	Pacifica	Orange County Charter School
	West Bay Sanitary District	Plum Valley	Pathway to Choices
	West County Wastewater District	Portola Valley Elementary	Pyramid Alternatives
	Westborough Water District	Red Bluff	Redwood City Education Foundation
	Woodside Fire Protection District	Salinas Union High	San Jose Conservation Charter
		San Bruno Park	San Jose Conservation Corps
		San Carlos Elementary	Singularity University
		San Mateo County Office	Sociometrics
		San Mateo Union High	South Tahoe Area Transit Authority
		Scotts Valley Unified	Stone Bridge Charter School
		Sequoia Union High	Woodside Atherton Authority
		Sonoma Valley Unified	Work2future Foundation
		Union School District	
		West County Agency (LEA)	
		Windsor Unified	
		Woodside Elementary	

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

Paul Pham, CPA

Associate Partner (AICPA, CalCPA)

Paul received his Bachelor of Science from Pacific University and hopes to pursue a Master of Accountancy in the near future. He is currently preparing to sit for the CPA exam and plans to complete his CPA certification by the end of the year. Paul has been working in public and private accounting since 2007 and has completed Fourteen governmental audit seasons. He has completed financial and compliance audits for the entities (including LEA's) listed below since 2007. Besides the standard control documentation and substantive testing required for GAAS audits, Paul has performed audits and prepared reports under OMB Subpart F and the Single Audit Act for most of the entities listed below. He has audited Federal grants from various agencies, including FEMA, HUD, FTA, the Department of Education (Title I, Special Education, Title II, Adult Ed) and much more.

Paul's recent continuing professional education:

Description of Program/Training	
GAGAS - Ethical Principles In Government Auditing	Government Auditing
GAGAS - Field Work and Reporting Standards	Major Changes to Auditing Standards
GAGAS - Field Work Standards For Financial Audits	Limiting Auditor Liability
GAGAS - General Field Work And Reporting Standards	Auditor Communications: Critical New Requirements
GAGAS - General Standards	School Districts Conference
GAGAS - Reporting Standards For Financial Audits	Governmental Accounting, Reporting, and Auditing Update
GAGAS - Use and Application of GAGAS	GASB Basic Financial Statements for State and Local Governments

The following is a partial list of Paul's clients over the years:

Cities and Towns	Special Districts	School Districts/COE's	Nonprofits and Charter Schools
City of Albany	Bay Area Water Services & Cons	Antelope Elementary	Bay Area Water Users Association
City of Berkeley	Central Marin Sanitation Agency	Burlingame	Black Adoption Placement
City of Carmel-by-the-Sea	Fairfield-Suisan Sanitation District	Cabrillo Unified	Boys and Girls Clubs of Sonoma
City of Del Rey Oaks	Menlo Park Fire Protection	Cotati Rohnert Park	Center for Empowering Refugees
City of Oroville	Midpen Regional Open Space	Hillsborough City	Children of Grace
City of Pacific Grove	Santa Clara Regional Open Space	La Honda Pescadero	Collective Roots
City of Point Arena	Saratoga Cemetery District	Las Lomitas Elementary	Credo High School
City of Rocklin	South Bayside System Authority	Lassen View Elementary	Hidaya Foundation
City of Saratoga	South San Francisco Conf. Ctr.	Los Altos Elementary	Livebooks
City of Sonoma	Suasalito-Marin City Sanitation District	Luther Burbank	Mashery
City of Suisun City	Tahoe Regional Planning Agency	Manton Joint Union	Mission Charter
City of Tracy	The Cities Group	Millbrae Elementary	Mission Language and Vocational School
Town of Los Gatos	Valley of the Moon Fire	Mineral	NASA AMES Exchange
	West Bay Sanitary District	Mountain View Whisman	Orange County Charter School
	Westborough Water District	Orchard	Pathway to Choices
		Pacifica	Pyramid Alternatives
		Plum Valley	Redwood City Education Foundation
		Portola Valley Elementary	San Jose Conservation Charter
		Red Bluff	San Jose Conservation Corps
		San Bruno Park	Sociometrics
		San Carlos Elementary	South Tahoe Area Transit Authority
		San Lorenzo Valley Unified	Stone Bridge Charter School
		San Mateo County Office	Work2future Foundation
		Scotts Valley Unfied	
		Sequoia Union High	
		Sonoma Valley Unified	
		Soquel Elementary	
		Union School District	
		West County Agency (LEA)	
		Windsor Unified	
		Woodside Elementary	

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

Niru Machiraju, CPA

Audit Supervisor (Member AICPA, CalCPA)

Niru received her Bachelor and Master of Science in Accounting from the University of Saint Thomas. She received her CPA license in 2020. Niru has been working in public accounting since 2015 and has completed six audit seasons. During the 2021 audit season, she completed the financial and compliance audits for the entities listed below and has additional experience in the manufacturing, distribution, and non-profit industries. Niru has audited over sixty local governments and nonprofits since 2015. Besides the standard control documentation and substantive testing required for GAAS audits, Niru has performed audits and prepared reports under GAGAS and Uniform Guidance. She has also audited Federal grants from various agencies, including HUD and the Department of Education (Title I, Special Education) and much more.

Mona's recent continuing professional education:

Description of Program/Training	
GAGAS - Ethical Principles In Government Auditing	Government Auditing
GAGAS - Field Work and Reporting Standards	Major Changes to Auditing Standards
GAGAS - Field Work Standards For Financial Audits	Limiting Auditor Liability
GAGAS - General Field Work And Reporting Standards	Auditor Communications: Critical New Requirements
GAGAS - General Standards	School Districts Conference
GAGAS - Reporting Standards For Financial Audits	Governmental Accounting, Reporting, and Auditing Update
GAGAS - Use and Application of GAGAS	GASB Basic Financial Statements for State and Local Governments

The following is a list of Mona's clients over the past year:

Cities and Towns	Special Districts	School Districts/COE's	Nonprofits and Other
City of Albany	Bay Area Water Services & Cons	Antelope Elementary	Bay Area Water Users Association
City of Carmel-by-the-Sea	Chico Area Recreation and Park District	Burlingame	Boys and Girls Clubs of Sonoma
City of Del Rey Oaks	Lake Canyon Community Services District	Cabrillo Unified	Center for Empowering Refugees
City of Oroville	Midpen Regional Open Space	Cotati Rohnert Park	Children of Grace
City of Pacific Grove	Ross Valley Sanitary District	Hillsborough City	Credo High School
City of Point Arena	Santa Clara Regional Open Space	Las Lomas Elementary	Hidaya Foundation
City of Rocklin	South San Francisco Conf. Ctr.	Lassen View Elementary	Mission Charter
City of Saratoga	Stege Sanitary District	Los Altos Elementary	NASA AMES Exchange
City of Marina	Suasalito-Marina City Sanitation District	Luther Burbank	Pathway to Choices
City of Suisun City	The Cities Group	Millbrae Elementary	Peninsula Conflict Resolution Center
	Valley of the Moon Fire	Orchard	Redwood City Education Foundation
	West Bay Sanitary District	Pacifica	Stone Bridge Charter School
	Westborough Water District	Red Bluff	Work2future Foundation
		San Bruno Park	Stone Bridge Charter School
		San Carlos Elementary	
		San Lorenzo Valley Unified	
		San Mateo County Office	
		Sequoia Union High	
		Sonoma Valley Unified	
		Soquel Elementary	
		Union School District	
		West County Agency (LEA)	
		Woodside Elementary	

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

Andrew Quintero

Senior Auditor

Andrew has successfully completed three seasons of governmental auditing. Andrew has performed tests of controls, substantive tests, state compliance testing and Federal compliance testing for various special districts and cities. He has been the Senior Auditor in-charge of clients such as the Town of Yountville, City of Suisun City, Fairfield-Suisun Sanitary District and many more. Besides the standard control documentation and substantive testing required for GAAS audits, Andrew has performed audits and prepared reports under OMB Subpart F and the Single Audit Act. He has audited Federal grants from various agencies, including Special Education, National School Lunch, Title I, Department of Education grants and others.

Andrew's recent continuing professional education:

Description of Program/Training	
GAGAS - Ethical Principles In Government Auditing	Government Auditing
GAGAS - Field Work and Reporting Standards	Major Changes to Auditing Standards
GAGAS - Field Work Standards For Financial Audits	Limiting Auditor Liability
GAGAS - General Field Work And Reporting Standards	Auditor Communications: Critical New Requirements
GAGAS - General Standards	School Districts Conference
GAGAS - Reporting Standards For Financial Audits	Governmental Accounting, Reporting, and Auditing Update
GAGAS - Use and Application of GAGAS	GASB Basic Financial Statements for State and Local Governments

The following is a list of Andrew's clients:

Cities and Towns	Special Districts	School Districts/COE's	Nonprofits and Other
City of Oroville	Bay Area Water Supply Conservation Agency	Jefferson Union High School District	Peninsula Conflict Resolution Center
City of Pacific Grove	Castro Valley Sanitary District	John Swett Unified School District	Redwood City Education Foundation
City of Point Arena	El Dorado Hills Community Services District	Las Lomitas School District	San Mateo County Exposition and Fair Association
City of Rocklin	Lake Canyon Community Services District	Lassen View Union Elementary School District	Sonoma Valley Hospital Foundation
City of Saratoga	Midpeninsula Regional Open Space District	Los Altos School District	The Moca Foundation
City of Suisun City	Purissima Hills Water District	Luther Burbank School District	The San Jose Library Foundation
Town of Yountville	Ross Valley Sanitary District	Menlo Park City School District	
	Santa Clara County Regional Open Space Auth	Millbrae School District	
	Sausalito-Marin City Sanitation District	Mountain View Whisman School District	
	Stege Sanitary District	Napa Valley Unified School District	
	Silicon Valley Clean Water	Orchard School District	
	South San Francisco Conference Center	Pacifica School District	
	The Cities' Group	Red Bluff Joint Union High School District	
	Valley of the Moon Fire District	Red Bluff Union Elementary School District	
	West Bay Sanitary District	Roseland Elementary School District	
	West Valley Sanitation District	San Bruno Park School District	
	Westborough Water District	San Carlos School District	
		San Lorenzo Valley Unified School District	
		San Mateo Foster City School District	
		San Rafael City Schools	
		Santa Rosa City Schools	
		Woodside Elementary	

Section B - Partner, Supervisory and Staff Qualifications and Resumes

Town of Los Gatos Proposal for Auditing Services

Matthew Ojeda

Senior Auditor

Matthew graduated from the San Jose State University, with a B.S. in Accounting. Starting in public accounting in 2014, he has successfully completed six seasons of governmental auditing. Matthew has performed tests of controls, substantive tests, state compliance testing and Federal compliance testing for various special districts and school districts. Besides the standard control documentation and substantive testing required for GAAS audits, Matthew has performed audits and prepared reports under OMB Subpart F and the Single Audit Act. He has audited Federal grants from various agencies, including Special Education, National School Lunch, Title I, Department of Education grants and others.

Matthew's recent continuing professional education:

Description of Program/Training	
GAGAS - Ethical Principles In Government Auditing	Government Auditing
GAGAS - Field Work and Reporting Standards	Major Changes to Auditing Standards
GAGAS - Field Work Standards For Financial Audits	Limiting Auditor Liability
GAGAS - General Field Work And Reporting Standards	Auditor Communications: Critical New Requirements
GAGAS - General Standards	School Districts Conference
GAGAS - Reporting Standards For Financial Audits	Governmental Accounting, Reporting, and Auditing Update
GAGAS - Use and Application of GAGAS	GASB Basic Financial Statements for State and Local Governments

The following is a list of Matthew's clients over the years:

Cities and Towns	Special Districts	School Districts/COE's	Nonprofits and Other
City of Del Rey Oaks	Castro Valley Sanitary District	Antelope Elementary	Boys and Girls Club of Central Sonoma County
City of Oroville	Central Marin Sanitation Agency	Burlingame	Boys and Girls Clubs of Sonoma Valley
City of Pacific Grove	Fairfield-Suisan Sanitation District	Cabrillo Unified	Credo High School
City of Point Arena	Midpen Regional Open Space Auth	Cotati Rohnert Park	Diagnostics for the Real World
City of Rocklin	Oro Loma Sanitary District	Golden Valley Unified	Mission Language and Vocational School
City of Saratoga	Santa Clara Regional Open Space Auth	Hillsborough City	Morgan Hill Charter Foundation
City of Suisun City	Saratoga Cemetery District	Las Lomitas Elementary	Morgan Hill Charter School
Town of Los Gatos	Sausalito-Marin City Sanitation District	Lassen View Elementary	Orange County Charter School
	Silicon Valley Clean Water	Los Altos Elementary	Organic Farming Research Foundation
	The Cities Group	Luther Burbank	Prohealth Homecare
	West Valley Sanitation District	Millbrae Elementary	Redwood City Education Foundation
		Mission Preparatory School	San Jose Conservation Charter
		Mountain View Whisman	San Jose Conservation Corps
		Napa Valley Unified	San Mateo County Exposition Fair Association
		Orchard	Sociometrics
		Pacifica	Work2future Foundation
		Palo Alto Unified	
		Portola Valley Elementary	
		Red Bluff	
		Roseland Charter	
		Roseland Elementary	
		San Bruno Park	
		San Carlos Elementary	
		San Lorenzo Valley Unified	
		San Mateo County Office	
		San Mateo Foster City	
		Santa Rosa City School	
		Scotts Valley Unfied	
		Sequoia Union High	
		Sonoma Valley Unified	
		Soquel Elementary	
		South San Francisco Unified	
		Union School District	
		Woodside Elementary	

Professional Education and Training

Our professionals complete 80 hours of continuing professional education every two years in auditing and accounting which includes at least 80 hours of governmental auditing and accounting training specific to local governments. We use a combination of in-house seminars, self-study and outside seminars sponsored by AICPA, GFOA, the California Education Foundation and other recognized groups.

All assigned staff meet the educational requirements for Governmental engagements as specified by the California Board of Accountancy, Federal General Accounting Office, Governmental Accounting Standards Board, and the AICPA as appropriate.

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Section C

Similar Engagements

Section C - Similar Engagements

Town of Los Gatos Proposal for Auditing Services

Client References and Similar Engagements

The following projects were completed by C&A in 2019-20 and are ongoing in 2020-21:

Entity Name	City of Del Rey Oaks	City of Saratoga	City of Carmel
Contact Person	Roberto Moreno	Dennis Jaw	Robin Scattini
Title	Chief Business Officer	Finance Manager	Finance Director
Address	650 Canyon Del Rey Road, Del Rey Oaks, CA 93940	13777 Fruitvale Ave, Saratoga, CA 95070	PO Box CC, Carmel-by-the Sea, CA 93921
Phone	831-394-8511	408-868-1227	831-620-2019
E-mail	RobertoM@GovernmentFinancialSolutionsInc.com	djaw@saratoga.ca.us	rscattini@ci.carmel.ca.us
Audit Period	6/30/2021	6/30/2021	6/30/2021
Hours	260	360	320
Fiscal Years Audited	3	5	3
Partner	Sheldon Chavan	Sheldon Chavan	Sheldon Chavan
GFOA Award	No	Yes	Yes
Entity Type	City	City	City
Finance Dept Staff	3	6	3
Scope of Work	Report Prep GAGAS Audit SAS 114 Report Management Letter GANN Limit AUP Measure S Audit Year Round Consultation	CAFR Review GAGAS Audit Single Audit/OMB SAS 114 Report Management Letter TDA Audit GANN Limit AUP Year Round Consultation	CAFR Prep Single Audit/OMB SAS 114 Report Management Letter GANN Limit AUP Measure S Audit SCO FTR/Streets Year Round Consultation

Entity Name	City of Rocklin	City of Suisun City	City of Pacific Grove
Contact Person	Angela Doyle	Elizabeth Luna	Tori Hannah
Title	Senior Accountant	Accounting Services Manager	Administrative Services Director
Address	3970 Rocklin Road, Rocklin, CA 95677	701 Civic Center Blvd., Suisun City, CA 94533	300 Forest Ave, Pacific Grove, CA 93950
Phone	916-625-5033	707-421-3215	831-648-3103
E-mail	angela.doyle@rocklin.ca.us	eluna@suisun.com	thannah@cityofpacificgrove.org
Audit Period	6/30/2021	6/30/2021	6/30/2021
Hours	340	400	340
Fiscal Years Audited	4	5	5
Partner	Sheldon Chavan	Sheldon Chavan	Sheldon Chavan
GFOA Award	No	Yes	Yes
Entity Type	City	City	City
General Fund Budget	\$10,000,000	\$36,800,000	\$17,500,000
Finance Dept Staff	2	10	6
Scope of Work	ACFR GAGAS Audit Single Audit/OMB SAS 114 Report Management Letter GANN Limit AUP PFA Audit Successor Agency Audit Year Round Consultation	ACFR GAGAS Audit Single Audit/OMB SAS 114 Report Management Letter GANN Limit AUP TDA Audit Successor Agency Audit Year Round Consultation	ACFR GAGAS Audit Single Audit/OMB GANN Limit AUP SAS 114 Report Management Letter Measure S Audit Year Round Consultation

Section D

Specific Audit Approach

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

Item 4.

The C&A audit approach begins with an entrance conference between Sheldon Chavan and management to gather information for risk assessment and audit planning. Upon the conclusion of the entrance conference, Sheldon will plan and schedule C&A's **three phase audit** approach and prepare a list of items to be provided for Phase I of the audit. Significant aspects of each phase are outlined below as augmented based on our review of the Town's financial reports, RFP, Budget documents, and Council and Finance Commission agendas and minutes:

Three Phase Audit Approach

Phase I - Planning and Risk Assessment

This phase is designed to evaluate your operating and accounting procedures and will provide the basis for a significant portion of our letter to management. The results of our work during this phase will determine our audit approach for significant accounts and compliance. We plan to begin this phase by meeting with management and the Finance Commission to plan the audit and discuss any significant issues with the proposed audit plan and timeline.

At least six weeks prior to the beginning of this phase, we intend to provide the Town with a link to Engagement Organizer ("EO") detailing the information and timing that will be needed in order to facilitate the completion of the audit in a timely manner. Having all items in EO uploaded prior to the beginning of the audit field work will allow us to complete the audit within the allotted time frame or earlier. We will also begin the testing of federal compliance for major programs during this phase, if applicable. The EO will include Phase I, II, and III items once uploaded and will be updated during the year. The Town will be able to leave notes on each item, upload attachments and message our team through EO.

We plan the audit and obtain our **understanding of the internal control structure**, control environment, and accounting system through:

Internal Controls Documentation

- Inquiries of appropriate management and staff personnel.
- Inspection of the Town's documents, records, budget and related materials, organizational charts, manuals and programs.
- Observation of the Town's activities and operations to corroborate the results of inquiries.
- Testing of the controls to determine they are operating as planned.
- Performance of preliminary analytical review on interim financials. The analytical review entails comparing similar information for the same time frame from the prior year and also comparing current year-to-date information to the budget to determine areas that may need additional attention during Phase II.
- Review and evaluation of the Town's financial and other management **information system controls** and procedures. Our staff has gained invaluable experience with systems such as HTE, Multiple Operation Management (MOM), Springbrook, Pentamotion, QuickBooks, Digital Schools, **SunGuard**, Escape, FUND\$, CECC, SACS, Financial 2000, SASi and many others. It is our goal to maximize the usage of your computer system during the audit.

This phase constitutes approximately 42% of all non-clerical hours of the engagement and may be combined with Phase II if desired. At the completion of Phase I, an exit conference will be held to discuss findings and recommendations and prepare for Phase II.

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

Phase II - Substantive Audit Procedures and Compliance

This phase is designed to complete our substantive and compliance audit procedures on the accounts of the Town. The approach for Phase II will be based on the results of Phase I. Audit programs will be tailored for your Town's needs. This work will begin after the closing of your books.

Sample size and selection is based on our assessment of risk and planned or actual deviations. A typical **sample size will be 25 to 60** items and be randomly selected. Our sampling methods vary depending

Sampling Methods

on the type of tests we perform. Sample selection for compliance work will be based on the respective compliance and audit guides, KC, our experience and judgment, and other various sources. We use Knowledge Coach (KC) audit programs by Commerce Clearing House (CCH) to assist in our risk determination and sampling selection. We also use **ProSystems fx Engagement** paperless audit, Microsoft Excel, and Microsoft Word on laptops to perform the audit. Generally, we prefer

information provided in electronic format, however we use production scanners in the office and portable scanners in the field for information that is unavailable in electronic format.

Analytical procedures during Phase II involve comparing current data to prior year and budget data, calculating dollar and percentage variances and investigating differences. We also analyze trends and relationships of the various financial statement components and ratios.

Analytical Procedures & Laws and Regulations

Laws and regulations subject to audit will be determined based on inquiry and familiarity we gain with the Town and with state and federal compliance requirements. We also attend seminars and webinars related to state and federal regulations to keep abreast of new requirements.

Phase II will take approximately 42% of the engagement hours. At this time, an exit conference will be held to discuss findings and recommendations, the status of new accounting principles and reporting requirements, and prepare for Phase III.

Phase III - Financial Statement Preparation and Review

This phase consists of preparing or assisting with the preparation of your financial statements, **as required in the RFP**, in conformity with accounting principles generally accepted in the United States of America. We will also prepare all other financial and compliance reports required of us as listed on the RFP. The required reports and management letter will be submitted to management as noted in the timeline in the RFP, unless otherwise agreed. We will also ensure that new GASB pronouncements identified in phase I and II have been appropriately accounted for and disclosed in the financial statements and that the impact of these statements is sufficiently presented in our audit reports. The most efficient way to ensure we meet the reporting deadlines is to have the audited trial balance and final adjustment completed by the last day of field work. This, in combination of the automation provided by Prosystems engagement will reduce the lag time from the completion of field work and report issuance.

Our reporting process is automated through our audit software. Once we obtain the Town's trial balance in electronic format, we can import that into our system, which will automatically code and update all financial statements and most note disclosures in the financial statements and notes. We can

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

also auto link tables, charts and other documents the Town would like to generate. **All of this information can be shared through our online secure lockbox/filesshare website at www.cnallp.com** and through our **online engagement portal** which is linked to our list of items. All agreed upon adjustments will be linked in our audit software. This greatly reduces the report preparation time and involvement of Town staff and creates more opportunity for review of information systems, internal controls and management recommendations. At the end of this phase we will provide a summary of audit adjustments and uncorrected misstatements (passed adjustments).

We anticipate that Phase III will comprise approximately 16% of the engagement hours, including the majority of the clerical hours. The timing of each phase of the audit is estimated based on the assumption that the Town will meet their close schedule and responsibilities as noted in the request for proposal.

Please note that we generally hold entrance conferences at the beginning of Phase I and II and exit conferences at the end of Phase I, II and III. However, we are available to meet with the Town at any time.

Compliance and Program Specific Auditing

Included in all phases are specific procedures required to complete individual compliance items. Analytic and sampling procedures generally follow those described in the preceding phase, but are modified, when needed, to meet specific guidelines of the programs audited.

Recommendations for Improved Operations

We feel we have accumulated valuable knowledge in accounting and auditing which has allowed us to offer a wide range of specific recommendations to increase the efficiency and effectiveness of our audit clients. With our background, we can provide services that may be very beneficial to you presently and in the future. As our client, you can look to us for informed support **year-round in all areas of interest or concern**. In the course of our engagement with the Town, we will provide prompt, knowledgeable answers to your questions regarding all aspects of accounting, finance, management, and operations. It is our policy to discuss discrepancies and recommendations with Town staff directly involved and then with management, as necessary. If an item warrants inclusion in the report as a finding, we will obtain management's responses to each finding. All responses will be reviewed with management and relevant committees before they are presented to the Town Council.

Irregularities and Illegal Acts

We will make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which we become aware to the Audit Committee (or similar) and Attorney.

Control Risk Assessment

As part of our audit approach, we use KC forms, narratives, questionnaires and summary schedules to gain an understanding of the control environment and assess its overall effectiveness. This helps us identify the types of potential misstatements and factors that affect the risk of material misstatement and their impact on the audit plan.

Analytical Procedures

Analytical procedures are used at three points of time during our audit; planning, substantive testing, and final review of the completed financial statements. Analytical procedures are used to obtain

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

knowledge of conditions and events, to indicate the presence of possible misstatements, to provide substantive evidence of balances and to assess the financial condition of the Town.

As we obtain knowledge about the Town, we will be able to direct our attention to areas requiring greater audit emphasis as well as provide substantive evidence in support of recorded account balances.

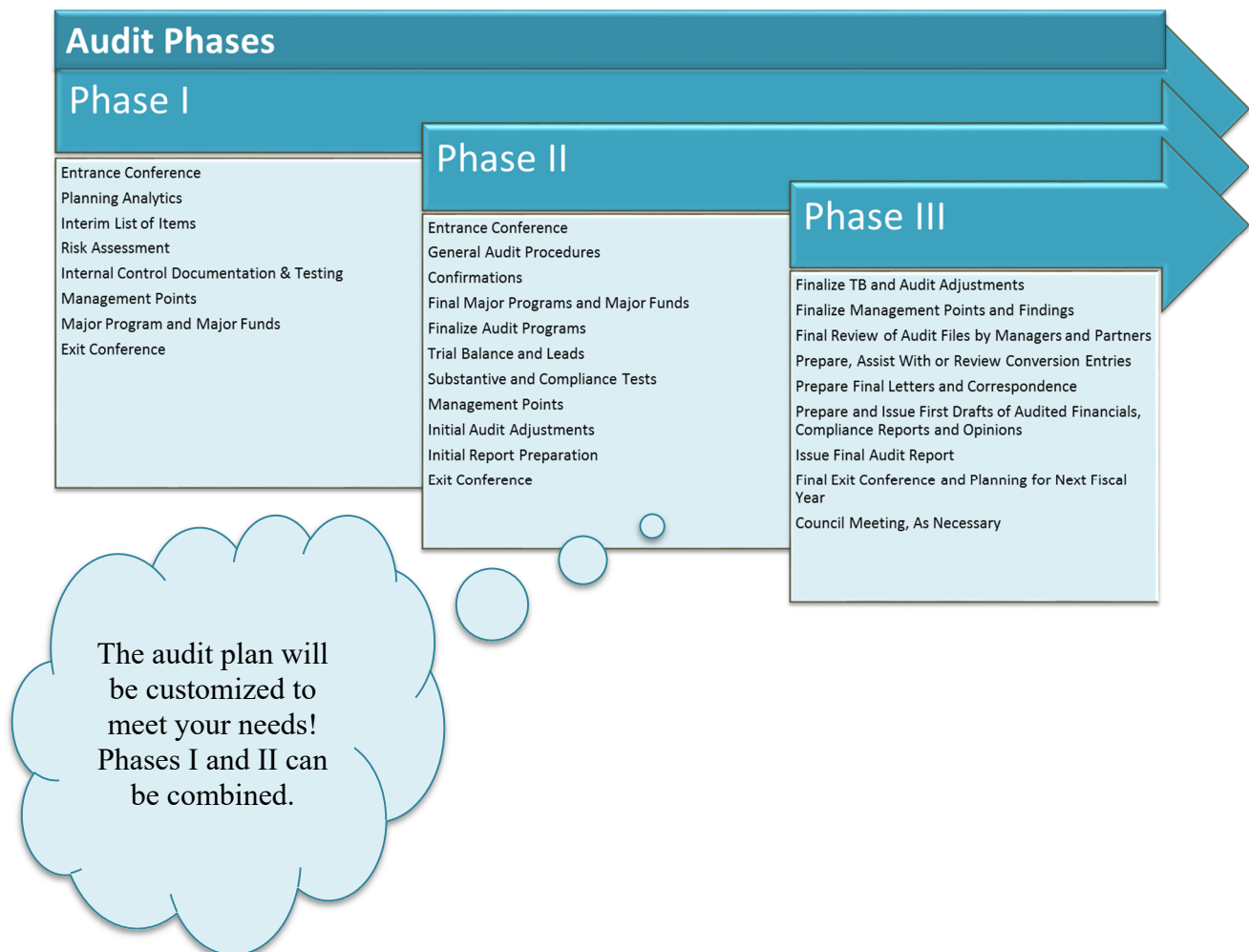
Identification of Potential Audit Problems

Each year we approach the audit objectively and use a risk-based approach to anticipate any potential audit problems. If anything were to come to our attention during the course of the audit, it would be reported to the proper management level depending on the nature of the problem and as noted in the RFP.

Resources Available for Standards Interpretations

In addition to the items published by GFOA, AICPA, FASB, and GASB, we use RIA checkpoint and Thompsons as our main online reference material. As our client, the Town will have access to all our resources.

Summary of Audit Phases (Generalized, Not All-Inclusive)



Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

Summary of Team Assignments (Generalized, All-Inclusive)

Team Assignments

Phase I

Engagement Partner	Associate Partner	Senior	Staff	Admin
•Overall Review •Audit Planning and Risk Assessment •Entrance/Exit Conferences •Team meetings •Team Assignments •Quality Control	•Team Planning •Audit Binder Review •Working Paper Review •Management Point Review •Concurring Partner Review •Quality Control	•Audit Planning •Audit Binder Preparation •Major Fund and Major Program Determination •Audit Programs •Internal Control Doc. and Testing •Compliance Control Doc. and Testing	•Internal Control Doc. and Testing •Significant Transaction Areas •Dept. and Desk Level Controls •Compliance Control Doc. and Testing •Single Audit •TDA/MTC •Team Planning •Team Meetings	•Correspondence •Staff Support •Information Technology Support

Phase II

Engagement Partner	Associate Partner	Senior	Staff	Admin
•Overall Review •Review Audit Plan •Review Audit Programs •Update Team Assignments •Review Major Fund/Major Program Det. •Analytics •Review Working papers, Management Points and AJE's •Guide Audit Team •Entrance and Exit Conferences	•Team Planning •Audit Binder Review •Working Paper Review •Management Point Review •Concurring Partner Review •Quality Control	•Planning Update •Audit Binder Update •Finalize Major Program and Major Fund Determination. •Update and Finalize Audit Programs •Substantive Testing for Significant Accounts •Compliance Testing •Guide and Monitor Staff •Confirmations	•Substantive Testing •Significant Transaction Areas (Cash, Investments, Capital Assets, Long-term Debt, Pensions, Fund Balance, Net Position, Revenue, Expenditures) •Compliance Testing •Single Audit (Uniform Guidance) •TDA/MTC •Team Planning •Team Meetings	•Correspondence •Staff Support •Information Technology Support •Confirmations

Phase III

Engagement Partner	Associate Partner	Senior	Staff	Admin
•Final Review & Sign-off •Finalize Audit Plan •Finalize Audit Programs •Final Analytics •Prepare CAFR and Review Supporting Schedules •Review all Other Reports •Review and Finalize all Required Management Letters and Correspondence •Exit Conferences, Committee and Board Presentations	•Final Audit Binder Review •Final Working Paper Review •Final Management Point Review •Concurring Partner Review •Quality Control	•Finalize Audit Binder •Review Staff Working papers •Review Staff Management Points •Review Reports •Prepare Assigned Reports •Review CAFR Prepared by Engagement Partner	•Finalize Working Papers •Finalize Management Points •Prepare Assigned Reports •Assist with Report Review	•Correspondence •Staff Support •Information Technology Support •Report Binding and Delivery

The above chart provides a general overview of typical team assignments.

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Town of Los Gatos Proposal for Auditing Services

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Summary of Roles and Responsibilities (Not All-Inclusive)

General Roles and Responsibilities

Phase I

C&A LLP

The Engagement Partner will be responsible the overall planning, scheduling, review and coordination of Phase I.

The Associate Partner will provide fieldwork support when necessary and help maintain quality control.

The Senior/Manager will review workpapers, letters and reports and help maintain quality control.

The Senior Professional Staff will focus on the more complex areas of controls and support the Engagement Partner.

The Professional Staff will focus on detail of tests of controls over financial, federal compliance and other areas as needed.

Town' Staff

During this phase, your staff will be expected to provide a preliminary balance sheet and revenues and expenditures by fund, policies and procedures for key controls, a preliminary summary of federal grants, the original budget, contact information for departments and confirmations, and generally provide the information included in the lists of items for interim. We also plan to interview various staff to document and test controls. Testing controls will include sampling for significant areas. Our documentation of internal controls will be done in person and via interviews, unless otherwise requested.

Phase II

C&A LLP

The Engagement Partner's focus will include finalizing the audit programs, substantive analytics, and overseeing the audit.

The Associate Partner will provide fieldwork support when necessary and help maintain quality control.

The Senior/Manager will review workpapers, letters and reports and help maintain quality control.

The Senior Professional Staff will focus on substantive tests for significant accounts.

The Professional Staff will focus on substantive tests for significant accounts, federal compliance, and other required audits.

Town' Staff

During this Phase, your staff will be expected to provide the final balance sheet and revenue expenditures by fund and accounts from the GL. We will prepare leadsheets in our audit software, but the organization should have adequate support for significant accounts. We will perform a review of journal entries at this time and again before the final reports are issued, thus we will need access to journal entries. We will request reports for major grant programs, certain other programs, and business type activities. We will also perform a number of analytical procedures which will require staff responses, and this will be done in person in most cases.

Phase III

C&ALLP

The Engagement Partner's focus will be on overall reporting, guidance and working with District staff to complete the reporting phase.

The Associate Partner will assist in report preparation and client communication.

The Senior/Manager will review workpapers, letters and reports, and help maintain quality control.

The Senior Professional Staff will focus on report preparation and assisting the engagement partner and guiding our staff.

The Professional Staff will act in a support role during this phase.

Authoritie's Staff

We expect the Town' staff to review and respond to all reports required to complete the audit. We anticipate the Town will provide or assist us in gathering information needed for the ACFR and note disclosures. Management will be required to sign a representation letter which will be provided by us. Management will be required to provide responses to any and all recommendations and findings included in the management letter. Report preparation will be completed as outlined in the RFP, unless otherwise agreed prior to Phase III of the audit.

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Town of Los Gatos Proposal for Auditing Services

Summary of Staff Hours by Phase

Level of Staff	Phases			Total Hours
	I	II	III	
Engagement Partner	32	32	24	88
Associate Partner	4	4	4	12
Supervisor	32	32	8	72
Senior Staff	36	36	8	80
Professional Staff	42	42	8	92
Administrative Staff	2	2	4	8
Totals	148	148	56	352

Summary Timeline

Segment	Estimated	Phase
Entrance Conference	March 1, 2022	I
Audit Planning C&A's Office	March 1, 2022	I
List of Items Required by Client	March 15, 2022	I
Interim Testing	May 2, 2022	I
Interim Exit Conference and Completion	May 9, 2022	I
Preparation and Mailing of Confirmation Letters to 3rd Parties	July 1, 2022	II
Year-end Field Work Planning Meeting	August 1, 2022	II
Update List of Items Required by Client - Final (Initial Done at Interim)	August 1, 2022	II
Year-end Field Work and Compliance Testing	September 26, 2022	II
Exit Conference	September 30, 2022	II
Progress List of Management Point and Recommendations	October 7, 2022	II
Final List of Management Point and Recommendations	October 21, 2022	II/III
Audit Adjustments	October 21, 2022	II/III
Draft Reports, Financials, Management Letters	November 4, 2022	III
Final Reports, Financials, Management Letters	November 25, 2022	III
Council, Commission & Public Presentations	As Needed	III

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

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Audit Scope

We understand the scope of our services to be as follows:

- A. Audit and issue a report on the fair presentation of the Basic Financial Statements of the Town of Los Gatos in accordance with generally accepted auditing standards; the standards set forth for financial audits in the U.S. General Accountability Office's most recent Government Auditing Standards; the provisions of the federal Single Audit Act of 1984 and the Single Audit Act Amendments of 1996; OMB guidance for federal awards and agreements as provided in the Code of Federal Regulation (CFR) 2 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; and relevant GASB Statements. The audit shall be conducted for the purpose of forming an opinion on the Town's Basic Financial Statements taken as a whole, and to determine whether the operations were conducted in accordance with legal and regulatory requirements.
- B. Prepare, with limited involvement of the Town, the Comprehensive Annual Financial Report (Annual Financial Report) for the Town of Los Gatos and the activities of the private-purpose trust funds of the Successor Agency to the Los Gatos Redevelopment Agency. The Town shall retain ultimate responsibility for the approval and dissemination of the Annual Financial Report; however, C&A shall prepare the draft and complete related tasks, including but not limited to the following:
 - a. Evaluate the document against the Annual Financial Report reporting checklists of the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) to ensure eligibility for their respective Annual Financial Report award programs. It is the Town's intention to continue to receive these awards annually and expect that the Annual Financial Report will meet their requirements.
 - b. Verification of implementation of recommended improvements from prior year submissions to GFOA under the Annual Financial Report award program.
 - c. Proofreading and overall review, including layout, design, and making suggested improvements to the document.
 - d. Printing and binding of the final document.
 - e. Assisting with the written responses to the recommendations and questions posed by the Finance Commission prior to the Annual Financial Report's consideration by Town Council..
- C. In the required reports on internal controls, C&A shall communicate any reportable conditions found during the audits. A reportable condition is defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions that are also material weaknesses shall be identified as such in the report. Non-reportable conditions discovered shall be reported in a separate letter to management, which shall be referred to in the reports on internal controls. The reports on compliance shall include all instances of noncompliance.
- D. C&A will prepare a management letter, if applicable, reporting material weaknesses and significant control deficiencies. Prior to completion of the management letter, C&A shall meet with the Town Manager, Director of Finance, the Finance and Budget Manager, the Town Finance Commission, and

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

other Town staff as assigned to review findings and recommendations in detail before the final letter and Town responses are published.

- E. Optional Services
 - a. Development of Agreed Upon Procedures for the review and reporting of Measure G district sales tax revenues and expenditures.
 - b. Preparation of the Cities Financial Transactions and Compensation Report (State Controller's Report).
- F. Deliverables
 - a. One electronic file, in PDF format, and 25 bound copies, of the Annual Financial Report, including the necessary audit opinion letters.
 - b. One electronic file, in PDF format, and 25 bound copies, of the federal single audit report, if applicable, including the necessary audit opinion letters.
 - c. One electronic file, in PDF format, and 25 bound copies, of the management letter, if applicable.
 - d. One electronic file, in PDF format, and 25 bound copies, of the required Appropriations Limit Review reporting upon agreed-upon procedures on compliance with Proposition 111 for the year audited.
- G. Irregularities and Illegal Acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the following parties:
 - a. Los Gatos Town Council
 - b. Town Manager
 - c. Town Attorney
- H. We will provide consultation regarding accounting and compliance issues found throughout the contract period.
- I. We will attend Town Council meetings as requested throughout the contract period.
- J. A partner will be available to present the audit report to the Finance Commission and/or Council.
- K. All working papers and reports will be retained, at the auditor's expense, for a minimum of seven (7) years, unless the firm is notified in writing by the Town of the need to extend the retention period. C&A will make such working papers available, on request, to the following parties or their designees:
 - a. Town of Los Gatos
 - b. Parties designated by the Town, or federal or state governments, as part of an audit quality review process
 - c. Auditors of entities of which the Town is a subrecipient of grant funds
- L. C&A shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

Section E

Discussion of Relevant Accounting Issues

Section E - Discussion of Relevant Accounting Issues

Town of Los Gatos Proposal for Auditing Services

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Discussion of Relevant Accounting Issues

The Governmental Accounting Standards Board (GASB) continues to issue new statements in an effort to make financial information accounted for, and reported by, local governments more reliable. Often, the statements issued by GASB are confusing and difficult to apply. Therefore, it is our goal to keep our clients informed about upcoming standards and how they may affect their future. Our technical expertise and guidance in the implementation and interpretation of GASB statements will be available throughout the year. We offer inclusive consultation throughout the term of our contract. We also offer in-house training via internally developed seminars. For example, we have given presentations and training on compliance requirements for specific grants and the key controls needed to meet those requirements. Generally, these sessions provide about 8 hours of training, in addition to year-round consultation, and are included in the audit.

In addition, we will send periodic e-mails and newsletters when significant new accounting pronouncements are issued. The most important factors we have discussed include: The potential impact of new pronouncements, the due date and the changes in the reporting presentation, planning the Town should do to ensure it is prepared and the assistance we can provide to ensure compliance. We also prepare template note disclosures and update our template financial statements to meet the reporting standards. In relation to GASB 84, we provided clients with an analysis workbook that is a Q&A document to help them identify component units and how to report pensions, postemployment plans and custodial funds.

The following is a summary of upcoming accounting pronouncements that could have an impact on the Town:

1. Disclosure Framework:

The objective of this project is to develop concepts related to a framework for the development and evaluation of notes to financial statements for the purpose of improving the effectiveness of note disclosures in government financial reports. The framework will establish criteria for the Board to use in evaluating potential note disclosure requirements during future standards-setting activities and in reexamining existing note disclosure requirements. Those concepts also will provide governments a basis for considering the essentiality of information items for which the GASB does not specifically provide authoritative disclosure guidance.

Update: The Concepts Statement, Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements; Notes to Financial Statements, has taken a turn from the original timeline. There were specific discussions related to the concept of essentiality. As the concept of essentiality is significant to the Concepts Statement, it would have a broad impact to users of the financial statements and Governmental Accounting Standards Advisory Council indicated some concern over the significance of the change in the proposed definition; the Board voted to re-expose the proposed concepts in an exposure draft. GASB anticipates the comment period on this revised exposure draft of this Concepts Statement to open in July 2021.

2. Financial Reporting Model:

Reexamination of Statements Nos. 34, 35, 37, 41 and 46 and Interpretation 6: The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local

Section E - Discussion of Relevant Accounting Issues

Town of Los Gatos Proposal for Auditing Services

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Governments, and other reporting model-related pronouncements (Statements No. 35, Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities, No. 37, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus, No. 41, Budgetary Comparison Schedules—Perspective Differences, and No. 46, Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government’s accounting and to address certain application issues, based upon the results of the pre-agenda research on the financial reporting model.

Update: After public hearings were held in March and April 2021, GASB is currently redeliberating the drafted Statement, Financial Reporting Model Improvements. The agenda on this Concepts Statement extends into 2022 with a draft expected in first quarter 2022.

3. Revenue and Expense Recognition:

The overall objective of this project is to develop a comprehensive, principles-based model that would establish categorization, recognition and measurement guidance applicable to a wide range of revenue and expense transactions. Achieving that objective will include: (1) development of guidance applicable to topics for which existing guidance is limited, (2) improvement of existing guidance that has been identified as challenging to apply, (3) consideration of a performance obligation approach to the GASB’s authoritative literature and (4) assessment of existing and proposed guidance based on the conceptual framework. The expected outcome of the project is enhanced quality of information that users rely upon in making decisions and assessing accountability.

On the heels of the Financial Accounting Standards Boards (FASB) roll out of the revenue recognition guidance, GASB has taken up a similar project reviewing the guidance for recognition of revenues and expenses. Deliberations are anticipated to be ongoing through November 2022. While this project is not anticipated for completion until 2025, the broad application and impact will make it one to keep up to date with its progress.

4. GASB Statement No. 87 – Leases

Most organizations have transitioned their immediate focus on the implementation of GASB 87 as it will become effective for most fiscal 2022 year-end financial statements. GASB 87 defines a lease as a contract that conveys control of the right to use another entity’s non-financial asset for a period of greater than one year. Purchased power agreements are exempt from this treatment (unlike the Financial Accounting Standards Board lease standard). GASB 87 is effective for fiscal years beginning after June 15, 2021.

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Section F

Additional Information

Section F - Additional Information

Town of Los Gatos Proposal for Auditing Services

Current Client List

Cities/Towns	CAFR	GAS	GAGAS	Single Audit	EAAP	Other	Bond (P39)
City of Albany	✓	✓	✓			✓	
City of Del Rey Oaks		✓	✓				
City of Lincoln	✓					✓	
City of Marina	✓	✓	✓	✓		✓	
City of Oroville	✓	✓	✓	✓			
City of Pacific Grove	✓	✓	✓	✓			
City of Point Arena		✓	✓				
City of Rocklin	✓	✓	✓	✓			
City of Saratoga	✓	✓	✓	✓			
City of Suisun City	✓	✓	✓	✓		✓	
Town of Yountville	✓	✓	✓			✓	

Local Education Agencies	CAFR	GAS	GAGAS	Single Audit	EAAP	Other	Bond (P39)
Antelope School District		✓	✓		✓		
Berkeley Unified School District						✓	
Burlingame School District		✓	✓	✓	✓		✓
Cabrillo Unified School District		✓	✓	✓	✓		✓
Corning Union High School District		✓	✓	✓			
Cotati-Rohnert Park Unified School District		✓	✓	✓	✓		✓
Cottonwood Union School District		✓	✓		✓		
Golden Valley Unified School District		✓	✓	✓	✓		
Hillsborough City School District		✓	✓	✓	✓		
Jefferson Union High School District		✓	✓	✓	✓		✓
John Swett Unified School District						✓	
Las Lomas School District		✓	✓		✓		✓
Lassen View Union Elementary School District		✓	✓		✓		
Los Altos School District	✓	✓	✓	✓	✓		✓
Luther Burbank School District		✓	✓	✓	✓		
Menlo Park City School District		✓	✓	✓	✓		
Millbrae School District		✓	✓		✓		✓
Mountain View Whisman School District		✓	✓	✓	✓		✓
Napa Valley Unified School District		✓	✓	✓	✓		✓
Orchard School District		✓	✓		✓		✓
Pacifica School District		✓	✓	✓	✓		
Red Bluff Joint Union High School District		✓	✓	✓	✓		✓
Red Bluff Union Elementary School District		✓	✓	✓	✓		
Roseland Elementary School District		✓	✓	✓	✓		✓
San Bruno Park School District		✓	✓	✓	✓		
San Carlos School District		✓	✓	✓	✓		✓
San Lorenzo Valley Unified School District		✓	✓	✓	✓		✓
San Mateo Foster City School District		✓	✓	✓	✓		✓
San Rafael City Schools						✓	
Santa Rosa City Schools		✓	✓	✓	✓		✓
Sequoia Union High School District		✓	✓	✓	✓	✓	✓
Sonoma Valley Unified School District		✓	✓	✓	✓		✓
Soquel Union Elementary School District		✓	✓	✓	✓		✓
South San Francisco Unified School District						✓	✓
Union School District		✓	✓	✓	✓		✓
West County Transportation Agency		✓	✓		✓		
Woodside Elementary School District		✓	✓		✓		✓

Section F - Additional Information

Town of Los Gatos Proposal for Auditing Services

Charter Schools	CAFR	GAS	GAGAS	Single Audit	EAAP	Other	Bond (P39)
Charter School of Morgan Hill		✓	✓		✓	✓	
Cottonwood Creek Charter School		✓	✓		✓	✓	
Credo High School		✓	✓		✓	✓	
Kid Street Charter School		✓	✓			✓	
The Reach Charter School		✓	✓			✓	
Mission Preparatory School		✓	✓		✓	✓	
Pathways Charter School		✓	✓		✓	✓	
Roseland Charter School		✓	✓	✓	✓	✓	
RSTEM Academy Charter School		✓	✓		✓	✓	
Stone Bridge Charter School		✓	✓		✓	✓	
Woodland Star Charter School		✓	✓		✓	✓	

Special Districts	CAFR	GAS	GAGAS	Single Audit	EAAP	Other	Bond (P39)
Bay Area Water Supply Conservation Agency		✓	✓	✓			
Castro Valley Sanitary District		✓	✓				
El Dorado Hills Community Services District	✓	✓	✓				
Lake Canyon Community Services District		✓	✓				
Midpeninsula Regional Open Space District		✓	✓	✓			
Purissima Hills Water District						✓	
Ross Valley Sanitary District	✓	✓	✓				
Santa Clara County Regional Open Space Auth		✓	✓	✓			
Sausalito-Marín City Sanitation District		✓	✓	✓			
Stege Sanitary District		✓	✓				
Silicon Valley Clean Water		✓	✓				
South San Francisco Conference Center		✓					
The Cities' Group		✓	✓				
Valley of the Moon Fire District		✓	✓				
West Bay Sanitary District		✓	✓				
West Valley Sanitation District		✓	✓				
Westborough Water District						✓	

NonProfit Organizations	CAFR	GAS	GAGAS	Single Audit	EAAP	Other	Bond (P39)
Boys and Girls Clubs of Sonoma Valley		✓				✓	
Center for Empowering Refugees & Immigrants		✓				✓	
Children of Grace						✓	
Far West Wheel Chair Association		✓					
Hidaya Foundation		✓				✓	
Mission Language and Vocational School		✓				✓	
Morgan Hill Charter School Foundation		✓				✓	
NASA AMES Exchange		✓				✓	
O'Connor Tract Co-Operative Water Co.		✓				✓	
Peninsula Conflict Resolution Center		✓				✓	
Redwood City Education Foundation		✓				✓	
San Mateo County Exposition and Fair Association		✓				✓	
Sonoma Valley Hospital Foundation		✓				✓	
The Moca Foundation		✓					
The San Jose Library Foundation		✓				✓	
Tru		✓					
Work2future Foundation		✓	✓	✓		✓	

Privately Held Corporations	CAFR	GAS	GAGAS	Single Audit	EAAP	Other	Bond (P39)
Air Filter/Control		✓	✓	✓		✓	
Dfusion, Inc.		✓	✓	✓			
Diagnostics for the Real World		✓					
FRTek US, LLC		✓					
Pathway to Choices		✓					
Roberts of Woodside						✓	
Sociometrics		✓	✓	✓			

Section F - Additional Information

Town of Los Gatos Proposal for Auditing Services

Item 4.

Technology in the Audit

C&A is a paperless firm and we use secure cloud servers for file sharing. We have Lenovo laptops and Fujitsu scanners that we use in the field. Our secured laptops are synchronized to our cloud server every day to avoid loss of data. The scanners allow for flexibility during the audit since it is not feasible to expect every document in electronic format.

Our secure online fileshare and engagement organizer provide for a better option over e-mailing electronic files. Each of our clients has an account login username and password through our website or an emailed link that allows them to upload files. This is especially helpful with sensitive information such as payroll data as it is much more secure than e-mail.

Our audit software is **ProSystems fx Engagement** which we compliment with Knowledge Coach (KC) audit programs and workpapers. These programs allow us to roll-forward audit information without having to replace the audit programs in the binder because they automatically update with changes in auditing and accounting standards every month. Finally, we have purchased data extraction software for each of our laptops that convert Adobe and other file types to Word and Excel.

All of the above-mentioned technological innovations make the audit more efficient and provides us the opportunity to spend time in areas that are more meaningful to the District. It also reduces the time and effort required by District staff to provide information and minimizes redundancy from year to year in the audit.

Proposal Exceptions

C&A did **not** have any exceptions or requested changes to the Town's RFP conditions or requirements.

C&A's Responsibility for Detecting Fraud

While audits are not designed to root out every instance of fraud, we have a responsibility to detect material misstatements in the financial statements caused by either fraud or error. Accordingly, generally accepted auditing principles prescribe specific audit procedures to detect fraud that must be carried out during each audit. C&A must hold a fraud brainstorming session at the beginning of the audit. This session is designed to provide a time for the audit team to consider how the client could commit fraud. The brainstorming meeting is used to set a tone of professional skepticism in the audit. Because committing material financial statement fraud often requires adjustments to financial records, C&A will test journal entries for any signs of manipulation. Another likely place for fraud is in accounting estimates since management may be able to influence accounting estimates to manipulate the financial statements. Generally, we perform procedures to determine if the methodology for completing accounting estimates has changed from the prior year and examine the directionality of estimates as a whole. We also closely examine significant unusual transactions outside of normal operations. This examination requires organizations to explain the purpose and rationale for the transaction and we corroborate management's response with other information received during the audit.

Attachments

REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

June 18, 2021

To the Partners of Chavan & Associates, LLP
and the Peer Review Committee of the
California Society of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Chavan & Associates, LLP in effect for the year ended December 31, 2019. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements are identified as not having been performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards* including compliance audits under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Attachment A - Peer Review Report

Item 4.

To the Partners of Chavan & Associates, LLP
and the Peer Review Committee of the
California Society of Certified Public Accountants
Page 2

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Chavan & Associates, LLP in effect for the year ended December 31, 2019, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Chavan & Associates, LLP has received a peer review rating of *pass*.

Santa Ana, California

DRAFT 10-3-2021



POWELL & SPAFFORD, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA (Ret.)
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

Report on the Firm's System of Quality Control

To Chavan & Associates, LLP
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Chavan & Associates, LLP (the firm) in effect for the year ended December 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, compliance audits under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

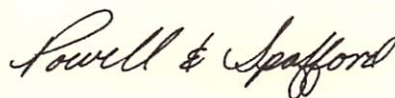
Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

1. The firm's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the education necessary to perform engagements in accordance with professional and regulatory requirements. The courses taken by firm personnel did not provide them with sufficient information about current developments in auditing matters. This contributed to audit engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and audits of employee benefit plans, not conforming to professional standards in all material respects in the areas of proper presentation and disclosure for required supplemental information (RSI), documentation of independence, preparation of the schedule of expenditures of federal awards and documentation of testing specific to major program compliance. The audits of employee benefit plans did not conform to professional standards related to reporting, internal control documentation and participant testing.
2. The firm's quality control policies and procedures regarding monitoring did not provide it with reasonable assurance that the policies and procedures relating to the system of quality control are operating effectively. The firm's quality control policies and procedures did not include ongoing inspection, and post issuance reviews to assist in providing ongoing consideration and evaluation of the quality control system.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of Chavan & Associates, LLP in effect for the year ended December 31, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency (ies)* or *fail*. Chavan & Associates, LLP has received a peer review rating of *pass with deficiencies*.



March 19, 2018

LIST OF ITEMS (FORMAT AND PRESENTATION IS A DOWNLOAD FROM ENGAGEMENT ORGANIZER AND LESS PRESENTABLE)

SECTION NAME	REQUEST ITEM
Interim - Financial	1.1 - Preliminary Trial Balance for FY21 (July 1, 2020 to June 30, 2021) - FORMAT: Excel 1.2 - Chart of Accounts, with: fund names and type ,account type, revenue category, expense department, etc. Please include a description for any new funds not included in the FY21 audited financial statements. - FORMAT: Excel 1.3 - 2021 adopted budget and amendments, if any - FORMAT: Any 1.4 - 2021 reconciliation of budget changes and amendments - FORMAT: Any 1.5 - Most recent board packet and financial information submitted to the board - Unless available online FORMAT: Adobe
Interim - General	2.0 - Internal accounting manual, policies and procedures. - Please ensure this includes all policies regarding purchasing, procurement and vendor card policy, hiring, fund balance or reserve, investment, billing, budget, debt, etc. FORMAT: Adobe 2.1 - Capital asset policy and procedures for property, plant, equipment, infrastructure and construction in progress. - unless included in the internal accounting manual provided above. FORMAT: Adobe 2.2 - A summary of committees and subcommittees with contact information - FORMAT: Any 2.3 - Council by-laws - FORMAT: Adobe 2.4 - Organizational Chart - FORMAT: Any 2.5 - List of departments and contact information for main contact in each department. - FORMAT: Any
Interim - Investments	3.0 - Investment policy - unless included in the internal accounting manual provided above. FORMAT: Any 3.1 - Most recent investment report approved by the Council - FORMAT: Any
Interim - Cash and Other	4.0 - List of all bank and brokerage accounts under the Town's name and tax ID. Please include the bank and brokerage contact information. Where applicable, please note the purpose, restrictions, fund, etc. associated with each account - FORMAT: Any
Interim - Receipts/Cash	5.0 - List of all locations/departments collecting cash and/or checks over the counter. - FORMAT: Any"" 5.1 - Cash receipts listing/register by location through today - FORMAT: Excel 5.2 - For the Enterprise funds, please provide the most recent rate studies and council-approved rate changes.
Interim - Disbursements	6.0 - Summary of purchases by vendor through field work date - FORMAT: Excel 6.1 - Warrant register (including any EFT) from 7/1/2020 through field work date. - Please include the account code, vendor, amount, warrant #, and warrant date FORMAT: Excel 6.2 - List of credit cards and store cards/accounts with cardholder names, account numbers, and limits. If the name of the card and the name used as the vendor for disbursements are different, please indicate the vendor name as well. - FORMAT: Any 6.3X - Support for Sampled Disbursements
Interim - Procurement	7.0 - List of projects that required formal bids awarded during fiscal year 2021. 7.1 - List of public projects over \$5,000 - FORMAT: Any
Interim - Commitments	8.0 - List of contracts entered into and open for 2021 - FORMAT: Any
Interim - Payroll/HR	9.0X - Payroll Sample 9.0 - Payroll register paid in March 2021 and November 2020 - FORMAT: Adobe 9.1 - List of employees, including identification of employees who work on federal programs, department, and category code (or job title) - FORMAT: Excel 9.2 - List of new hires with hire dates and category code (or job title) - FORMAT: Excel 9.3 - List of terminated employees with termination dates and category code (or job title) - FORMAT: Any 9.4 - MOUs, employment contracts, management compensation agreements, Council compensations arrangements and supporting salary schedules - FORMAT: Adobe 9.5 - Employee handbook and/or HR policies Handbook - unless included in the internal accounting manual provided above. FORMAT: Adobe 9.6 - Conflict of interests policies for employees and Council, if any - unless included in the internal accounting manual provided above. FORMAT: Adobe

LIST OF ITEMS (FORMAT AND PRESENTATION IS A DOWNLOAD FROM ENGAGEMENT ORGANIZER AND LESS PRESENTABLE)

SECTION NAME	REQUEST ITEM
Interim - Debt	9.7 - List of employees receiving early termination benefits and a summary of those benefits, if any - FORMAT: Any
	9.8 - Summary list of OPEB plans and retirement plans offered to employees, if any. - FORMAT: Any
	9.9 - Census information (list of employees and retirees) sent to the actuarial for the retiree health plan (OPEB) valuation report (GASB 75) . Please include their names, date of birth, and female/male. - FORMAT: Excel
	9.10 - List of employees currently enrolled in the CalPERS pension retirement plan. Please include their names, date of birth, and female/male. (GASB 68) FORMAT: Excel
	10.0 - All debt agreements - FORMAT: Adobe
	10.1 - Amortization schedules for all long-term debt - FORMAT: Excel
	10.2 - Summary of capital and operating leases - Only if annual payment exceeds \$10,000 FORMAT: Excel
	10.3 - Agreements for any new or amended capital or operating leases. - Only if annual payment exceeds \$10,000 FORMAT: Adobe
	11.0 - Grant tracker - schedule of expenditures of federal awards through date of field work. Please include the CFDA#, amount awarded, amount spent current year, amount spent for award if multi year award, program name, federal department name, pass-through entities, etc. - Please note if any portion of the State Revolving Fund loan is federally funded and if there were any additional draw downs in FY21. FORMAT: Excel
	12.0 - Adopted resolution for the most recent appropriations limits. FORMAT: Adobe
Federal Compliance GANN Limit	12.1 - City's calculation of the most recent GANN limit
	12.2 - Department of Finance Price Factor and population information used for the GANN limit calculation
	13.0 - Detailed Trial Balance or Financial Summary Report by Fund and Object for June 30, 2021 - FORMAT: Excel
Year-End - General	13.1 - Revenue and Expenditure report with adopted budget, final budget, actual and variance by Fund and Object for the fiscal years ended June 30, 2021 - FORMAT: Excel
	13.2 - A list of journal entries from July 1, 2020 through date of field work. - This will also cover subsequent events. FORMAT: Excel
	13.3 - List of all related parties known by the Town as well as policies and procedures used by City to identify related parties. FORMAT: Any
	13.4 - Significant events after year end, such as debt agreements, significant purchases or contracts. Required subsequent event disclosure. FORMAT: Any
Year-End - Reporting	14.0 - A list of commitments in dollar amounts to vendors and contractors outstanding at 6/30/2021, that have not been recorded in accounts payable or accrued liabilities. (encumbrances, open PO's and contracts) - Required for disclosure. Please list original and remaining commitment balances. This would include fire and police services contracts. FORMAT: Excel
	14.1 - A list of Joint Powers Authorities (JPAs) for which the Town is a part of, the purpose of each JPA, the Town's role and contact information - FORMAT: Any
	14.2 - The most recently available audit reports from JPAs for which the Town is a member. - FORMAT: Paper or Adobe
Year-End - Cash and Investments	15.0 - Bank reconciliations 6/30/2021 and 7/31/2021 - FORMAT: Any
	15.1 - Bank statements for all cash accounts as of 6/30/2021 and 7/31/2021 - FORMAT: Paper or Adobe
	15.2 - Summary of restricted cash as of June 30, 2021 - FORMAT: Any
	15.3 - Brokerage and/or LAIF statements for the period ended June 30, 2021 - FORMAT: Paper or Adobe
	15.4 - If not included in brokerage statements or treasurer's report, please provide a breakdown of investment maturities by type of investment in the categories of 12 months or less, 13-24 months, 25-36 months, 37-48 months and 49-60 months. - If only deposit money in LAIF, checking or savings, this will not be applicable FORMAT: Any

LIST OF ITEMS (FORMAT AND PRESENTATION IS A DOWNLOAD FROM ENGAGEMENT ORGANIZER AND LESS PRESENTABLE)

SECTION NAME	REQUEST ITEM
Year-End - Accounts Receivable and Revenue	15.5 - Summary of fair values by account or type of asset as required by GASB 72 (please contact sheldon@cnaillp.com if you need clarification or assistance with this) - If only deposit money in LAIF, checking or savings, this will not be applicable FORMAT: Any
	16.0 - Summary schedule of AR by customer, government or other resource as of 6/30/2021 - Please also include a aging report FORMAT: Excel
	16.1 - Cash receipts listing/register by location from July 1, 2021 to field work. Please ensure the report at least includes the date, description and amount. FORMAT: Excel
	16.2 - Reconciliation of property taxes
	16.3 - Schedule of gas tax apportionment from the State Controller's Office
Year-End - Capital Assets (PP&E)	16.4 - Reconciliation of sales tax revenue to the general ledger and copies of BOE remittances
	17.0 - Summary schedule showing capital assets beginning balances, additions, deletions, transfers, and ending balances for both governmental and proprietary capital assets by category as of June 30, 2021 - FORMAT: Excel
	17.1 - Detailed listing capital assets at June 30, 2021, including cost, accumulated depreciation and current year depreciation - FORMAT: Excel
	17.2 - List of all CIP by program with beginning, additions, deletions (transfers), and ending balance for fiscal year ending 6/30/21, if applicable - If possible, please include warrant/EFT #s for additions. FORMAT: Excel
	17.3 - Land or property held for sale and its net realizable value , if any. - FORMAT: Excel
Year-End - Interfund	17.4 - Depreciation expense by function for 6/30/2021 - FORMAT: Excel
	17.XX Capital Asset Sample Support
	18.0 - Summary schedule of balances due to and due from funds as of 6/30/2021 - This schedule should have three columns, the first column will report the fund with the due from (receivable), the second column will report the due to (payable), and the third column should explain the purpose of the transaction FORMAT: Excel
	18.1 - Summary schedule of transfers in and transfers out and explanations as to the purpose of the transfers for FYE 2021 - FORMAT: Excel
	19.0 - Summary of AP dollar balances by vendor and fund at June 30, 2021 - FORMAT: Excel
Year-End - Accounts Payable	19.1 - Warrant register from 7/1/2021 to 9/1/2021. Please ensure this report includes the fund and object for each warrant. Excel format.
Year-End - Deposit Payable	20.0 - List of deposit payables and reason for deposits - FORMAT: Any
	21.0 - Insurance claim payable schedule showing beginning claim payable, claims incurred, increase/decrease in estimate liability for prior claim, claim paid, and ending claim payable for FYE 2021 - If not applicable, identify the cities total potential exposure after insurance. This could simply be the Town's deductible per occurrence. FORMAT: Any
Year-End - Other Liabilities	21.1 - Open insurance claim report as of June 30, 2021 - FORMAT: Any
	22.0 - Supporting schedules for accrued salaries and Payroll Register covering the final pay period of the year for FY 2021 - FORMAT: Paper or Adobe
Year-End - Accrued Liabilities	23.0 - Payroll register with YTD totals as of June 30, 2021 - FORMAT: Paper or Adobe
Year-End - Payroll	
Year-End - PERS	23.1 - Payroll reconciliations from register or 941's to GL for FYR 6/30/2021, if any. - FORMAT: Excel
	23.2 - Schedule of vacation and sick accruals, including beginning balance, earned, paid, and ending balance. (Compensated absences) for FYE 6/30/2021 - Please provide in hours and dollars FORMAT: Excel
	24.0 - CalPERS actuarial valuation report for GASB 68 reporting, if not provided online on CalPERS website - FORMAT: Paper or Adobe
	24.1 - Schedule of CalPERS covered member, noting active and inactive members and which members are receiving benefits, for each plan - If not already provided at interim FORMAT: Any
	24.2 - Summary of CalPERS contributions by employer and employee, for each plan - FORMAT: Any
Year-End - OPEB	25.0 - Actuarial report for GASB 75, if applicable. - If not already provided at interim FORMAT: Paper or Adobe
	25.1 - CERBT or other trust account statement for FYE 6/30/2021 - FORMAT: Paper or Adobe

LIST OF ITEMS (FORMAT AND PRESENTATION IS A DOWNLOAD FROM ENGAGEMENT ORGANIZER AND LESS PRESENTABLE)

SECTION NAME	REQUEST ITEM
Year-End - Debt	26.0 - Schedule of long term debt showing beginning balance, payment, and ending balances and amounts due within one year for FYE 6/30/2021 - FORMAT: Paper or Adobe
Year-End - Fund Balance/Net Assets	26.1 - Debt agreements and amortization schedules, if any changes or for new debt. Please include any new debt issued subsequent to year end as well - If not already provided at interim FORMAT: Any 27.0 - Final summary of fund balance classifications per GASB 54 (Nonspendable, Restricted, Assigned and Unassigned) - FORMAT: Excel 27.1 - Town Council resolution supporting committed fund balances per GASB 54 and any revenue stabilization agreements, if any. - FORMAT: Paper or Adobe 28.0 - GANN Limit resolution and council agenda report for 2021. - Please provide the original resolution and calculation as well as the final resolution and calculation, if applicable FORMAT: Adobe or paper
Year-End - GANN	28.1 - GANN Limit letter from state department of finance with population information - FORMAT: Adobe or paper

ATTACHMENT C PROPOSER WARRANTIES

The proposer warrants that it can and will provide and make available, at a minimum, all of the services and deliverables set forth in this RFP.

The proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts or omissions of any officers, employees, or agents in conjunction with the services to be provided. Coverage limits shall be \$2,000,000 or more per occurrence, without reduction for claims paid during the policy period. The carrier should be duly insured and authorized to issue similar insurance policies for this nature in the State of California.

The proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of the Town.

The proposer warrants that all information provided by it in connection with this proposal is true and accurate.

Signature: _____

Printed Name: Sheldon Chavan

Title: Managing Partner

Firm: Chavan & Associates, LLP

Date: 10/8/2021

ATTACHMENT D - CONFLICT OF INTEREST STATEMENT

THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL PROFESSIONAL AUDITING SERVICES

The undersigned declares:

I/We Chavan & Associates, LLP (Insert Name) have the following financial, business, or other relationship with Town of Los Gatos that may have an impact upon the outcome of the contract. If none, please specify that no other relationships may have an impact on this contract or Project.

None and no other relationships may have an impact on this contract

I/We Chavan & Associates, LLP (Insert Name) have the following current clients who may have a financial interest in the outcome of this contract. If none, please specify that no other clients may have a financial interest with an impact on this contract or Project.

None

Pursuant to Government Code section 1090 and any other laws, rules and regulations that may apply, the Proposer covenants that neither it, its subcontractors nor employees presently have an interest, and shall not acquire any interest, direct or indirect, financial or otherwise that would conflict in any manner or degree with contract awarded from this RFP. Proposer certifies that to the best of its knowledge, no one who has or will have any financial interest in the contract awarded from this RFP is an officer or employee of the Town. Through its submittal of a proposal, Proposer acknowledges that it is familiar with Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California and will

immediately notify the Town if it becomes aware of any facts concerning the contract to be awarded that constitute a violation of said provisions.

Furthermore, if there is reason to believe that collusion exists among the Proposers, the Town may refuse to consider proposals from participants in such collusion. No person, firm, or corporation under the same or different name, shall make, file, or be interested in more than one proposal for the same work unless alternate proposals are called for. A person, firm, or corporation who has submitted a sub-proposal to a Proposer, or who has quoted prices on materials to a Proposer, is not thereby disqualified from submitting a sub-proposal or quoting prices to other Proposers. Reasonable ground for believing that any Proposer is interested in more than one proposal for the same work will cause the rejection of all proposals for the work in which a Proposer is interested. If there is reason to believe that collusion exists among the Proposers, the Town may refuse to consider proposals from participants in such collusion. Proposers shall submit as part of their proposals documents the completed Non-Collusion Declaration provided herein.

I, on behalf of the Proposer, declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration is executed on October 8, 2021 [date], at Morgan Hill [city], CA [state].

<u>Chavan & Associates, LLP</u>	<u>Managing Partner</u>
Proposer Name (Person, Firm, Corp.)	Title of Authorized Representative
<u>15105 Concord Circle, Ste 130</u>	<u>Sheldon Chavan</u>
Address	Name of Authorized Representative
<u>Morgan Hill, CA 95037</u>	
City, State, Zip	
<u>10/8/2021</u>	
Date	Signed

ATTACHMENT E – NON-COLLUSION DECLARATION**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL
PROFESSIONAL AUDITING SERVICES**

The undersigned declares:

I am the Managing Partner [Insert Title] of Chavan & Associates, LLP, [Insert name of company, corporation, LLC, partnership or joint venture] the party making the foregoing proposal.

The proposal is not made in the interest of, or on behalf of, any undisclosed person, partnership, company, association, organization, or corporation. The proposal is genuine and not collusive or sham. The Respondent has not directly or indirectly induced or solicited any other respondent to put in a false or sham proposal. The Respondent has not directly or indirectly colluded, conspired, connived, or agreed with any bidder or anyone else to put in a sham proposal, or to refrain from responding. All statements contained in the proposal are true.

Any person executing this declaration on behalf of a respondent that is a corporation, partnership, joint venture, limited liability company, limited liability partnership, or any other entity, hereby represents that he or she has full power to execute, and does execute, this declaration on behalf of the respondent.

ATTACHMENT F - REFERENCES

THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL

PROFESSIONAL AUDITING SERVICES

List three (3) references for work of a similar nature to the Services performed within the last five (5) years.
Use additional sheets as necessary.

1.	City of Carmel-by-the-Sea	PO Box CC, Carmel-by-the-Sea, CA 93921
	Name of Agency	Agency Address
	Robin Scattini	Finance Director
	Contact Name	Contact Title
	831-620-2019	rscattini@ci.carmel.ca.us
	Contact Telephone	Contact Email Address
	6/30/2019 to 6/30/2021	\$27,000
	Contract Period	Contract Amount
	ACFR, Audit, Single Audit, GANN, Measure S, Management Letters	

Description of services performed including costs.

2.	City of Saratoga	13777 Fruitvale Ave, Saratoga, CA 95070
	Name of Agency	Agency Address
	Dennis Jaw	Finance Manager
	Contact Name	Contact Title
	408-868-1227	djaw@saratoga.ca.us
	Contact Telephone	Contact Email Address
	6/30/2014-6/30/2021	\$39,000
	Contract Period	Contract Amount
	ACFR, Audit, Single Audit, Management Letters, GANN, TDA Audit	

Description of services performed including costs.

3. City of Del Rey Oaks 650 Canyon Del Rey Road, Del Rey Oaks, CA 93940
 Name of Agency Agency Address
Roberto Moreno Chief Business Officer
 Contact Name Contact Title
831-394-8511 RobertoM@GovernmentFinancialSolutionsInc.com
 Contact Telephone Contact Email Address
6/30/2018-6/30/2021 \$26,750
 Contract Period Contract Amount

Audit, GANN, Measure S, Police AUP, Management Letters

Description of services performed including costs.

I hereby certify that the Proposer performed the work listed above.

 Sheldon Chavan 10/8/2021
 Signature of Proposer Name Date

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration is executed on 10/8/21 [date], at Morgan Hill [city], CA [state].

By: 
 Name: Sheldon Chavan
 Title: Managing Partner

**ATTACHMENT G - STATEMENT REGARDING INSURANCE COVERAGE AND WORKER'S COMPENSATION
INSURANCE ACKNOWLEDGMENT CERTIFICATE**

THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL

PROFESSIONAL AUDITING SERVICES

PROPOSER HEREBY CERTIFIES that the Proposer has reviewed and understands the insurance coverage requirements specified in the RFP. Should the Proposer be awarded a contract for Services, Proposer further certifies that the Proposer can meet the specified requirements for insurance, including insurance coverage of any subcontractors, and agrees to name the Town as additional insured for the Services specified.

By certifying this form, the Proposer also understands the Worker's Compensation insurance requirement per the California Labor Code, Sections 1860 and 1861:

I am aware of the provisions of Section 3700 of the Labor Code, which require every employer to be insured against liability for worker's compensation or to undertake self-insurance in accordance with the provisions of that code, and I will comply with such provisions before commencing the performance of the work of this contract.

Chavan & Associates, LLP

Name of Proposer (Person, Firm, or Corporation)



Signature of Proposer's Authorized Representative

Sheldon Chavan, Managing Partner

Name & Title of Authorized Representative

10/8/2021

Date of Signing



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/06/2021

ITEM NO: 5

Item 5.

DATE: November 30, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Town Manager's Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year and Provide Written Comments and Recommendations

RECOMMENDATION:

Review the Town Manager's draft Annual Comprehensive Financial Report (ACFR) for the preceding fiscal year and provide written comments and recommendations.

BACKGROUND:

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.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

PAGE 2 OF 2

SUBJECT: Review FY 2020/21 Draft ACFR

DATE: November 30, 2021

DISCUSSION:

Attachment 1 contains the Fiscal Year 2020/21 Draft Annual Comprehensive Financial Report (ACFR) for the Commission's consideration per Measure A. In addition, on November 8, 2021, the Commission provided initial feedback on elements of the Management Discussion & Analysis (MD&A) that should be addressed for the FY 2020/21 ACFR. Of note, the Commission requested a third year of data where appropriate for comparison given the unique nature of reporting during the pandemic. Other areas identified were acknowledgment of American Rescue Plan Act (ARPA) funds, additional pension obligation reporting, and reporting expenditures as a percentage of taxable revenues along with total revenues. The draft ACFR addresses the Commission's guidance.

It is important to note that due to the truncated timeframe to comply with Measure A, the current draft MD&A has yet to be reviewed by the Town's Auditor. The Auditor review of the MD&A will be completed prior to the Commissions meeting on December 13, 2021.

CONCLUSION:

Review the Town Manager's draft Annual Comprehensive Financial Report (ACFR) for the preceding fiscal year and provide written comments and recommendations.

Attachment:

1. Draft FY 2020/21 ACFR



TOWN OF LOS GATOS

Item 5.

CALIFORNIA



Annual Comprehensive Financial Report

Fiscal Year 2020/21

ATTACHMENT 1

Draft
11/29/2021

Cover Photos: Constantino, Evie Julian

**TOWN OF LOS GATOS
CALIFORNIA**

**ANNUAL COMPREHENSIVE
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**

Draft
11/29/2021

**PREPARED BY THE
OFFICE OF THE TOWN MANAGER**

Draft
11/29/2021

TOWN HISTORY

The name Los Gatos comes from “El Rancho de Los Gatos.” A ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880's. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people and associated residential and commercial development. Highway 17 was constructed through the center of Town. Growth levelled off in the early 1970's, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well balanced community has been and remains a prominent goal of the community. From the first 100-acre Town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 30,836. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces.

As it exists now, the Town's boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create a picturesque setting of the Town. In the midst of the growth of Silicon Valley, Los Gatos attracts people with a preference for the Town's distinctive, high quality natural and urban environment.

Draft
11/29/2021

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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INTRODUCTORY SECTION

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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December xx, 2021

Honorable Mayor and Town Council,

I am pleased to submit the Town's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2021. In coordination with the Town Manager's Office, this report was prepared by the Finance Department, which assumes responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. The information in this report presents the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2021, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This GASB Statement requires management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Annual Comprehensive Financial Report is organized into three sections:

- I. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials, Town administrative personnel, and an organization chart delineating organizational structure.
- II. The Financial Section includes the Independent Auditor's opinion, the MD&A, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- III. The Statistical Section includes both financial and non-financial data about the Town.

The Annual Comprehensive Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting

Standards Board (GASB) and includes the audit report of Badawi & Associates, the Town's independent certified public accountants.

This Annual Comprehensive Financial Report will be submitted to the Government Finance Officers Association for consideration of its Achievement of Excellence Award in financial reporting certification. This award is granted only to entities whose reports meet the highest standards of municipal financial reporting.

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the legal framework of California in 1887. The Town is located in the foothills and level terrain of southwestern Santa Clara Valley, referred to internationally as "Silicon Valley." From the first 100-acre Town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 30,863. The growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces. Preserving the unique charm of Los Gatos as a complete and well-balanced community while meeting its economic and housing needs, has been, and remains a key goal for the Town.

The Town maintains a Council-Manager form of government which combines the strong political leadership of elected officials with the strong managerial experience of an appointed Town Manager. Five Council members are elected at large for staggered four-year terms to govern the Town. The Mayor and Vice-Mayor are appointed by the Council from its own ranks and serve for one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees all municipal services such as Public Safety, Parks and Public Works, Community Development, Library, and Town Administration including Human Resources, Information Technology, and Finance.

ECONOMIC CONDITIONS AND OUTLOOK

While the National Bureau of Economic Research (NBER) declared April 2020 as the official end of the nation's recession, the Town and communities across America continue to grapple with the fiscal disruptions caused by the COVID-19 pandemic. Even with the recession officially being the shortest on record, the Town's economically sensitive Transient Occupancy Tax (TOT) revenue remains near historic lows while Sales Tax receipts indicate modest improvement from the depths of the pandemic. Conversely, the Town's Property Tax revenues remained relatively strong as inventories of available homes remained low and demand was high with millennials transitioning from renting to homeownership, and remote work became more of a permanent fixture.

General Fund revenues (not including transfer-ins) increased 0.1% from the prior year. Property tax revenues remain the largest and most consistent source of support for General Fund operations, comprising approximately 47% of General Fund revenues in FY

2020/21. For FY 2020/21 property tax receipts of \$19.9 million were \$1.5 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture, and educational opportunities.

The Town also relies heavily on sales tax revenues to support General Fund operations, comprising approximately 18.6% of General Fund revenues in FY 2020/21. For FY 2020/21 sales tax receipts of \$7.5 million were \$0.4 million higher than the prior year's collection. Sales tax revenues increased as the worst of the unprecedented disruption to business activity and public health restrictions waned. The Town's 1/8 cent District Sales Tax continued to perform well as the District Tax captured a larger share of the increase in online sales.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act established a \$150 billion Coronavirus Relief Fund. Federal law specifies that these funds may only be used for unbudgeted costs incurred between March 1, 2020 and December 31, 2021. Control Section 11.90 of the 2021 Budget Act extended the expenditures deadline for cities, counties and community colleges to September 1, 2021. The Budget authorized the California Department of Finance to allocate \$1,289,065,000 to address the public health and public safety impacts of COVID-19, including homelessness. Cities will receive \$500,000,000 for similar purposes. Pursuant to the provisions of Control Section 11.90, cities with populations between 300,000 and 500,000 were allocated \$225 million and cities with populations less than 300,000 were allocated \$275 million. Generally the population of the city was used to determine their share of the allocation. The Town of Los Gatos allocation of \$388,181 was received in July 2020.

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provides financial aid to families, governments, businesses, schools, non-profits and others impacted by the COVID-19 public health crisis. The Act will allocate \$7,229,744 to the Town over a two year period. The first tranche payment of \$3,614,872 was received on July 13, 2021. The replacement of lost revenue is an eligible ARPA use, and initial budgetary estimates required approximately \$1.4 million in ARPA funding to close anticipated revenue shortfalls. With actual revenues performing better in several areas and expenditure savings being better than projected, ARPA funding was not required under the revenue loss eligible use.

The Town continues to adjust and prepare for pension employer costs to continue to be a primary expense in conjunction with salaries. The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic results is unfunded pension and Other Post-Employment Benefits (OPEB) obligations for the Town. According to the 2020 actuarial valuations, the unfunded actuarial liability for pensions was \$61.8 million and \$8.7 million for OPEB as of June 30, 2019.

To address the escalation in pension costs, current and previous Councils have allocated additional discretionary pension funding totaling \$10.4 million. These additional discretionary payments will ultimately yield an approximate \$12.7 million in pension contribution savings. In addition to the management of the Town's pension obligations, prior Councils have worked to curb cost escalation in Other Post-Employment Benefits (OPEB). In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$26.2 million in OPEB assets from zero in 2009.

Despite these efforts, in the past five years the Net Pension Obligation reported in the Town's ACFR's has increased 73.8% from \$33.4 million as of the June 30, 2016 ACFR to the current Net Pension Obligation of \$58.02 million as of June 30, 2021.

Readers are cautioned that in considering the amount of the pension and OPEB liabilities, and other actuarial data as reported by CalPERS and the Town's actuary, this is "forward looking" information. Such "forward looking" information reflects the judgment of the Board of Administration of CalPERS, its actuaries, and the Town's actuary as to the amount of assets which the pension and OPEB plans will be required to accumulate to fund future benefits. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the pension and OPEB plans. The actuarial methods and assumptions could be changed by CalPERS and the Town's actuary at any time based on their professional judgement. Such changes could cause the Town's obligations to the pension and OPEB plans to be higher or lower in any particular year. This sensitivity to changes in actuarial assumptions is especially evident in changes to the Discount Rate as illustrated in Note 9 and changes to Healthcare Trend and Discount rates as illustrated in Note 10.

For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section. For detailed information about the Town OPEB obligations please refer to Note 10 of the Notes to Basic Financial Statements Section. In addition, the Town provides extensive information on pension and OPEB information on the Town's website.

Despite revenue constraints and increasing costs associated with unfunded federal and state mandates, the Town has managed to maintain high service levels through increased efficiency and prudent fiscal management as evidenced by General Fund's resilience through the unprecedented events of FY 2020/21. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR CAPITAL PROJECT INITIATIVES

Major capital asset and infrastructure initiatives were once again a priority for the fiscal year. Approximately \$4.3 million in Town infrastructure and other capital asset improvements were invested in FY 2020/21, including \$0.5 million in street projects

Town-wide to improve the pavement condition. Other investments included \$0.8 million in equipment purchases, \$0.9 million in traffic signal improvements, \$0.9 million in building improvements, and \$0.2 million in pathways and trails and \$0.2 million in guardrail replacement.

Additional infrastructure improvements are scheduled in accordance with the Town's approved Capital Improvement Plan, and will continue into future years. All of these improvements are funded either through grants, or via revenues accumulated from prior year budget savings and/or excess revenues per Town Council Policy.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal controls is a primary consideration in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data, and
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal controls should not outweigh the benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined and available means the cash is received within sixty days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred. With the implementation of GASB 34, the Town prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget, five-year budget forecast, and five-year capital improvement plan is adopted by the Town Council consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the

Town Council during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2020 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This is the 26th consecutive year that the Town has received the award. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Badawi & Associates performs this function for the Town of Los Gatos, and their report is included in the financial section of the ACFR.

ACKNOWLEDGEMENTS

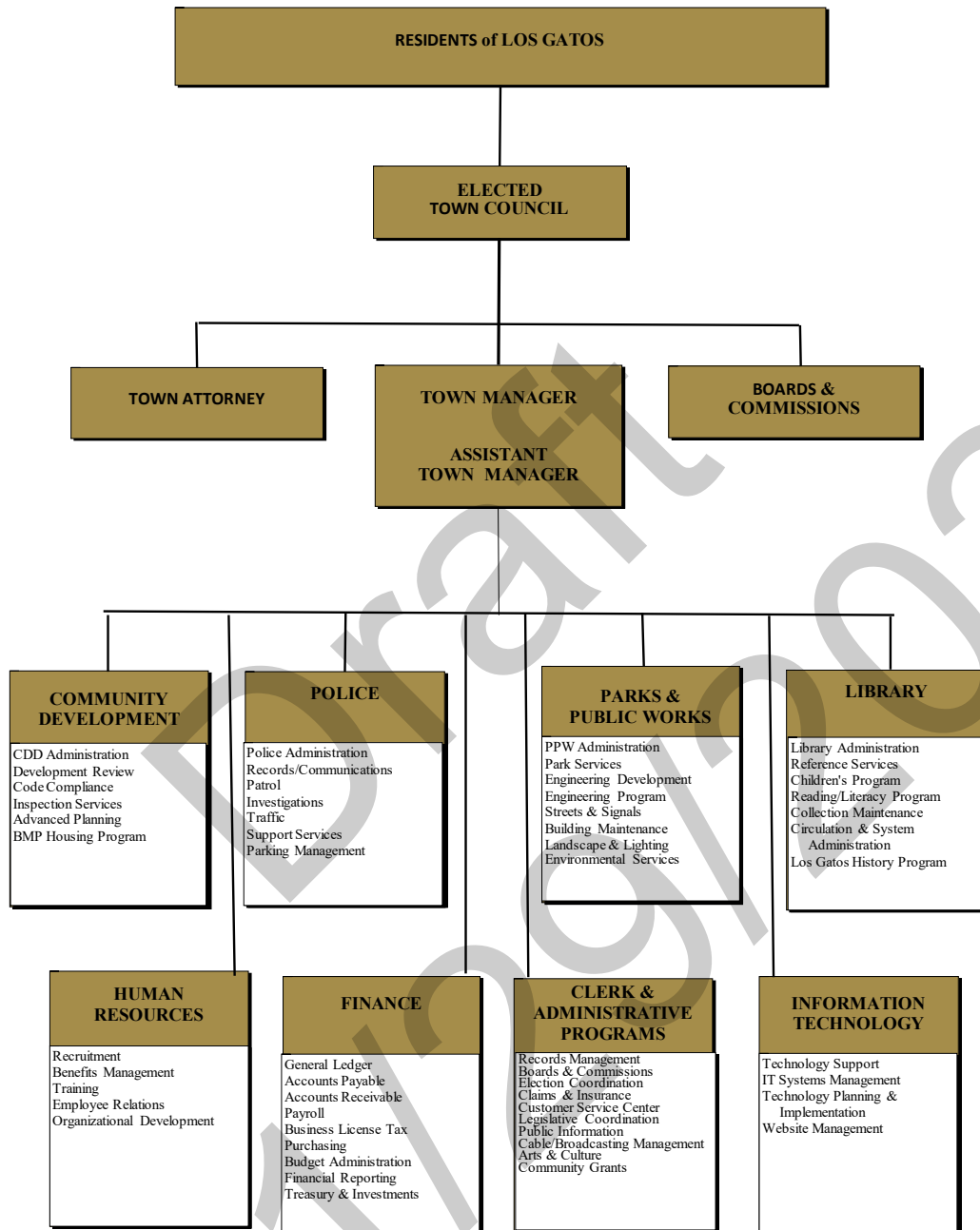
The preparation of this Annual Comprehensive Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Gitta Ungvari, Finance and Budget Manager; Mark Gaeta, Accountant; Melissa Ynegas, Finance Analyst; Diane Howard, Finance Analyst; and Maurice De Castro, Accountant and Finance Analyst; and Arn Andrews Assistant Town Manager for their efforts in preparing this report. The Town's Finance Commission is also recognized for its contributions to strengthening the ACFR through its review, discussion, and comments.

Respectfully submitted,

Laurel Prevetti
Town Manager

Stephen D. Conway
Director of Finance

TOWN OF LOS GATOS ORGANIZATIONAL CHART FY 2020/21



**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2021**

TOWN COUNCIL

Mayor
Vice Mayor
Council Member
Council Member
Council Member

Marico Sayoc
Rob Rennie
Mary Badame
Matthew Hudes
Maria Ristow

COUNCIL APPOINTEES

Town Manager
Town Attorney

Laurel Prevetti
Robert Schultz

APPOINTED OFFICIALS

Assistant Town Manager
Chief of Police
Community Development Director
Parks and Public Works Director
Library Director
Finance Director
Human Resources Director

Arn Andrews
Peter Decena
Joel Paulson
Matt Morley
Ryan Baker
Stephen Conway
Lisa Velasco



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the Town Council of the
Town of Los Gatos
Los Gatos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparison for the General Fund of the Town of Los Gatos, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension-related schedules and OPEB-related schedules on pages 18-36, 48, and 98-105 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Los Gatos, California's basic financial statements. The introductory section, major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements, nonmajor fund budgetary schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements, and nonmajor fund budgetary schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December xx, 2021 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Badawi & Associates, CPAs
Berkeley, California
December xx, 2021

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Los Gatos's Annual Comprehensive Financial Report (ACFR) presents management's discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2021. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- Town assets exceeded liabilities at the close of FY 2020/21 by \$113,518,100 (total net position).
- The Town's total net position decreased by \$1,332,931 during the fiscal year largely as a result of an approximate \$1.2 million dollar increase in non-capitalized capital outlay expenses from the prior year. Non-capitalized project expense reduces net position as they are not added back to total assets as new infrastructure capital investments. Major non-capitalized expense projects included approximately \$650K in direct economic assistance provided through the Town's Economic Recovery project. Other significant non-capitalized projects included approximately \$500K in expenses for wildfire protection through the Roadside Fuel Reduction project and approximately \$200K for the Vegetation Management project. One other significant expense was approximately \$105K to prepare a Town Storm Water Master Plan. Depreciation expense allocated to all Town Departments increased by approximately \$700K from the prior year reflecting the significant additional investments made in the Town's infrastructure through FY 2019/20.
- Total pension expense calculated for the Town's miscellaneous and safety plans decreased approximately \$1.0 million or 10.7% from the prior fiscal year primarily reflecting the impact of the Town's approximate \$4.8 million additional discretionary payment (ADP) made to pay down the Town's unfunded liability in FY 2019/20. Fiscal year 2020/21 was the first year to see the benefits of this ADP as the ADP did not appear as Town assets until they were included as part of the June 30, 2020 "measurement date" pension expense calculation. Pension expense growth related to the Town's pension plans has averaged approximately 20.0% annually since FY 2014/15. More discussion on the Town's unfunded pension liabilities can be found in Note 9.
- Reported unrestricted net position is negative (\$4,735,103) compared to negative (\$3,967,178) the prior year. The \$767K additional decrease in unrestricted net position resulted largely from the use of approximately \$2.4 million in unrestricted cash balances for non-capitalized project costs offset by revenue gains from amounts received the prior fiscal year in large revenue sources such as property tax and sales tax offset by declines in investment earnings from amounts earned the prior year. Unrestricted net position represents all resources not included as net investment in capital or restricted assets.
- Despite the ongoing economic impacts resulting from the nationwide pandemic, the Town's economically sensitive major revenues of property tax and sales tax were able to record gains from amounts reported the prior fiscal year. Property taxes collected increased \$1.5 million

from the prior year while sales taxes increased a modest \$0.4 million from amounts collected the prior year.

- The economic impacts related to pandemic travel restrictions began in March 2020 and continued into FY 2020/21. These impacts are primarily evidenced by Transient Occupancy Tax (TOT) revenue declines of approximately \$820K relative to the amounts collected in prior years.
- Total expenses as reported in the Statement of Activities increased \$2.6 million from the prior year. The increase was driven by a combination of factors detailed under the Government Activities Expenditures Discussion. Contributing factors to the total fiscal year increase included the cost of the aforementioned non-capitalized project expenses which exceeded the prior year's expenses by approximately \$1.2 million, \$700K increased depreciation expense on the Town's infrastructure investment and the FY 2020/21 approximate \$602K cost of a 1% negotiated cost of living adjustment (COLA) and 2% one-time bonus and related benefit increases offered to all Town employees during the fiscal year.
- The cost of all governmental activities this year was \$50.6 million. However, as shown in the Statement of Activities, the amount of taxpayer supported governmental activities was \$35.1 million. Taxpayers who directly benefited from the programs paid \$11.8 million, and other governments and organizations subsidized certain programs with operating grants and contributions of \$2.9 million and capital grants and contributions of \$0.8 million. Overall, the Town's governmental program revenues were \$15.5 million. The Town paid for the remaining "public benefit" portion of governmental activities with \$33.2 million in taxes and general revenues including interest and miscellaneous revenues. This \$35.1 million in net cost of governmental activities is an approximate 5.7% increase from the prior fiscal year, resulting largely from one-time "non-capitalized" expense growth for economic recovery efforts and wildfire protection and the cost of negotiated salary and related benefit increases offered to all Town bargaining units during the fiscal year and lower amounts of vacant positions primarily in the parks and public works function.
- At the end of FY 2020/21, General Fund balance was \$23,914,618 compared to \$29,335,497 in the prior year. The ending fund balance of \$23,914,618 represents approximately 51.3% of General Fund expenditures for the current fiscal year excluding transfers-out to the Town's capital projects funds and internal service funds. The \$5.4 million reduction in General Fund ending fund balances was primarily from:
 - Non-recurring payments of \$5.6 million of General Fund restricted cash balances for an \$3.6 million additional discretionary payment (ADP) made to CalPERS in July 2020 and another \$2.0 million ADP made in April 2021. The ADPs to CalPERS were used to pay down a portion of the Town's actuarially determined unfunded pension liability beyond the mandated annual payments.

- Additionally, the General Fund transferred approximately \$3.4 million to the Town's capital projects fund to provide resources for Town infrastructure improvements.
 - This reduction of General Fund balance was partially offset by an approximate \$1.1 million excess operating revenues above operating expenditures (excluding the \$5.6 million ADP payment and the \$3.4 million transfers out to other funds expenditures for Town capital projects).
- Fund balances for all governmental funds at year end were \$47,837,752 a decrease of approximately \$2.7 million or (5.3%) from the prior year. Governmental fund balances decreased primarily due to:
 - \$5.6 million ADP payment made to CalPERS in FY 2020/21 from the General fund.
 - \$5.7 million of capital outlay expenditures made from the Town's capital projects funds.
 - These uses were partially offset by an approximate \$1.1 million excess operating revenues above operating expenditures (excluding the \$5.6 million ADP payment and the \$3.4 million transfers out to other funds expenditures for Town capital projects).
- At fiscal year end, the Town's General Fund restricted cash assets reported a zero balance as the entire amount that remained in its recently established Town's IRS Section 115 Pension Trust was used for payment of the ADP to CalPERS made in April 2021.
- The Town received \$388,181 from the Coronavirus Aid, Relief, and Economic Security (CARES) Act which was utilized for assisting small businesses to boost economic recovery, supporting non-profit organizations with direct grants and rent forgiveness, and obtaining equipment to provide municipal services consistent with Public Health Orders.
- The Town received the first tranche payment of \$3,614,872 from the American Rescue Plan Act (ARPA) grant on July 13, 2021. The replacement of lost revenue is an eligible ARPA use, and initial budgetary estimates estimated approximately \$1.4 million in ARPA funding to close anticipated revenue shortfalls. ARPA funding was not required under the revenue loss eligible use requirements since actual revenues performed better in several areas and expenditure savings were higher than projected. However, \$200K was recognized as FY 2020/21 revenue to reimburse the Town for qualifying expenditures under the provisions of the Act including boosting economic recovery and providing rent forgiveness and direct grants to non-profit organizations.
- The Town's total capital assets decreased by \$1,805,289 to \$109,894,936 net of depreciation due to smaller infrastructure expenditures and further reduced by the annual total equipment, buildings and infrastructure depreciation expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the ACFR contains the following information: Independent Auditor's Report, Management's Discussion and Analysis (this section), the Basic Financial Statements, and the Required Supplementary Information. The ACFR also includes a Supplementary Information section, which presents combining and budgetary schedules for individual non-major funds. The Basic Financial Statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

Government-Wide Financial Statements

The Government-Wide Financial Statements present the financial picture of the Town from an economic resources measurement focus using the accrual basis of accounting. An economic resources measurement focus is when a body of financial statements report all inflows, outflows, and balances affecting or reflecting an entity's net position.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-Wide Financial Statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, and general government. The Town has no business-type activities for accounting purposes.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – The Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: Internal Service Funds. Proprietary funds are reported using the accrual basis of accounting. Internal Service Funds are an accounting tool used to accumulate and allocate costs internally among the Town’s various functions. The Town uses Internal Service Funds to account for its fleet of vehicles, computer equipment, risk management activities, and other items. Internal Service Funds help smooth the variability of certain expenses and insulate the Town from large unanticipated costs. The Internal Service Funds are included within governmental activities in the Government-Wide Financial Statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support the Town’s own programs.

Included in fiduciary funds is the Redevelopment Successor Agency private-purpose Trust Fund created upon the dissolution of the former Redevelopment Agency (RDA) in 2012. The Trust Fund was created to hold the assets of the former Redevelopment Agency until they are transferred for governmental purposes to other entities or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations. Additional information on the dissolution of the RDA and this fiduciary fund can be found in Note 12 in the notes to basic financial statements.

Notes to Basic Financial Statements

The notes provide additional information to facilitate a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found on pages 58-96 of this report.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements provide long-term and short-term information about the Town’s overall financial condition. This analysis addresses the financial statements of the Town as a whole, utilizing data from throughout the ACFR to describe the changes between

2020 and 2021. Given the unique nature of COVID pandemic economic impacts during the reporting period, 2019 data has also been provided to provide additional context.

Net Position Discussion

As shown below, the Town's combined net position for the year ended June 30, 2021 was \$113.52 million, reflecting a decrease of approximately \$1.33 million to the prior years' net position of \$114.85 million. In general, net position can serve as an important indicator of whether the Town's overall financial condition is improving or deteriorating over time.

Town of Los Gatos Net Position Governmental Activities For the Year Ended June 30, 2021			
	2021	2020	2019
Current and other Assets	\$ 72,065,091	\$ 75,995,161	\$ 79,464,869
Capital Assets	111,416,264	111,700,225	107,542,588
Total Assets	<u>\$ 183,481,355</u>	<u>\$ 187,695,386</u>	<u>\$187,007,457</u>
Deferred Outflows - Pension/OPEB	19,746,595	17,441,310	13,521,349
Current Liabilities	16,334,887	18,093,199	17,002,972
Long-Term Liabilities Outstanding	71,339,626	69,465,025	66,521,231
Total Liabilities	<u>\$ 87,674,513</u>	<u>\$ 87,558,224</u>	<u>\$ 83,524,203</u>
Deferred Inflows - Pension/OPEB	2,335,387	2,727,441	2,185,494
Net Position			
Net Investment in Capital Assets	109,894,936	111,700,225	107,542,588
Restricted	8,358,267	7,117,984	11,918,688
Unrestricted	(4,735,103)	(3,967,178)	(4,642,167)
Total Net Position	<u>\$ 113,518,100</u>	<u>\$ 114,851,031</u>	<u>\$114,819,109</u>

Current and other assets decreased \$3.9 million from the prior year, primarily due to an approximate \$4.9 million decrease in cash/restricted cash and investments. The \$4.9 million decrease is primarily related to the \$3.6 million additional discretionary payment (ADP) made in July 2020 and the \$2.0 million ADP made in April 2021 paid by the Town to CalPERS to reduce the Town's actuarial unfunded pension liability beyond the mandated annual payments. Capital assets remained relatively stable at \$111.4 million for the year reflecting current year's capital asset additions less the annual depreciation expense. Capital infrastructure activity slowed from the prior year but some infrastructure work was accomplished including:

- Approximately \$537K in street repair and resurfacing and curb and gutter work Town-wide,

- Approximately \$894K of work completed on the Town's corporation yard building replacement project,
- \$389K in communications and emergency dispatch equipment,
- \$863K investment in Town traffic signals and intersection improvements.

Deferred Outflows increase of \$2.3 million was primarily due to the additional discretionary payment made in July 2020 and April 2021 made to reduce the Town's unfunded pension liability. Current liabilities increased \$1.8 million from the prior year primarily due to decreases in accounts payable (\$1.2M), deposits payable (\$510K), and unearned revenue (\$403K), offset by an increase in claims payable (\$448K).

Long-term liabilities increased \$1.9 million. The increase is primarily due to the \$1.56 million low interest PG&E on-bill financing loan used for Town facility energy efficiency project upgrades. There was an additional increase of \$792K for net pension liabilities and \$157K for compensated absences increase from the prior year. These increases were offset by a \$631K reduction in net other post-employment benefits (OPEB) liabilities due to the continued additional discretionary funding of the unfunded OPEB liability. See Note 9 and Note 10 of Notes to the Financial Statements for more information on Town's pension and other post-retirement benefit plans.

Deferred Inflows decreased by \$500K resulting primarily from the difference between projected and actual earnings on investments, pension inflows decreased \$664K which were offset by \$173K increase in OPEB plan inflows.

The largest segment of the Town's net position, representing \$109.9 million of net position, reflects the net investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and related outstanding debt used to acquire those assets. The Town uses these capital assets to provide infrastructure and services to our residents. Therefore, they do not represent a liquid financial resource to the Town and consequently are not readily available for funding current obligations.

Restricted net position totaled approximately \$8.4 million representing approximately \$7.8 million for capital projects and maintenance and \$553K placed in a special revenue trust fund for library services.

As of June 30, 2021, unrestricted net position reports an approximate \$767K decrease from a deficit of approximately (\$3.97 million) the prior year to an ending deficit balance of approximately (\$4.74 million). The deficit in governmental unrestricted net position is primarily due to the Town's outstanding long term pension and OPEB liabilities. It is not uncommon for governments with these types of long term liabilities to report a deficit in unrestricted net position. A deficit in unrestricted net position is not the only measure to assess the Town's fiscal health, other factors can also be important to consider such as an expanding and growing property tax base and the condition of the Town's infrastructure including streets, parklands, civic center and library, police operations building, neighborhood center, corporation yard and other improvements.

Governmental Activities

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities is financed and determine the annual change in net position.

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2021

	2021	2020	2019
Revenues:			
Program revenues:			
Charges for Services	\$ 11,754,740	\$ 10,288,351	\$ 11,350,345
Operating Grants and Contributions	2,886,756	3,854,188	2,175,277
Capital Grants and Contributions	846,345	850,113	146,792
General Revenues:			
Property Taxes	19,878,835	18,330,426	17,321,347
Sales Taxes	7,933,604	7,531,425	8,158,152
Franchise Taxes	2,499,463	2,495,792	2,475,916
Other Taxes	1,126,887	1,911,774	2,726,743
Motor Vehicle in Lieu	23,058	24,526	14,689
Investment Earnings	227,136	2,428,470	1,809,128
Miscellaneous	1,528,039	323,940	2,407,840
Total Revenues	48,704,863	48,039,005	48,586,229
Expenses:			
Police Department	19,808,230	20,446,188	16,635,726
Parks and Public Works	13,141,034	11,803,005	10,627,716
General Government	7,086,377	7,405,368	8,163,991
Community Development	6,846,834	5,001,958	5,064,637
Library Services	3,496,153	3,347,523	3,059,294
Sanitation	185,981	3,041	684,673
Total Expenses	50,564,609	48,007,083	44,236,037
Change in Net Position	(1,859,746)	31,922	4,350,192
Net Position, beginning	115,377,846	114,819,109	110,468,917
Net Position, Ending	\$ 113,518,100	\$ 114,851,031	\$ 114,819,109

Governmental Activities Revenue Discussion

The Statement of Activities shown above details how the \$48.7 million in Governmental Activities revenue was derived. As categorized in the Statement of Activities as program revenues,

approximately \$11.8 million or 24.1% of the revenues were recorded from residents who directly benefited from the program as a charge for service. Another \$3.7 million or 7.7% of the revenues were sourced from operating/capital grants and contributions. The remaining \$33.2 million or 68.2% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues increased by approximately \$495K from the prior year. This is largely due to an increase in revenues from charges for services of \$1.47 million offset by decreases of approximately \$967K in operating grant revenues and contributions.

The Town's General Revenues related to Governmental Activities increased by approximately \$171K from the prior year. The increase is attributable to a combination of approximately \$1.5 million increase in property taxes, a \$402K increase in sales tax, and a \$1.2 million gain on sale of property. The increases were offset by nearly \$2.2 million reduction in investment earnings from the prior year as result of lower market values above purchase cost on the Town's investment portfolio and declines of approximately \$820K in transient occupancy tax receipts due to the pandemic and its related effects on business travel and tourism.

Property tax is the largest individual revenue source for the Town and collections finished the year \$1.5 million higher than the previous year. This increase was mostly due to an increase of \$600K in secured taxes received as a rebate of excess property taxes collected and available from the State of California's Educational Revenue Augmentation Fund (ERAF), \$430K increase in property transfer tax as well as continued strong demand for residential Town property. In addition, the approval of the annexations of County pockets with tax revenues accruing to the Town effective FY 2019/20 and new developments helped to drive property values higher. It's important to note that assessed valuations for FY 2020/21 were established on the tax roll in January 2020 and collected in FY 2020/21.

At \$7.9 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes increased \$402K from the previous year largely due the gradual recovery from the economic impacts related to COVID-19 which began with the March 2020 shelter-in-place public health orders. The increase was aided by the receipt of online purchase revenues which accrue to a new additional 1/8 cent District Sales Tax approved by the Los Gatos voters in the fall of 2018 which became effective fully in FY 2019/20.

Franchise taxes, the Town's third largest revenue source, finished the year at \$2.5 million, reflecting only a very small increase of \$4K from the previous fiscal year.

Investment earnings decreased \$2.2 million from the prior year. The primary factor responsible for this decline was the lower total market value above historical investment cost than the prior year. These non-cash or paper gains/losses are recognized as investment income/loss as a result of the "mark to market value" procedure required by GASB 31.

Miscellaneous other revenues increased by approximately \$1.2 million from the prior year. The increase is due to a gain on sale of property on gain of the 14850 Winchester Boulevard land sale finalized in July 2020.

Governmental Activities Expenses Discussion

The Town provides residents and visitors with an array of high quality services. General government strategic support is comprised of six departments (Town Council, Town Clerk, Town Manager, Town Attorney, Human Resources, Information Technology, and Finance) which provide services in information technology, executive management, economic vitality, legal, records management, risk management, human resources, finance, and accounting. The Town's Police Department (public safety) provides general law enforcement, crime prevention, dispatch, and responses to emergency and non-emergency calls for services. Parks and Public Works provides engineering, construction, and maintenance of public streets, street lighting, Town owned buildings, parks, and related infrastructure; as well as traffic engineering and engineering evaluation of private development proposals. Community Development provides planning and zoning services; and building plan check and inspection; and code enforcement services. The Library Department provides library, local history, and cultural services to the community.

Total expenses increased \$2.6 million from the prior year. The increase was driven largely by the combination of the following factors:

- 602K in negotiated salary increases and subsequent benefit increases. All sworn, non-sworn and management employees received a 1% across the board salary increase and a "one-time" non-pensionable bonus of 2% that did not raise the employee's base salary.
- \$700K in increased depreciation expense on the Town's infrastructure investments.
- Non-capitalized project expenses which exceeded the prior years expenses by approximately \$1.2 million.
- General Government expenses decreased \$319K from the prior year.
- Public safety expenses decreased approximately \$637K from the prior fiscal year. The decrease resulted mostly from higher position vacancies throughout the fiscal year compared to the prior year. These savings were partially offset by the cost of negotiated salary increases and related benefits including increased pension contribution rates for both safety and miscellaneous safety employee classifications.
- Parks and Public Works expenses grew by approximately \$1.3 million from the prior year resulting largely from the "one-time non-capitalized" expense of \$1.2 million for the economic recovery and wildfire protection efforts. There were also increased costs for infrastructure depreciation related to new significant additions to the Town's infrastructure in prior years and increases related to negotiated salary and related benefits offered to all Town employees during the fiscal year. In addition, Parks and Public Works experienced lower amounts of vacant positions relative to the rest of the organization.

- Community Development expenses increased by \$1.8 million for the year chiefly due to increased development and building inspection activity. Other costs incurred this fiscal year included Departmental support toward economic recovery in the form of absorbing and mitigating certain development fees. There were also cost increases from negotiated salary increases and related benefits and increased required employer pension contributions and lower position vacancies than in prior years.
- Library expenses increased approximately \$149K from the prior year primarily from negotiated salary increases and related benefits and increased required employer pension contributions.
- Expenses for urban runoff decreased approximately \$182K from the prior year. In the prior fiscal year, the Town received program management fees from the West Valley Sanitation District and expensed those fees for program management. Effective fiscal year 2019/20, the West Valley Clean Water Authority receives its funding through property tax bill assessments and related expenses are paid through the Authority.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

Recognizing the financial resources measurement focus, the Town's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the Town's financing requirements and may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unlike the Statement of Activities which does not include transfers, the Governmental Funds Balance Sheet does include transfers in and out.

Fund Balance – As discussed below, the Town's Governmental Funds Balance Sheet reports the following fund balances.

Restricted Fund Balance – The Town has \$8.4 million in fund balance classified as restricted to indicate that it has an externally imposed restriction on how the money may be spent. Of the \$8.4 million restricted fund balance, \$7.6 million is restricted for capital projects, \$0.6 million for library trusts and \$0.2 million for maintenance and repairs.

Committed Fund Balance – The Town has \$11.2 million in fund balance classified as committed to indicate that the Town Council previously committed how the money will be spent. Of the \$11.2 million \$10.9 million is for budget stabilization and catastrophe response.

Assigned Fund Balance – The Town has \$27.9 million in fund balance which is not restricted or committed and is classified as assigned to indicate the Town Council's intent to be used for specific purposes. The largest assignments of fund balance are the Reserve for Capital/Special projects with a balance of approximately \$7 million and the Appropriated Reserves of \$13.3 million which are the primary funding sources for the Town's five year capital improvement plan and special projects as budgeted by the Town.

Additional information on the Town's Fund Balance can be found in Note (8) of the Notes to the Financial Statements.

Major Governmental Funds results for the year included the following:

TOWN OF LOS GATOS				
TOTAL GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES				
FOR THE YEAR ENDED JUNE 30, 2021				
REVENUES	2021	2020	2019	
Property Taxes	\$ 19,917,428	\$ 18,368,466	\$ 17,359,435	
Sales Taxes	7,933,604	7,531,425	8,158,152	
Other Taxes	1,126,887	1,911,774	2,726,742	
Licenses & Permits	5,212,831	4,818,671	5,173,876	
Intergovernmental	3,746,587	4,292,453	2,310,655	
Charges for Services	6,035,659	5,309,470	5,584,504	
Fines and Forfeitures	103,468	271,117	510,266	
Franchise Fees	2,499,463	2,495,792	2,475,916	
Interest	227,940	2,428,453	1,809,164	
Use of Property	40,372	31,039	32,960	
Other	423,115	376,922	579,755	
Total Revenues	\$ 47,267,354	\$ 47,835,582	\$ 46,721,425	
EXPENDITURES				
Current:				
Public Safety	\$ 16,570,836	\$ 15,793,815	\$ 14,945,407	
General Government	14,040,134	13,024,146	8,004,254	
Parks and Public Works	8,229,944	8,168,599	7,962,135	
Community Development	5,195,302	4,473,790	4,577,495	
Library Services	2,847,988	2,700,802	2,493,617	
Sanitation and Other	166,173	162,837	628,240	
Capital Outlay	5,746,447	7,861,972	7,888,914	
Total Expenditures	\$ 52,796,824	\$ 52,185,961	\$ 46,500,062	
Excess Revenues over Expenditures	\$ (5,529,470)	\$ (4,350,379)	\$ 221,363	
Proceeds from sales of assets	1,201,369	1,566	1,912,316	
Proceeds from issuance of debt	1,560,336			
Transfers in	4,053,535	8,935,260	4,264,131	
Transfers out	(3,940,015)	(8,628,719)	(3,323,756)	
Total Other Financing Sources (Uses)	\$ 2,875,225	\$ 308,107	\$ 2,852,691	
Net Changes in Fund Balances	(2,654,245)	(4,042,272)	3,074,054	
Beginning/Ending Fund Balances As Restate	50491997	54,007,454	50,560,772	
Ending Fund Balances	\$ 47,837,752	\$ 49,965,182	\$ 53,634,826	

Overall, Total Governmental Funds revenues finished \$0.6 million or 1.2% lower than the prior year, while total expenditures finished \$0.6 million or 1.2% higher than the prior year. The

approximate \$1.2 million decline in total governmental fund balance is the net result of the \$1.2 million decrease in Governmental Funds income before transfers and other financing sources and uses and the approximately \$2.8 million increase from proceeds of sale of land (\$1.2 million) and proceeds from the issuance of debt (\$1.6 million PG&E Energy Efficiency Loan) and lower amounts of General Fund capital and special projects reserve dollars transferred to the Town's General Fund Allocated Reserve (GFAR) Capital Projects fund than the prior fiscal year.

General Fund revenues totaled \$42.8 million or nearly 90% of the total \$47.3 million in Total Governmental Fund revenues. Total General Fund operating revenues decreased by \$568K, resulting from the net effect of:

- \$1.5 million increase in property tax collections
- \$402K increase in sales tax
- \$394K increase in licenses and permits
- \$726K increase in charges for services
- \$2.2 million decrease in investment income
- \$167K decrease in fines and forfeitures
- \$564K decrease in intergovernmental revenues for the year
- \$784K decreases in other taxes (e.g., TOT)

The declines in revenues from the prior year were impacted by the COVID-19 pandemic and its Public Health restrictions which began in March 2020 and continued to impact the Town in FY 2020/21.

General Fund expenditures represent approximately \$46.2 million of the Total Governmental Fund expenditures of \$52.8 million compared to \$44.3 million of total Governmental Funds expenditures of \$52.2 million in the prior year. The increase in governmental funds expenditures was led by an approximate \$1.0 million increase in general governmental and an \$777K increase in public safety expenditures from the prior year. The increase in general governmental expenditures was largely attributable to the total of \$5.6 million ADP payments made in the FY that were approximately \$800K higher than the amounts paid in the prior fiscal. These payments were used to pay down an additional portion of the Town's actuarial unfunded pension liability beyond mandated annual payments. Increases in public safety expenditures from the prior year of approximately \$777K were due primarily to mandated pension contribution rate increases by CalPERS and by increases in negotiated salary from the prior year. Additionally, salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates were also a contributing factor to increases to all Town Departments and services.

GFAR capital projects fund balances increased \$1.2 million from the prior year reflecting \$3.2 million of capital outlay expenditures above operating revenues, offset by \$1.5 million proceeds from the PG&E on-bill financing loan and net transfers into the GFAR fund of approximately \$3.0 million. Gas Tax fund balances increased approximately \$1.1 million reflecting gas tax revenues of \$1.2 million exceeding capital outlay expenditures and transfers out of \$100K for the fiscal year.

Proprietary Funds

The Town's Proprietary Funds (Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-Wide Financial Statements and include individual segment information.

Total net position in the Internal Service Funds decreased \$100K in the current year due primarily to expense over revenues for workers compensation and general liability costs including administration, insurance premiums, and claims expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to the Original Budget

Comparing the FY 2020/21 original budget (i.e., the adopted budget) General Fund expenditures of \$46,908,324 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$47,741,860 indicates a net increase of approximately \$0.8 million. Additions to the original expenditure budget included adjustments approved by Town Council throughout the fiscal year.

Original Budget GF Expenditures	+	=
	Misc. Adjustments & Mid-Year Adjustments	Final Budget
\$46,908,324	\$833,536	\$47,741,860

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year.

- Use of \$708,807 of Pension/OPEB Reserve and Restricted Pension Trust to make additional discretionary payments (ADPs) to CalPERS
- \$88,185 expenditure budget increase utilizing SB 2 Planning Grant received by the Town for the review of housing development applications, and to identify amendments to the Town Code necessary to add the objective standards and findings to Chapter 29 of the Town Code (Zoning Regulations).
- \$9,729 increase expenditures for electronic collections to utilize Library Grant received by the Town.
- \$100,000 expenditure budget adjustment to Traffic Program Safety Supplies to provide funding toward technology that will assist Patrol Officers in property crime prevention.
- \$55,000 expenditure budget adjustment to provide funding to the Chamber of Commerce for Destination Marketing from American Rescue Plan Act (ARPA) proceeds.
- \$48,325 expenditure budget adjustment to provide funding for Engineering General Plan update work that carried forward from FY 2019/20 into FY 2020/21 from available General Plan Update deposits.

- \$35,222 budget expenditure increase for the purchase and maintenance of Police Vehicle Mobile Audio and Video with License Plate Reader from available Equipment Replacement Fund balance.
- \$31,959 increase to salary and benefits for the Town Manager and the Town Attorney.
- \$9,729 increase expenditures for additional downtown street lighting repairs.
- \$129,000 expenditure budget decrease for the Parking Management Program since the COVID-19 pandemic has significantly impacted the visitation and parking patterns to parking enforcement areas.
- \$129,000 expenditure budget decrease for the Holiday Valet Parking Program since the Town did not implement the annual Holiday Valet Parking Program to reduce potential health impacts.
- \$87,786 expenditure budget decrease for Crossing Guard Services reflecting Santa Clara County Health Orders requiring remote learning instruction at all schools, thus reducing Crossing Guard service delivery needs.
- \$19,708 budget decrease for recognizing ARPA proceeds for 50% subsidizing permit expenses for parklets.

Variance with the Final General Fund Budget

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (GAAP) for Fiscal Year Ended June 30, 2021 reports an approximate overall favorable variance with the final budget of approximately \$1.0 million. This favorable variance was created largely by the net effect of the following factors:

- Actual revenues ended the fiscal year at \$100K below final budgeted revenues. The negative \$0.1 million variances represent a combined effect of \$3.2 million favorable variances of the economic sensitive revenues from budget, an unfavorable variance of \$0.5 million in investment earnings for year, an unfavorable \$32K variance in Franchise fees collected, and to the fact that staff budgeted the \$2.8 million anticipated American Recovery Plan (ARPA) proceeds in the General Fund, however after further Treasury guidance the ARPA proceeds are accounted in a Special Revenue Fund.
- The Town economically sensitive revenues started to show increases after the negative impact related to the COVID-19 pandemic and its related restrictions. The following economically sensitive revenues experienced increases:
 - A favorable variance of \$1.1 million in property tax collections
 - A favorable variance of \$0.8 million in charges for services
 - A favorable variance of \$600K in sales tax collections
 - A favorable variance of \$337K in Transient Occupancy Tax collections
 - A favorable variance of \$86K in Business License Tax collections
 - A favorable variance of \$174K in licenses and permits
 - A favorable variance of \$8K in fines and forfeitures

Significant factors affecting actual expenditures include:

- Public safety expenditures had a favorable variance of approximately \$900K . \$614K in savings is reflective of limited term vacancies in Police Officer and Dispatcher positions, savings of \$300K due to savings on vehicle maintenance expenses, decreased service cost of crossing guards and parking violation services, decreased travel activity due to the Shelter in Place order, and other miscellaneous operational savings.
- Community Development expenditures reflected a \$600K favorable variance explained largely by staff vacancies with salary and benefit savings of approximately \$220K due to the partial year vacancies of the Planning Manager and temporary Assistant Planner positions, decreased temporary Code compliance service delivery, and the General Plan Update expenditures being approximately \$306K lower than budgeted because the budget reflected the entire contract amount which has not been fully executed through the end of the fiscal year.
- Administrative Services reflected a favorable balance of approximately \$327K in large measure due to savings in salary and benefits due to partial year vacancies in the Emergency Manager position, decreased workload for the Special Event Coordinator position, savings in special events cost due to cancellation of events, and decreased travel activity due to the Shelter in Place order, and other miscellaneous operational savings.
- Library services reflected a favorable variance of \$128K due mainly to salary and benefit savings from partial staff vacancies in the Librarian, and Library Specialist position and other temporary vacancies.
- Town Attorney reflected a favorable balance of approximately \$121K in large measure due to savings in salary and benefits due to partial year vacancies of the Legal Administrative position and saving on legal services.
- Town Council reflected a favorable balance of approximately \$50K due to temporary salary savings, and decreased travel activity due to the Shelter in Place order, and other miscellaneous operational savings.
- Parks and Public Works reflects a favorable variance of approximately \$30K reflecting miscellaneous savings.

CAPITAL ASSETS

As of June 30, 2021, the Town's investment in capital assets for its governmental activity is recorded at \$111,416,265 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, machinery and equipment. Capital assets decreased \$300K net of depreciation expense totaling approximately \$4.7 million for the year.

During FY 2020/21, the Town's approximate \$4.3 million investment in capitalized assets for the current year represented approximately 2.4% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$500K in street repair and resurfacing and curb and gutter work Town-wide;
- \$800K in equipment purchases, including \$400K in construction in progress for public safety communications/dispatch equipment, vehicle fleet replacements, and \$100K in IT server fire suppression and disaster recovery equipment;
- \$900K in traffic signal and intersection improvements;
- \$900K expended on the Town's corporation yard building replacement;
- \$200K in construction in progress for pathways and trails; and
- \$200K in guardrail replacement efforts.

**Capital Assets
Town of Los Gatos
For the Year Ended June 30, 2021**

	Governmental Activities
Infrastructure	\$ 60,505,727
Buildings	22,891,327
Land	20,254,949
Equipment	2,312,214
Construction in Progress	5,452,048
	<u>\$ 111,416,265</u>

Additional information on the Town's capital assets is found in Note 5 of this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the Town provides cost-effective services, the Town's budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

During the development and adoption of the Town's FY 2021/22 budget, the Town Council and management considered the following factors:

- The FY 2021/22 Budget reflect maintaining high service levels with little to no increases in the employee headcount. The budget identified contingencies should revenues come in below projected amounts. The Town is carefully monitoring its revenues sources and will identify any modification at the mid-year budget discussion.
- Several Strategic Priorities are not one-time projects, but rather are ongoing commitments due to their critical significance to ensure the Town's fiscal and infrastructure stability and the safety and quality of life for Los Gatos residents, businesses, and visitors. These

commitments include continuing to address the Town's unfunded pension and other post-employment benefits (OPEB) obligations; developing Measure B transportation projects so the Town is positioned to receive its fair share of the funds; and fostering emergency preparedness and community wildfire resilience.

- In terms of capital projects, the Town Council affirmed its interest in investing in bicycle and pedestrian improvements and implementing elements of the Comprehensive Parking Study. In addition to capital projects, the Council identified new policy priorities which include engaging our senior community and implementing diversity, equity, and inclusion efforts.
- Other Strategic Priorities should position the Town well for its future. The Council is interested in exploring new revenue opportunities. The Council continues the General Plan Update to engage the community in land use planning and policies to guide development for the next couple of decades and address environmental sustainability and climate resiliency. Other Priorities included continuing to enhance economic and community vitality. As the Town continues to emerge from the economic upheaval of pandemic, the significance of enhancing economic and community vitality are paramount.
- Specific trends affecting the fund balance forecast include:
 - General property tax collections represent approximately 33.6% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 13.9% in FY 2021/22 from the prior year's tax collections. This increase is primarily due to the additional tax collection from the first phase of North 40 residential sales and continued strong property assessment values through the Town. This forecast is based on data from the Santa Clara County Tax Assessor's Office. The Town closely monitor its actual collection and other legislative changes regarding property tax.
 - The Town anticipates an increase in general sales tax for FY 2021/22. Sales tax estimates of \$8.1 million for FY 2021/22 were budgeted reflecting a 6.7% increase from the prior year's adjusted sales tax budget.
 - The Town's investment portfolio experienced a decrease in its overall weighted average annual yield, reducing from 1.86% as of June 30, 2020 to 1.37% as of June 30, 2021. Prevailing interest rates at the end of fiscal year were at historic lows due to economic impacts of the COVID-19 pandemic and Federal Reserve actions.
 - Transient Occupancy Tax (TOT) is expected to increase by 30% from FY 2020/21 adjusted budget. During FY 2020/21 TOT has experienced the most significant percentage decline relative to the adopted budget and Town Council approved a 69% decrease to the budget. In addition to the initial Shelter-in-Place (SIP) restrictions instituted on March 17, 2020, on November 28, 2020, Santa Clara County issued new mandatory directives which included that hotels and other lodging facilities would be open only for essential travel and for use to facilitate isolation or quarantine. Unlike sales tax forecasts which predict an acceleration of revenues tied to pent up consumer demand, the Town's TOT revenue

has historically been primarily driven by business travel. Given the uncertainty around physical business travel resuming at prior levels, as opposed to a continuation of remote work and online meeting forums, staff is recommending modest growth for base case development of the FY 2021/22 budget.

- The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. To address this unfunded status, the Town took proactive steps including initiating the prefunding of OPEB obligations, budgeting and programming additional discretionary pension payments to accelerate reduction of unfunded liabilities, and recently partnering with the Town's employee groups to eliminate the existing retiree healthcare benefit for new employees. Even with these proactive steps, the Town continues to be impacted by the continuing rising cost of pension related benefits. Over the next five fiscal years, the Town's five-year forecast includes increasing pension costs due to further changes in actuarial assumptions or lowering the discount rate. The Town's net pension liability is \$29.3 million for the safety cost sharing plan and \$32.5 million for the miscellaneous plan based upon data from CalPERS as of 6/30/2020.
- To illustrate the sensitivity of the net pension liability to changes in the discount rate, CalPERS estimates that a 1 % reduction in the discount rate from 7.0% to 6.0% would increase the total net pension liability for both Miscellaneous and Safety by \$28.1 million. Conversely, an increase in the discount rate from 7.0% to 8.0% would decrease the total net pension liability for both Miscellaneous and Safety by \$23.1 million.
- In addition, CalPERS provides a hypothetical termination liability estimate of the plans should the contract with CalPERS be terminated. The plan liability on a termination basis is calculated differently from the plans' ongoing funding liability. Since no future employer contributions would be made in the hypothetical termination, benefit payments are secured by risk-free assets. For the Miscellaneous plan, a 2.5% termination return rate results in a \$117.4 million termination liability. For the Safety plan, a 2.5% termination return rate results in a \$112.2 million termination liability.
- For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section.

Requests for Information

This financial report is designed to provide residents, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions about this report or requests for any additional information, should be directed to Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030; email at sconway@losgatosca.gov; or phone at (408) 354-6828.

Basic Financial Statements

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**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021****GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

The Statement of Net Position, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town.

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect is the entire Town's transactions are accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Position reports the Town's total assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing on the composition of the Town's net position (assets minus liabilities). The Statement of Net Position summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net position and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net position. From these components, the change in net position is computed and reconciled to the Statement of Net Position.

Both of these statements include the financial activities of the Town.

TOWN OF LOS GATOS
STATEMENT OF NET POSITION
JUNE 30, 2021

Item 5.

	Governmental Activities
ASSETS	
Cash and investments	\$ 66,528,737
Restricted cash and investments	85,724
Receivables:	
Accounts	1,939,600
Interest	244,671
Intergovernmental	3,104,661
Materials, supplies and deposits	123,946
Long term notes receivables	237,752
Long-term prepaid pension obligations	
Capital Assets:	
Nondepreciable	25,706,997
Depreciable, net of accumulated depreciation	85,709,267
Total Assets	<u>183,681,355</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	12,014,444
Pension related amounts	5,253,582
OPEB contributions subsequent to measurement date	2,096,847
OPEB related amounts	381,722
Total Deferred Outflows of Resources	<u>19,746,595</u>
LIABILITIES	
Accounts payable	2,476,829
Accrued payroll and benefits	1,662,094
Due to other governments	41,291
Unearned Revenue	4,231,781
Deposits	6,226,770
Claims payable	1,696,072
Long-term liabilities:	
Due within one year:	
Loans payable	156,034
Compensated absences	370,921
Due in more than one year:	
Loans payable	1,365,294
Net OPEB liability	8,495,214
Net pension liabilities	58,023,249
Compensated absences	2,928,914
Total Liabilities	<u>87,674,463</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	1,433,785
OPEB related amounts	801,602
Total Deferred Inflows of Resources	<u>2,235,387</u>
NET POSITION	
Net investment in capital assets	109,894,936
Restricted for:	
Capital projects	7,633,034
Library	552,877
Lighting and landscape repairs and maintenance	172,356
Total Restricted Net Position	<u>8,358,267</u>
Unrestricted	<u>(4,735,103)</u>
Total Net Position	<u>\$ 113,518,100</u>

TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and
					Changes in Net Position
					Governmental Activities
Governmental Activities:					
General government	\$ 7,086,377	\$ 1,894,080	\$ -	\$ 2,365	\$ (5,189,932)
Public safety	19,808,230	1,288,358	1,061,344	-	(17,458,528)
Parks and public works	13,141,034	4,209,048	1,547,102	843,980	(6,540,904)
Community development	6,846,834	4,063,776	223,129	-	(2,559,929)
Library services	3,496,153	-	55,181	-	(3,440,972)
Sanitation	185,981	299,478	-	-	113,497
Total Governmental Activities	\$ 50,564,609	\$ 11,754,740	\$ 2,886,756	\$ 846,345	(35,076,768)
General revenues:					
Taxes:					
Property taxes					19,878,835
Sales taxes					7,933,604
Franchise taxes					2,499,463
Other taxes					1,126,887
Motor vehicle in lieu					23,058
Investment earnings					227,136
Miscellaneous					1,528,039
Total general revenues					33,217,022
Change in Net Position					(1,859,746)
Net Position - Beginning, as restated					115,377,846
Net Position - Ending					\$ 113,518,100

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**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS**

Fund Financial Statements

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2021. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2021**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 30,102,793	\$ 18,477,294	\$ 8,586,389	\$ 57,166,476
Receivables:				
Accounts	1,159,677	691,115	57,904	1,908,696
Interest	244,672	-	-	244,672
Intergovernmental	2,739,088	-	365,573	3,104,661
Other assets	123,946	-	-	123,946
Due from other funds	79,177	121,256	-	200,433
Long term notes	159,000	-	78,752	237,752
Total Assets	\$ 34,608,353	\$ 19,289,665	\$ 9,088,618	\$ 62,986,636
LIABILITIES				
Accounts payable	\$ 1,053,910	\$ 1,239,614	\$ 10,833	\$ 2,304,357
Accrued payroll and benefits	1,657,348	-	4,747	1,662,095
Due to other governments	41,159	-	50	41,209
Unearned revenue	1,714,548	2,452,438	64,855	4,231,841
Deposits	6,226,770	-	-	6,226,770
Due to Other Funds	-	-	200,911	200,911
Total Liabilities	10,693,735	3,692,052	281,396	14,667,183
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	481,701	-	481,701
Total deferred inflows of resources	-	481,701	-	481,701
FUND BALANCE				
Nonspendable	159,000	-	-	159,000
Restricted for:				
Capital Outlay	-	-	7,544,097	7,544,097
Library	-	-	552,877	552,877
Repairs and Maintenance	-	-	172,356	172,356
VTA	-	293,323	-	293,323
Committed to:				
Budget Stabilization and Catastrophic	10,920,970	-	-	10,920,970
Pension/OPEB	300,000	-	-	300,000
Assigned to:				
Open Space	410,000	152,000	-	562,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Capital/Special Projects	6,965,355	13,160,379	-	20,125,734
Comcast PEG	-	50,000	-	50,000
Sale of Property	1,200,000	-	-	1,200,000
Market Fluctuations	438,333	-	-	438,333
Compensated Absences	1,649,917	-	-	1,649,917
Measure G 2018 District Sales Tax	1,730,490	-	-	1,730,490
Special Revenue Funds	-	-	537,892	537,892
Total Fund Balances	23,914,618	15,115,912	8,807,222	47,837,752
Total Liabilities and Fund Balances	\$ 34,608,353	\$ 19,289,665	\$ 9,088,618	\$ 62,986,636

TOWN OF LOS GATOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES
JUNE 30, 2021

Fund Balance - Total Governmental Funds	\$ 47,837,752
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:	
CAPITAL ASSETS	
Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	111,416,264
ALLOCATION OF INTERNAL SERVICE FUND NET POSITION	
Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position.	7,610,801
DEFERRED INFLOWS OF RESOURCES	
Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds.	481,701
DEFERRED OUTFLOWS OF RESOURCES	
Contributions subsequent to the measurement date and certain other expenses will not be included in the calculation of the Town's net pension liability and expenses for the plan year included in this report and have been deferred and reported as deferred outflows of resources.	17,268,026
DEFERRED INFLOWS OF RESOURCES	
In the Government-Wide financial statements certain pension amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	(1,433,785)
DEFERRED OUTFLOWS OF RESOURCES	
Contributions subsequent to the measurement date and certain other expenses will not be included in the calculation of the Town's net OPEB liability or expenses for the plan year included in this report and have been deferred and reported as deferred outflows of resources.	2,478,569
DEFERRED INFLOWS OF RESOURCES	
In the Government-Wide financial statements certain OPEB amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	(801,602)
LONG-TERM LIABILITIES	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	
Loans payable	\$ (1,521,328)
Net Pension Liability	(58,023,249)
Net OPEB Liability	(8,495,214)
Compensated absences	(3,299,835)
	(71,339,626)
Net Position - Governmental Activities	\$ 113,518,100

TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 19,878,835	\$ -	\$ 38,593	\$ 19,917,428
Sales Taxes	7,933,604	-	-	7,933,604
Other Taxes	1,059,741	-	67,146	1,126,887
Licenses & Permits	4,386,654	473,427	352,750	5,212,831
Intergovernmental	1,573,697	630,035	1,542,855	3,746,587
Charges for Services	4,835,962	1,199,697	-	6,035,659
Fines and Forfeitures	103,467	-	1	103,468
Franchise Fees	2,499,463	-	-	2,499,463
Interest	96,061	35,312	96,567	227,940
Use of Property	36,372	4,000	-	40,372
Other	335,905	48,818	38,392	423,115
Total Revenues	42,739,761	2,391,289	2,136,304	47,267,354
EXPENDITURES				
Current:				
General Government	14,040,134	-	-	14,040,134
Public Safety	16,570,836	-	-	16,570,836
Parks and Public Works	8,175,987	-	53,957	8,229,944
Community Development	4,994,391	-	200,911	5,195,302
Library Services	2,828,873	-	19,115	2,847,988
Sanitation and Other	-	-	166,173	166,173
Capital Outlay	2,365	5,675,604	68,478	5,746,447
Total Expenditures	46,612,586	5,675,604	508,634	52,796,824
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,872,825)	(3,284,315)	1,627,670	(5,529,470)
OTHER FINANCING SOURCES (USES)				
Proceeds from sales of assets	1,201,369	-	-	1,201,369
Proceeds from issuance of debt	-	1,560,336	-	1,560,336
Transfers in	652,056	3,401,479	-	4,053,535
Transfers (out)	(3,401,479)	(427,616)	(110,920)	(3,940,015)
Total Other Financing Sources (Uses)	(1,548,054)	4,534,199	(110,920)	2,875,225
NET CHANGES IN FUND BALANCES	(5,420,879)	1,249,884	1,516,750	(2,654,245)
BEGINNING FUND BALANCES, AS RESTATED	29,335,497	13,866,028	7,290,472	50,491,997
ENDING FUND BALANCES	\$ 23,914,618	\$ 15,115,912	\$ 8,807,222	\$ 47,837,752

TOWN OF LOS GATOS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,654,245)

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets (additions)	\$ 4,347,099	
Proceeds from sale of assets	(1,201,369)	
Gain on sale of assets	1,161,508	
Current Year Depreciation	(4,591,199)	(283,961)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. (1,560,336)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

39,008

UNAVAILABLE REVENUES

Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds. 276,001

OPEB PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year OPEB expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 428,728

PENSION PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 2,207,470

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service fund is reported with governmental activities. (120,279)

COMPENSATED ABSENCES EXPENSE

In governmental funds, compensated absences such as vacations and sick leave are expenditures when taken. However, in the Government-Wide Statement of Activities, the current year change in the compensated absences liability is reported. (192,132)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ (1,859,746)

TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 18,652,039	\$ 18,705,325	\$ 19,878,835	\$ 1,173,510
Sales Taxes	7,987,247	7,301,869	7,933,604	631,735
Other Taxes	2,294,671	714,723	1,059,741	345,018
Franchise Fees	2,532,289	2,532,289	2,499,463	(32,826)
Licenses & Permits	4,296,898	4,211,898	4,386,654	174,756
Intergovernmental	970,885	4,342,588	1,573,697	(2,768,891)
Charges for Services	4,178,212	4,014,619	4,835,962	821,343
Fines and Forfeitures	434,950	94,950	103,467	8,517
Interest	626,409	626,409	96,061	(530,348)
Use of Property	35,793	35,793	36,372	579
Other	253,351	253,351	335,905	82,554
Total Revenues	42,262,744	42,833,814	42,739,761	(94,053)
EXPENDITURES				
Current:				
General Government:				
Town Council	243,486	243,486	192,279	51,207
Town Attorney	645,303	658,831	537,296	121,535
Administrative Services	4,974,616	4,995,847	4,667,995	327,852
Non-Departmental	6,841,510	7,602,517	8,642,563	(1,040,046)
Total General Government	12,704,915	13,500,681	14,040,133	(539,452)
Public Safety	17,587,825	17,487,761	16,570,836	916,925
Community Development	5,517,030	5,589,807	4,994,391	595,416
Parks & Public Works	8,152,045	8,206,080	8,175,987	30,093
Library Services	2,946,509	2,957,531	2,828,873	128,658
Capital Outlay	-	-	2,365	(2,365)
Total Expenditures	46,908,324	47,741,860	46,612,585	1,129,275
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(4,645,580)	(4,908,046)	(3,872,824)	1,035,222
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,000	1,201,000	1,201,369	369
Transfers In	616,834	652,056	652,056	-
Transfers Out	(3,401,479)	(3,401,479)	(3,401,479)	-
Total Other Financing Sources (Uses)	(2,784,645)	(2,749,423)	(1,548,054)	369
NET CHANGES IN FUND BALANCES	\$ (7,430,225)	\$ (7,657,469)	(5,420,878)	\$ 1,035,591
BEGINNING FUND BALANCE			29,335,497	
ENDING FUND BALANCE			\$ 23,914,619	

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town Departments or programs that generated them, thus eliminating internal service funds.

Draft
11/29/2021

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021**

	Governmental Activities Internal Service Funds
ASSETS	
Cash & investments	\$ 9,362,261
Restricted cash & investments	85,724
Accounts receivable	30,964
Due from other funds	478
Total Assets	<u>9,479,427</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	172,471
Due to other governments	83
Total current liabilities	<u>172,554</u>
Noncurrent liabilities:	
Claims payable	<u>1,696,072</u>
Total noncurrent liabilities	<u>1,696,072</u>
Total Liabilities	<u>1,868,626</u>
Restricted for workers compensation claims	85,724
Unrestricted	<u>7,525,077</u>
Total Net Position	<u><u>\$ 7,610,801</u></u>

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 3,382,212
Interest	5
Use of money and property	232,474
Other local taxes	67,146
Intergovernmental	0
Other	421,650
	<u>4,103,487</u>
Total Operating Revenues	
OPERATING EXPENSES	
Insurance expenses	1,169,839
Services and Supplies	2,940,407
	<u>4,110,246</u>
Total Operating Expenses	
Operating Expense	(6,759)
Transfers in (Note 4)	33,000
Transfers out (Note 4)	(146,520)
	<u>(113,520)</u>
Net transfers	
Change in Net Position	(120,279)
BEGINNING NET POSITION	<u>7,731,080</u>
ENDING NET POSITION	<u><u>\$ 7,610,801</u></u>

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,101,076
Payments to suppliers	(3,016,880)
Claims paid	(722,178)
Net cash provided (used) by operating activities	362,018
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In/(Out)	(113,520)
Net cash provided (used) by noncapital financing activities	(113,520)
Net Increase(Decrease) in Cash and Investments	248,498
Cash and investments - beginning of year	9,199,965
Cash and investments - end of year	\$ 9,448,463
FINANCIAL STATEMENT PRESENTATION	
Cash & investments	\$ 9,362,261
Restricted cash & investments	85,724
Total	\$ 9,447,985
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating Income	\$ (6,759)
Change in assets and liabilities:	
Receivables, net	(2,411)
Accounts payable	(76,556)
Claims payable	447,661
Due to other government	83
Cash Flows From Operating Activities	\$ 362,018

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

RDA Successor Agency Private Purpose Trust Fund was established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to existing Redevelopment Agency obligations.

Draft
11/29/2021

TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021

	RDA Successor Agency
ASSETS	
Cash and investments (Note 2)	\$ 1,863,433
Restricted cash and investments (Note 2)	1,984,487
Loans receivable (Note 3)	598,754
Capital assets (Note 5):	
Nondepreciable	5,257,422
Depreciable, net of accumulated depreciation	1,322,008
Total Assets	11,026,104
LIABILITIES	
Accounts payable	63
Interest payable	263,355
Long-term debt (Note 6):	
Due within one year	1,300,000
Due in more than one year	13,123,890
Total Liabilities	14,687,308
NET POSITION	
Held in trust	(3,661,204)
Total Net Position	\$ (3,661,204)

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	RDA Successor Agency
ADDITIONS	
Property taxes	\$ 1,946,787
Investment earnings	28,297
Total Additions	<u>1,975,084</u>
DEDUCTIONS	
Program expenses of former RDA	5,399
Interest and fiscal agency expenses of RDA	598,804
Depreciation expense	<u>101,693</u>
Total Deductions	<u>705,896</u>
CHANGE IN NET POSITION	1,269,188
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>(4,930,392)</u>
NET POSITION - END OF YEAR	<u><u>\$ (3,661,204)</u></u>

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the "Town") operates under a Council-Manager form of government and provides the following services: public safety (including police and emergency management), parks and public works, community development, library, public improvements, planning and zoning, and general administration services. Redevelopment services were provided primarily through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town's population as of January 1, 2021 was 30,836.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government and any component units for which the Town is considered financially accountable.

B. Description of Blended Component Units

The Town did not report any component units as a part of the primary government because the Town Council was not the governing body of any entities and no separate entity provided services solely to the Town.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 11, the Town participates in two joint ventures and public entity risk pool activities through formally organized separate legal entities. The financial activities of the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) and the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) are not included in the accompanying basic financial statements as these boards are separate from and independent of the Town administration.

D. Basis of Presentation

The Town's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. However, interfund services provided and used are not eliminated in the process of consolidation. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meet the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated funds and reported as non-major funds.

Internal service funds of the Town (which provide services primarily to other funds of the Town) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program in the Statement of Activities.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

E. Major Funds

GASB defines major funds and requires that the Town's major governmental funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

The Town also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, facilities maintenance, information technology, and equipment replacement.

Fiduciary Funds include Private-Purpose Trust Funds used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

The Town reported the following Fiduciary Fund in the accompanying financial statements:

RDA Successor Agency Private Purpose Trust Fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's Redevelopment Agency in 2012, which includes the following:

- Certificates of Participation issued to finance several capital improvement projects throughout the Town.
- Redevelopment projects and related property tax revenue.
- Affordable Housing Set-Aside Program obligations.
- Repayment of obligations incurred by the Town's Redevelopment Agency prior to its dissolution.

F. Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers property tax revenues reported in the governmental funds to be available if the revenues are collected or are reasonably expected to be collected within sixty days after year-end. For revenues other than property taxes, the Town generally applies the sixty-day period rule but would make exceptions considering the *measurable* and *available* criteria. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and/or general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town applies all applicable GASB pronouncements for certain accounting and financial reporting guidance including those applicable to accounting and reporting for proprietary operations. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pension - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's California Public Employees' Retirement System (CalPERS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 to June 30, 2020

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 to June 30, 2020

Cash and Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Investments - Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- **Market approach** - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- **Cost approach** - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- **Income approach** - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Materials, Supplies and Deposits - These assets are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/advances from other funds". All other outstanding balances between funds are reported as "due to/from other funds".

Advances - Advances between funds are offset by a nonspendable fund balance in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their acquisition value on the date contributed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceed \$10,000.

As required by GASB, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Town depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Software	5-7 years
Infrastructure	20-40 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the Town's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25.0%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50.0%

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Position. The changes of the compensated absences were as follows:

Beginning Balance	\$ 3,107,703
Addition	1,557,810
Payments	(1,365,678)
Ending Balance	\$ <u>3,299,835</u>
Compensated Absences Current Portion	\$ <u>370,921</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General fund. Only compensated absences liabilities related to retirements as of the end of the fiscal year are reported in the fund financial statements.

TOWN OF LOS GATOS, CALIFORNIA
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Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Unearned Revenue - Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable revenue.

Long-Term Liabilities - In the government-wide financial statements and private-purpose trust funds long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net position by the Town that is applicable to a future reporting period, for example, contributions to pension and OPEB plans that are after the actuarial measurement date.

Deferred inflows of resources is an acquisition of net position by the Town that is applicable to a future reporting period, for example, unavailable revenue.

Net Position - In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Fund Balances - The Town does not have a policy identifying a minimum unassigned fund balance. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the remaining fund balances are otherwise unassigned.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classifies governmental fund balances as follows:

Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through Council Resolution which is a formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Town Council.

Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Town Manager or the Finance Director.

Unassigned includes fund balances within the funds which have not been classified within the above mentioned categories. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Town would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Events - Management has considered subsequent events through **December xx, 2021**, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.
6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual budget adjustments or amendments were not material in relation to original appropriations, except for an increase in non-departmental expenditures related to a discretionary lump-sum payment to CalPERS for the pension liability.

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during the year ended June 30, 2021.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as restrictions, commitments or assignments of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for the presentation in the current-year financial statements.

G. Accounting and Reporting Changes

The Town adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 90, *Majority Equity Interests* – The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement did not apply to the Town for the current fiscal year.
- GASB Statement No. 93, *Interbank offered rates (except LIBOR removal and lease modifications)* – The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement did not apply to the Town for the current fiscal year.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement did not apply to the Town for the current fiscal year.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report* – The objective of this Statement is to address references in authoritative literature to the term comprehensive annual financial report. The Town implemented this statement by referring to the report as an Annual Comprehensive Financial Report and using the ACFR acronym.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Restricted Investments so that it can be invested at the maximum yield, consistent with the primary objectives of safety and liquidity, while ensuring existing funds have cash available for expenditures.

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are next in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments, since they must be held to maturity.

Cash Deposits with Banks and Custodial Credit Risk - California Law requires banks and savings and loan institutions to pledge government securities with a fair value of 110% of the Town's cash on deposit, first trust deed mortgage notes with a value of 150% of the deposit, or letters of credit issued by the Federal Home Loan Bank of San Francisco with a value of 100% of the deposit as collateral. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town's cash deposits are collateralized under this law.

The bank balance of the Town's cash deposits was \$12,455,161 and the carrying amount was \$12,308,688 as of June 30, 2021. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

Investments - The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

Fair Value Measurements - GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

Local Agency Investment Fund (LAIF) - The Town invests in the California State Treasurer's Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and is under the day-to-day administration of the State Treasurer. As of June 30, 2021, the Town had approximately \$11.9 million in LAIF and used a fair value factor of 1.00008297 to calculate the fair value of the investments in LAIF. Of that amount, 97.69% is invested in non-derivative financial products and 2.31% in structured notes and asset-backed securities. These investments are described as follows:

1. Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
2. Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

Risk Disclosures

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on the following page that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on the following page shows the minimum rating under the actual rating of the Town's investments at year end.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's money market fund and investment in LAIF are not categorized as to custodial credit risk. Its U.S. Government Agency Securities investment is held by a third-party financial institution under the third party's trust department's name and thus not exposed to custodial credit risk.

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2021.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 5.

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

Risk Disclosures, Continued

The following table summarizes the Town's policy related to maturities and concentration of investments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Portfolio Percentage</u>
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	30%
Commercial Paper	270 days	25%
Medium Term Notes	5 years	30%
Collateralized CD's	5 years	30%
CA LAIF	N/A	\$65 million
Money Market Funds	N/A	20%

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2021:

<u>Investment Type/Cash Deposit</u>	<u>Available for Operations</u>	<u>Restricted</u>	<u>Total</u>	<u>Concentration of Credit Risk</u>	<u>Minimum Rating</u>	<u>Input level</u>	<u>Time to Mature (Years)</u>	<u>Weighted Average Maturity</u>
US Treasury Securities	\$ 7,892,169	\$ -	\$ 7,892,169	13.58%	n/a	2	1-4	1.87 years
US Instrumentality Security	22,313,521	-	22,313,521	38.38%	n/a	2	0-4	1.80 years
Corporate Securities	15,742,984	-	15,742,984	27.08%	A3	2	0-4	1.95 years
Market Mutual funds	305,797	-	305,797	0.53%	Not Rated	2	n/a	n/a
LAIF	11,879,232	-	11,879,232	20.43%	Not Rated	n/a	n/a	n/a
Total investments	58,133,703	-	58,133,703	100.00%				
Cash Deposit with Banks	10,238,478	\$ 2,070,211	12,308,689					
Money Market Accounts	17,389	-	17,389					
Cash on hand at Town	2,600	-	2,600					
Town Cash and Investments	<u>\$68,392,170</u>	<u>\$ 2,070,211</u>	<u>\$70,462,381</u>					

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

	<u>Total Town</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Investments available for operations	\$ 66,528,737	\$ 1,863,433	\$ 68,392,170
Restricted cash and investments	85,724	1,984,487	2,070,211
Total cash and investments	<u>\$ 66,614,461</u>	<u>\$ 3,847,920</u>	<u>\$ 70,462,381</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 5.

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2021:

Description	Interest Rate	Maturity	Balance
General Fund:			
Rehab Loan to Charities	Various	Various	\$ 159,000
Total General Fund			159,000
Community Development Block Grant Fund (CDBG):			
Housing Conservation Loans	0-5%	Various	78,752
Total CDBG			78,752
Total Long Term Notes Receivable - Government-Wide Statement of Net Position			237,752
Successor Agency Affordable Housing			
Project Match	Various	Various	598,754
Total Long Term Notes Receivable			\$ 836,506

Active Home Loans and Housing Conservation Loans - The Town used CDBG Funds (funded through federal grants) to assist low and moderate income homeowners to improve their homes and to fund low income housing rental properties acquisition and rehabilitation. These loans are secured by deeds of trust.

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four- or five-bedroom single-family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2021, no interest or principal payments have been made.

NOTE 4 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables - Amounts due to or due from other funds reflect interfund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2021 were as follows:

	Transfer In	Transfer Out
General Fund	\$ 652,056	\$ 3,401,479
Appropriated Reserve Fund	3,401,479	427,616
Non-major Gov't Funds	-	110,920
Internal Service Funds	33,000	146,520
Total Transfers	\$ 4,086,535	\$ 4,086,535

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 5 - CAPITAL ASSETS

Changes in the Town's capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2020	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2021
Capital Assets not being Depreciated				
Land	\$ 20,294,810	\$ -	\$ (39,861)	\$ 20,254,949
Construction in Progress	2,044,143	3,551,118	(143,213)	5,452,048
Total Capital Assets not being Depreciated	22,338,953	3,551,118	(183,074)	25,706,997
Capital Assets being Depreciated				
Buildings and Improvements	31,895,114	140,627	115,271	32,151,012
Equipment & Vehicle	11,736,395	248,302	-	11,984,697
Infrastructure - All Other	26,197,569	137,056	27,942	26,362,567
Infrastructure - Streets	77,718,360	269,996	-	77,988,356
Total Capital Assets being Depreciated	147,547,438	795,981	143,213	148,486,632
Less Accumulated Depreciation for:				
Buildings and Improvements	8,553,904	705,782	-	9,259,686
Equipment & Vehicle	9,053,697	618,786	-	9,672,483
Infrastructure - All Other	7,207,051	806,154	-	8,013,205
Infrastructure - Streets	33,371,514	2,460,477	-	35,831,991
Total accumulated depreciation	58,186,166	4,591,199	-	62,777,365
Net Capital Assets being Depreciated	89,361,272	(3,795,218)	143,213	85,709,267
Governmental Activity Capital Assets, Net	\$ 111,700,225	\$ (244,100)	\$ (39,861)	\$ 111,416,264

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows:

Governmental Activities	Depreciation Expense
General Government	\$ 250,446
Community Services	52,599
Public Safety	444,262
Parks & Public Works	3,466,420
Library	377,217
Sanitation	255
Total Governmental Activities	<u>\$ 4,591,199</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 5.

NOTE 5 - CAPITAL ASSETS, CONTINUED

Changes in the RDA Successor Agency trust fund capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2020	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2021
Capital Assets not being Depreciated				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total Capital Assets not being Depreciated	5,257,422	-	-	5,257,422
Capital Assets being Depreciated				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total Capital Assets being Depreciated	4,067,708	-	-	4,067,708
Less Accumulated Depreciation for:				
Buildings and Improvements	2,644,007	101,693	-	2,745,700
Total accumulated depreciation	2,644,007	101,693	-	2,745,700
Net Capital Assets being Depreciated	1,423,701	(101,693)	-	1,322,008
Successor Agency Capital Assets, Net	\$ 6,681,123	\$ (101,693)	\$ -	\$ 6,579,430

NOTE 6 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. Below is a summary of Town indebtedness:

Long Term Debt	Beginning Balance	Addition	Deletion	Ending Balance	Due Within One Year	Due in More Than One Year
Direct Borrowings	\$ -	\$ 1,560,336	\$ 39,008	\$ 1,521,328	\$ 156,034	\$ 1,365,294
Total Long-Term Debt	\$ -	\$ 1,560,336	\$ 39,008	\$ 1,521,328	\$ 156,034	\$ 1,365,294

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 5.

NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED

On August 7, 2020, the Town entered into an agreement with PG&E for a loan in the amount of \$1,560,336 for costs related to various energy upgrades the Town performed during the fiscal years ended June 30, 2019 and June 30, 2020. The loan is to be repaid over the course of 12 years with an interest rate of 0% and a monthly amount of \$13,003 billed through the Town's energy bill. Future debt service requirements for the PG&E loan are as follows:

Fiscal Year Ended June 30,	Principal	Total
2022	156,034	156,034
2023	156,034	156,034
2024	156,034	156,034
2025	156,034	156,034
2026	156,034	156,034
2027-2031	741,158	741,158
Total Debt Service	<u>\$ 1,521,328</u>	<u>\$ 1,521,328</u>

As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2021:

Long Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletion	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5 -5%	8/1/2031	\$ 10,725,000	\$ 6,065,000	\$ 385,000	\$ 5,680,000	\$ 400,000	\$ 5,280,000
2010 COP	2.5 - 4.25%	8/1/2028	15,675,000	9,270,000	865,000	8,405,000	900,000	7,505,000
Subtotal COP			26,400,000	15,335,000	1,250,000	14,085,000	1,300,000	12,785,000
Premiums			735,095	376,545	37,655	338,890		338,890
Total Long-Term Debt			<u>\$ 27,135,095</u>	<u>\$ 15,711,545</u>	<u>\$ 1,287,655</u>	<u>\$ 14,423,890</u>	<u>\$ 1,300,000</u>	<u>\$ 13,123,890</u>

2002 Certificates of Participation (2002 COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 COPs, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town had pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

2010 Certificates of Participation (2010 COPs) - On June 1, 2010, \$15,675,000 of 2010 COPs were issued to finance the acquisition, construction, and improvement of a library on the Town's Civic Center campus, to be owned and operated by the Town. Principal payments are due annually on August 1, with interest payments due semi-annually on February 1 and August 1.

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 2002 and 2010. Under the agreements, the Agency will use available net tax increment revenues resulting from the projects' effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreements for the projects. Net tax increment revenues are all taxes allocated to and paid into the Successor Agency private-purpose trust fund.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED

Future debt service requirements of the 2002 and 2010 Certificates of Participation are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2022	1,300,000	599,850	1,899,850
2023	1,355,000	538,713	1,893,713
2024	1,415,000	479,550	1,894,550
2025	1,485,000	417,300	1,902,300
2026	1,550,000	351,850	1,901,850
2027-2031	6,330,000	753,600	7,083,600
2032	650,000	16,250	666,250
Total COP Debt Service	<u>\$ 14,085,000</u>	<u>\$ 3,157,113</u>	<u>\$ 17,242,113</u>

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs' debt agreements. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the debt agreements and totaled \$1,984,487 as of June 30, 2021. The California Government Code requires these funds to be invested in accordance with Town ordinances, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. There was no non-obligated debt outstanding as of June 30, 2021.

NOTE 8 - FUND BALANCES

Fund balance for governmental funds is reported in classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 8 - FUND BALANCES, CONTINUED

As of June 30, 2021, fund balances were classified as follows:

	Beginning Balance	Adjustments	Adjusted Beginning Balance	Additions	Deletions	Ending Balance
Nonspendable	-	159,000	159,000	-	-	159,000
Restricted for:						
Capital Outlay	\$ 6,257,756	\$ -	\$ 6,257,756	\$ 1,286,341	\$ -	\$ 7,544,097
Pension	669,978	-	669,978	-	(669,978)	-
Library	-	526,815	526,815	45,177	(19,115)	552,877
Repairs and Maintenance	190,250	-	190,250	-	(17,894)	172,356
VTA	-	-	-	293,323	-	293,323
				Total Restricted		8,562,653
Committed to:						
Budget Stabilization	5,427,603	-	5,427,603	32,882	-	5,460,485
Catastrophic	5,427,603	-	5,427,603	32,882	-	5,460,485
Pension/OPEB Reserve	4,532,500	-	4,532,500	300,000	(4,532,500)	300,000
				Total Committed		11,220,970
Assigned to:						
Open Space	410,000	-	410,000	152,000	-	562,000
Parking	1,460,210	-	1,460,210	-	-	1,460,210
Sustainability	140,553	-	140,553	-	-	140,553
Capital/Special Projects	8,787,958	(159,000)	8,628,958	-	(1,663,603)	6,965,355
Comcast PEG	50,000	-	50,000	-	-	50,000
Market Fluctuations	1,218,732	-	1,218,732	438,333	(1,218,732)	438,333
Sale of Property	-	-	-	1,200,000	-	1,200,000
Compensated Absences	1,539,408	-	1,539,408	110,509	-	1,649,917
Capital Projects	12,266,881	-	12,266,881	893,498	-	13,160,379
Measure G 2018 District Sales Tax						
Operational	1,181,162	-	1,181,162	-	(590,581)	590,581
Capital	-	-	-	1,139,909	-	1,139,909
Special Revenue Funds	404,588	-	404,588	299,477	(166,173)	537,892
				Total Assigned		27,895,129
Total Fund Balance - All Governmental Funds	<u>\$49,965,182</u>	<u>\$ 526,815</u>	<u>\$50,491,997</u>	<u>\$ 6,224,331</u>	<u>\$(8,878,576)</u>	<u>\$47,837,752</u>

Restricted

Capital Outlay funded from storm drain fees, construction taxes and debt proceeds are legally restricted for major capital projects.

Library reflects fund balance from donations and bequests held in trust for the benefit of the Town's library.

Repairs and Maintenance reflects legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

VTA are funds provided by the Valley Transportation Authority's Measure B restricted for the pavement/crack seal rehabilitation project

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 8 - FUND BALANCES, CONTINUED

Committed

Stabilization Arrangements

The Town Council has established by resolution the budget stabilization arrangement and the catastrophe arrangement. The total balances in these arrangements are to be maintained at 25% of annual General Fund ongoing, operating expenditures, excluding one-time expenditures, divided equally between both arrangements. When either arrangement is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures. The arrangements can be used when:

- Unforeseen emergencies, such as a disaster or catastrophic event occur
- Significant decrease in property or sales tax, or other economically sensitive revenues
- Loss of businesses considered to be significant sales tax generators
- Reductions in revenue due to actions by the state /federal government
- Workflow /technical system improvements to reduce ongoing, personnel costs and enhance customer service
- One -time maintenance of service levels due to significant economic /budget constraints
- One -time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Should any of the events listed above occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve catastrophic or budget stabilization arrangement appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the event and authorizing the appropriation of reserve funds.

Pension/OPEB Reserve committed fund balance will be used to fund net pension liabilities for the Town's Miscellaneous and Safety pension plans administered by CALPERS. In the fiscal year ending June 30, 2018 the Town approved an update to its General Fund reserve policy providing to the extent possible that additional annual deposits be calculated and placed into this reserve with the goal of moving the payment of the unfunded pension liability from a 29-year to a 20-year amortization period.

Assigned

Open Space assigned fund balance will be used to make selective open space acquisitions.

Parking assigned fund balance will be used to mitigate parking issues within the Town.

Sustainability assigned fund balance will be used to fund ongoing sustainability initiatives and programs.

Capital/Special Projects assigned fund balance will be used for the acquisition and construction of capital facilities as well as special projects or activities as directed by the Town Council.

Comcast PEG assigned fund balance will be used to fund capital improvements linked to the televising of council and planning commission meetings.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 8 - FUND BALANCES, CONTINUED

Market Fluctuations assigned fund balance is used to represent fund balance amounts for unrealized investment gains that have been recorded as investment income in the financial statements in accordance with the requirements of GASB 31.

Sale of Property is intended to be spent on capital projects

Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2021 that were not an obligation of the General Fund because of their long-term nature.

Measure G 2018 District Sales Tax assigned fund balances for operational and capital will be used to track receipt and use of the 1/8 cents District tax funds collected by the Town for operational and capital expenditures.

Special Revenue Fund assigned fund balance will be used for the activities of the respective revenue funds.

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Summary of Pension Amounts

	Miscellaneous Plan	Safety Plan	Total Plans
Deferred Employer Pension Contributions	\$ 9,160,680	\$ 2,853,764	\$ 12,014,444
Deferred Outflows - Pension Related Amounts	\$ 1,635,051	\$ 3,618,531	\$ 5,253,582
Net Pension Liability	\$ 30,873,333	\$ 27,149,916	\$ 58,023,249
Deferred Inflows - Pension Related Amounts	\$ -	\$ 1,433,785	\$ 1,433,785
Pension Expense	\$ 5,170,412	\$ 4,636,562	\$ 9,806,974

(a) General Information about the Pension Plans

Plan Description - All qualified employees are eligible to participate in the Town's pooled Safety Plan, a cost-sharing multiple-employer defined benefit pension plan and the Town's Miscellaneous (all other) Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Audited financial statements of CalPERS can be obtained from its website <https://www.calpers.ca.gov/page/forms-publications>. The Town relies upon actuarial and investment data provided by CalPERS for inclusion and analysis in this report.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(a) General Information about the Pension Plan, Continued

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, Lump Sum, or the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

Hire Date	Miscellaneous			Safety	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
	Prior to September 15, 2012	Prior to September 15, 2012 and before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013	Before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2% @ 60	2% @ 62	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years	5 years	5 years	5 years	5 years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62	50	57
Monthly benefits as a % of eligible compensation	2% to 2.5%	1% to 2.5%	1.5% to 2.5%	3%	2% to 2.7%
Required employee contribution rates	8.00%	7%-8%	7.25%	9.00%	12.75%
Required employer contribution rates		10.458%		25.540%	13.884%
Required payment of unfunded liability		\$ 2,563,389		\$1,708,222	\$15,282

Employees Covered

At June 30, 2021, the following employees were covered by the benefit terms for the Miscellaneous and Safety Plans:

	Miscellaneous	Safety
Active	114	36
Transferred	89	10
Separated	105	14
Retired	250	84
Total	558	144

Contributions – Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. In addition, the Town is solely responsible for any annual costs associated with payments toward any unfunded accrued liability.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (GASB 68), requires public employers to comply with accounting and financial reporting standards related to the recognition and calculation of pension obligations. Under GASB 68, employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record their portion of the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position.

The Town's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used. For the Safety Plan, net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The Town's proportion of the net pension liability (Safety Plan) was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of the measurement date June 30, 2020 was as follows:

	Proportionate Share of Net Pension Liability
Proportion - June 30, 2019	0.241003%
Proportion - June 30, 2020	0.249530%
Change - Increase (Decrease)	0.008527%

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

Actuarial Assumptions - The June 30, 2019 valuation was rolled forward to determine the June 30, 2020 total pension liability, based on the following actuarial methods and assumptions:

	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan
Valuation Date	June 30, 2019	June 30, 2019
Measurement Date	June 30, 2020	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Salary Increases	Varies by Entry Age and Service	
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies	

1. The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report that can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.15% for the Plan and reflects the long-term expected rate for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS conducted cash flow projections for plans with a higher likelihood of running out of assets with too high of a discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Long-term Expected Rate of Return – Every four years, CalPERS performs an Asset Liability Management (ALM) review of possible asset allocation alternatives for the Public Employees' Retirement Fund (PERF) investment portfolio. The review examines potential new investment policy portfolios and their impact on the CalPERS Fund. The ALM review also incorporates actuarial-based information to reflect the implications of the various asset allocation alternatives on parameters such as the employer contribution rate. This periodic review is the primary process by which the PERF investment portfolio and actuarial assumptions evolve to reflect the market opportunity set, demographic assumptions and experience, and plan status.

The last ALM was performed in 2017 and the long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	-	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	-	-0.92%
Total	100%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

In addition to the expected returns by asset class, the table below reflects the short-term, long-term, and blended expected rate of return for the total PERF asset allocation as of the 2017 ALM.

Expected Compound Return (1-10 years)	6.10%
Long Term Expected Return (11-60 years)	8.30%
Blended Return (1-60 years)	7.00%

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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

The table below shows historical compound annual returns of the Public Employees Retirement Fund for various time periods ending on June 30, 2020 (figures are reported as gross of fees). The compound annual return is the average rate per year compounded over the indicated number of years. It should be recognized that in any given year the rate of return is volatile. The portfolio has an expected volatility of 11.4 percent per year based on the most recent Asset Liability Modelling study. The volatility is a measure of the risk of the portfolio expressed in the standard deviation of the fund's total return distribution, expressed as a percentage. Consequently, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

History of CalPERS Compound Annual Rates of Return and Volatilities

	1 year	5 year	10 year	20 year	30 year
Compound Annual Return	4.7%	6.3%	8.5%	5.5%	8.0%
Realized Volatility	-	7.3%	7.1%	8.6%	8.6%

CalPERS reported a preliminary 21.3% net return on investments for the 12-month period ended June 30, 2021. The preliminary fiscal year 2020-21 return brings total fund performance to 10.3% for the five-year time period, 8.5% for the 10-year time period, and 6.9% for the 20-year time period. Over the past 30 years, the PERF has returned an average of 8.4% annually. Under the CalPERS Funding Risk Mitigation Policy, the 21.3% return will trigger a reduction in the discount rate to 6.8% from the current 7.0%.

(c) Changes in the Net Pension Liability

The change in the Net Pension Liability for the Miscellaneous Plan is as follows:

Miscellaneous Plan	Total Pension Liability	Fiduciary Net Pension	Net Pension Liability
Balance at 6/30/2020 (measurement date 6/30/2019)	\$ 108,650,008	\$ 76,114,760	\$ 32,535,248
Service Costs	1,930,090		1,930,090
Interest on Total Pension Liability	7,729,269		7,729,269
Changes of Assumptions	-		-
Difference Between Actual and Expected Experience	1,465,653		1,465,653
Employer Contributions		8,146,791	(8,146,791)
Employee Contributions		824,145	(824,145)
Net Investment Income		3,913,294	(3,913,294)
Employee Contribution Refunds and Benefit Payments	(5,958,101)	(5,958,101)	-
Administrative Expenses		(107,303)	107,303
Net Changes	5,166,911	6,818,826	(1,651,915)
Balance at 6/30/2021 (measurement date 6/30/2020)	\$ 113,816,919	\$ 82,933,586	\$ 30,883,333

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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(c) Changes in the Net Pension Liability, Continued

For the measurement period ended June 30, 2020, the Town contributed \$2,565,205 for the safety Cost-Sharing Plan.

As of June 30, 2021, the Town reported net pension liabilities for its proportionate share of the net pension liability of the safety Cost-Sharing Plan of \$27,149,916.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Town for each plan, calculated using the discount rate for the Plan, as well as what the Local Government's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Sensitivity to Changes in the Discount Rate	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan	Total
1% Decrease (6.15%) Net Pension Liability	\$ 45,363,497	\$ 40,539,102	\$ 85,902,599
Current Discount Rate (7.15%) Net Pension Liability	\$ 30,873,333	\$ 27,149,916	\$ 58,023,249
1% Increase (8.15%) Net Pension Liability	\$ 18,889,249	\$ 16,162,823	\$ 35,052,072

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in a separately issued CalPERS financial report.

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2021, the Town recognized pension expense of \$5,170,412 for the Miscellaneous Agent Multiple Employer Plan and \$4,636,562 for the Safety Cost Sharing Plan. The Town recognized total pension expense for all plans of \$9,806,974.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the Miscellaneous Agent Multiple Employer Plan:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 9,160,680	\$ -
Difference between expected and actual experiences	1,008,794	-
Net differences between projected and actual earnings on plan investments	626,257	-
Totals	<u>\$ 10,795,731</u>	<u>\$ -</u>

\$9,160,680 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 500,814
2022	400,704
2023	407,429
2024	326,104
2025	-
Thereafter	-

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Cost-Sharing Plan:

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,853,764	\$ -
Changes in assumptions	-	90,437
Difference between expected and actual experiences	2,105,338	-
Changes in employer's proportion	923,111	-
Differences between the employer's contributions and the employer's proportionate share of contributions	-	1,343,348
Net differences between projected and actual earnings on plan investments	590,082	-
Totals	<u>\$ 6,472,295</u>	<u>\$ 1,433,785</u>

\$2,853,764 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ 478,083
2023	818,280
2024	592,719
2025	295,664
2026	-
Thereafter	-

(e) Payable to the Pension Plan

At June 30, 2021, the Town reported a payable of \$106,634 and \$91,870 for the outstanding amount of contributions to the Miscellaneous Agent Multiple-Employer Plan and the Safety Cost-Sharing Plan.

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(f) IRS Section 115 Trust

During the fiscal year ending June 30, 2020, the Town established an IRS Section 115 Trust with the CalPERS California Employer' Pension Prefunding Trust (CEPPT) program. In fiscal year 2021, the Town used the balance of \$706,988 to contribute an additional amount to CalPERS for the Miscellaneous Plan. This payment is included in the deferred outflows amount of \$6,872,036 for contributions made after the measurement date for the Miscellaneous Plan.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Town makes contributions to California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare plan administered by CalPERS. The purpose of the CERBT Fund is to provide California government employers with a trust through which they may prefund retiree medical costs and Other Post-Employment Benefits (OPEB). The Town uses CERBT 1 as its investment vehicle and requests disbursements on an as needed basis to reimburse the Town for the cost of retiree health insurance benefits. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

In accordance with the Public Employees' Medical and Hospital Care Act (PEMHCA), employees qualify for retiree health benefits upon five (5) years of service if they meet the vesting requirements as set forth by CalPERS and take a service or disability retirement from Town employment. Additionally, the employee must actually draw a CalPERS pension within ninety (90) days of separation from the Town, provided the employee remains with the Town's health plan through COBRA. For employees who retire on or after February 1, 2016, at Medicare eligibility, the Town will align contributions to the full cost of the employee's enrollment, including enrollment of family members, in a health benefits plan or plans up to a maximum of 100% Single Party and 90% Dependents for Kaiser Bay Area Basic/Medicare/Combo per month. During negotiations in fiscal year 2018/19, the Town's discretionary retiree medical benefit contribution was eliminated for all future hires.

Upon retirement, employees have the option to roll over their sick leave accrual into a Town-managed fund. Employees can request reimbursement of medical expenses from the fund up to the value of their sick leave at retirement.

Contributions - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the measurement period July 1, 2019-June 30, 2020, the Town contributed \$2,508,306 to the plan which included \$1,198,608 of cash benefit payments, administrative fees of \$8,373, and \$201,325 of implied subsidy benefit payments. All related obligations are paid from the Town's General Fund.

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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Covered Participants

Inactive employees or beneficiaries currently receiving benefits	136
Inactive employees entitled to but not yet receiving benefits	43
Active employees	150
Total	329

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 2019 actuarial valuation, the actuarial assumptions used are as follows:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Contribution Policy	Pre-funded through CERBT with the Strategy 1 asset allocation Town contributes at least the ADC
Salary Increases	Aggregate - 3% annually Merit - CalPERS 1997-2015 Experience Study
Projected Salary Increase	3.00%
Investment Rate of Return	6.75%
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2019
Healthcare Trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Participation at Retirement	Tier 1 Actives in insurance program: 100% Tier 1 Actives in cash allocation program: 80% Tier 2 Actives in insurance program: 60% Tier 2 Actives in cash allocation program: Agency service < 3 months: 60% Agency service ≥ 3 months: 40% Waived retirees aged <65: 20% Waived retirees aged ≥65: 0%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The long-term expected rate of return on OPEB plan investments in CERBT 1 was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation*	Expected Real Rate of Return
Public Equity	59%	4.82%
Fixed Income	25%	1.47%
TIPS	5%	1.29%
Commodities	3%	0.84%
REITs	8%	3.76%
Assumed Long-Term Rate of Inflation		2.75%
Expected Long-Term Net Rate of Return, Rounded		6.75%

The long-term expected real rates of return are presented as geometric means

* Policy target effective October 1, 2018.

Discount Rate - The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Net OPEB Liability – The net OPEB liability is calculated by subtracting the fiduciary net position (FNP) of the Plan from the total OPEB liability as determined by the actuary. The table that follows displays the changes that applied to the total OPEB liability, FNP, and Net OPEB liability during the measurement period of July 1, 2019 through June 30, 2020.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2020 (6/30/19 measurement date)	\$ 27,497,929	\$ 18,371,542	\$ 9,126,387
Changes in the year:			
Service cost	1,159,152	-	1,159,152
Interest	1,887,105	-	1,887,105
Differences between actual and expected experience	-	-	-
Changes in assumptions	(533,825)	-	(533,825)
Changes in benefit terms	-	-	-
Contributions - employer	-	2,508,306	(2,508,306)
Contributions - employee	-	-	-
Net investment income	-	652,656	(652,656)
Administrative expenses	-	(17,357)	17,357
Benefit payments , including refunds of employee contributions	(1,399,933)	(1,399,933)	-
Net changes	1,112,499	1,743,672	(631,173)
Balance at June 30, 2021 (6/30/20 measurement date)	\$ 28,610,428	\$ 20,115,214	\$ 8,495,214

Due to these changes, the Town achieved an OPEB Plan funding status of 70.3% for the June 30, 2020 measurement date.

	Fiscal Year Ending	
	6/30/2021	6/30/2020
Measurement Date	6/30/2020	6/30/2019
Total OPEB Liability (TOL)	28,610,428	27,497,929
Fiduciary Net Position (FNP)	20,115,214	18,371,542
Net OPEB Liability (NOL)	8,495,214	9,126,387
Funded Status (FNP/TOL)	70.3%	66.8%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Sensitivity of Actuarial Assumptions – The following tables indicate how much the net OPEB liability varies if the discount rate and healthcare trend rate used to calculate the liability are increased or decreased by one percentage point.

<u>Discount Rate</u>	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability	\$ 12,103,433	\$ 8,495,214	\$ 5,503,087

<u>Healthcare Trend</u>	1% Decrease	Current Trend	1% Increase
Net OPEB Liability	\$ 5,682,510	\$ 8,495,214	\$ 1,141,308

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Partial amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. Investment gains and losses are spread evenly over a 5-year period. All other deferred outflows and inflows created during the measurement period are recognized over a 5.9-year period. The total OPEB expense recognized in the fiscal year ending June 30, 2021 was \$1,668,119 and the Town reported deferrals from the following sources:

	<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
• Employer contributions made subsequent to the measurement date	\$ 2,096,847	\$ -
• Changes in assumptions	-	702,915
• Difference between expected and actual experiences	-	98,687
• Net difference between projected and actual earnings on plan investments	381,722	-
Totals	<u>\$ 2,478,569</u>	<u>\$ 801,602</u>

TOWN OF LOS GATOS, CALIFORNIA
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The \$2,096,847 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ (155,976)
2023	(79,976)
2024	(46,917)
2025	(55,581)
2026	(81,430)
Thereafter	-

NOTE 11 - RISK MANAGEMENT

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authorities within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) - The Town participates in PLAN, which covers general liability claims in the amount up to \$5,000,000 plus \$25,000,000 in excess liability for total coverage of \$30,000,000 per occurrence. The Town has a deductible or uninsured liability of up to \$50,000 per claim. PLAN also provides all risk property coverage of \$1,000,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property and vehicle damage. Once the Town's deductible is met, PLAN becomes responsible for payment of all claims up to the limit. Financial statements may be obtained from PLAN at 1750 Creekside Drive, Suite 200, Sacramento, CA, 95833.

Local Agency Workers' Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAWCX for coverage of workers' compensation claims. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible for claims up to \$5,000,000. For claims greater than \$5,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 1750 Creekside Oaks Dr., Suite 200, Sacramento, California, 95833. The Town has not significantly reduced its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims - The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductibles, or uninsured portion of these claims.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 11 - RISK MANAGEMENT, CONTINUED

The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2021:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2019	\$ 1,052,195	\$ 56,038	\$ 1,108,233
Claims incurred	1,007,872	2,786	1,010,658
Claims paid	(868,681)	(1,799)	(870,480)
Claims payable balance - June 30, 2020	1,191,386	57,025	1,248,411
Claims incurred	(207,704)	143,565	(64,139)
Claims paid	511,800	-	511,800
Claims payable balance - June 30, 2021	<u>\$ 1,495,482</u>	<u>\$ 200,590</u>	<u>\$ 1,696,072</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Federal and State Grants - The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

Litigation - The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

Successor Agency - As of June 30, 2021, the Successor Agency Trust fund reported a net deficit of \$3,661,204.

Encumbrances - As of June 30, 2021, the Town had the following encumbered balances that were carried into the next fiscal year:

General Fund	\$ 877,127
Appropriated Reserves Fund	9,068,514
Non-major Governmental Funds	872,715
Proprietary Funds	251,828
Total Encumbrances	<u>\$ 11,070,184</u>

NOTE 13 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

In January of 2011, the Redevelopment Agency entered into a public improvement grant and cooperative agreement with the Town for the purpose of funding the acquisition of public land and designing and constructing various public improvements to be owned by the Town provided that the projects were in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 13 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS, CONTINUED

The improvement plan, as identified in the agreement, called for approximately \$24 million to be granted to the Town for the following projects:

- a. Expansion and improvement of current and new downtown parking
- b. Highway 9 improvements from Highway 17 to Monte Sereno
- c. Almond Grove Area street, sidewalk and other improvements
- d. Downtown Los Gatos gateways, signage, banners and art
- e. Storm drain, retaining wall, street and other improvements
- f. New Los Gatos library building

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

Affordable Housing Cooperative Agreement

In March of 2011, the Redevelopment Agency entered into an affordable housing cooperative agreement with the Town for the purpose of funding affordable housing projects and programs to be developed and/or administered by the Town in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan. The improvement plan, as identified in the agreement, called for approximately \$16 million to be granted to the Town for the following projects:

- a. Development of affordable housing at 224 Main St.
- b. Development of affordable housing at Dittos Lane
- c. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos
- d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

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NOTE 14 – PRIOR PERIOD ADJUSTMENTS

Beginning fund balances of \$526,817 of Library Trust funds formerly reported as private purpose trust funds were reclassified to be reported as part of the special revenue governmental funds. This reclassification is in recognition of the criteria established by GASB Statement 84 and further authoritative guidance regarding the restrictions on the use of private purpose trust fund classifications, resulting in a restatement of net position:

	Net Position, as Previously Reported	Prior Period Adjustment Reclassification of Library Trust Fund to Special Revenue Fund	Net Position, as Restated
Fund Financial Statements:			
Other Nonmajor Governmental Funds	\$ 6,763,657	\$ 526,815	\$ 7,290,472
Fiduciary Funds	\$ (4,403,577)	\$ (526,815)	\$ (4,930,392)
Government-Wide Statements			
Governmental Activities	\$ 114,851,031	\$ 526,815	\$ 115,377,846

Required Supplementary Information

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

*Schedule of Proportionate Share of Net Pension Liability – CalPERS Misc. Agent-Multiple Employer Plan**

Measurement Date	6/30/2020	6/30/2019	6/30/2018
Total Pension Liability			
Service Cost	\$ 1,930,090	\$ 1,771,368	\$ 1,700,438
Interest on total pension liability	7,729,269	7,381,846	7,073,843
Difference between expected and actual experience	1,465,653	1,082,289	994,994
Changes in assumptions	-	-	(655,541)
Changes in benefits	-	-	-
Benefit payments, including refunds of employee contributions	(5,958,101)	(5,720,232)	(5,448,374)
Net change in total pension liability	5,166,911	4,515,271	3,665,360
Total pension liability - beginning	108,650,008	104,134,737	100,469,377
Total pension liability - ending (a)	\$ 113,816,919	\$ 108,650,008	\$ 104,134,737
Plan fiduciary net position			
Contributions - employer	8,146,791	3,049,748	2,669,104
Contributions - employee	834,145	846,125	761,705
Plan to plan resource movement	-	-	(170)
Projected Earnings on Plan Investments	-	-	-
Recognized Difference between Projected and Actual Earnings	-	-	-
Net Investment Income	3,913,294	4,759,034	5,883,868
Net Difference between Projected and Actual Earnings	-	-	-
Benefit payments, including refunds of employee contribution	(5,958,101)	(5,720,232)	(5,448,374)
Administrative Expenses	(107,303)	(52,260)	(108,582)
Other Miscellaneous Income/(Expense) ¹	-	170	(206,199)
Net change in plan fiduciary net position	6,828,826	2,882,585	3,551,352
Plan fiduciary net position - beginning	76,114,760	73,232,175	69,680,823
Plan fiduciary net position - ending (b)	\$ 82,943,586	\$ 76,114,760	\$ 73,232,175
Net pension liability - ending (a) - (b)	\$ 30,873,333	\$ 32,535,248	\$ 30,902,562
Plan fiduciary net position as a percentage of the total pension liability	72.87%	70.05%	70.32%
Covered payroll	11,743,677	10,211,967	9,576,157
Net pension liability as a percentage of covered payroll	262.89%	318.60%	322.70%

* Fiscal Year 2015 was the first year of implementation, therefore only seven years are shown

1. During Fiscal Year 2017-18, as a result of GASB No. 75, CalPERS reported its proportionate share of activity related to postemployment benefit for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during FY2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to

TOWN OF LOS GATOS, CALIFORNIA

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ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
\$ 1,651,550	\$ 1,560,679	\$ 1,491,925	\$ 1,579,547
6,820,536	6,697,247	6,483,032	6,268,015
(892,479)	(357,870)	(623,495)	-
5,481,432	-	(1,513,132)	-
-	-	-	-
<u>(5,138,083)</u>	<u>(4,953,756)</u>	<u>(4,748,786)</u>	<u>(4,241,487)</u>
7,922,956	2,946,300	1,089,544	3,606,075
92,546,421	89,600,121	88,510,577	84,904,502
<u>\$ 100,469,377</u>	<u>\$ 92,546,421</u>	<u>\$ 89,600,121</u>	<u>\$ 88,510,577</u>
2,407,496	2,223,782	1,941,765	1,796,079
682,891	691,770	679,796	668,167
-	(28,866)	22,561	-
-	-	-	4,328,173
-	-	-	1,166,344
7,171,443	369,185	1,470,873	-
-	-	-	4,665,374
(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
(95,455)	(40,462)	(74,706)	-
-	-	-	-
5,028,292	(1,738,347)	(708,497)	8,382,650
64,652,531	66,390,878	67,099,375	58,716,725
<u>\$ 69,680,823</u>	<u>\$ 64,652,531</u>	<u>\$ 66,390,878</u>	<u>\$ 67,099,375</u>
\$ 30,788,554	\$ 27,893,890	\$ 23,209,243	\$ 21,411,202
69.36%	69.86%	74.10%	75.81%
9,024,370	9,198,318	8,487,940	8,406,315
341.17%	303.25%	273.44%	254.70%

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Schedule of Proportionate Share of Net Pension Liability – CalPERS Safety Cost-Sharing Plan

Measurement Date	6/30/2020	6/30/2019	6/30/2018
Proportion of the net pension liability	0.24100%	0.24100%	0.23583%
Proportionate share of the net pension liability	\$27,149,916	\$24,695,687	\$22,725,267
Covered payroll*	\$ 4,928,821	\$ 4,445,061	\$ 5,079,440
Proportionate share of the net pension liability as percentage of covered payroll	550.84%	555.58%	447.40%
Plan fiduciary net position as a percentage of of the total pension liability	75.10%	75.26%	75.26%

* For the year ending on the measurement date.

Measurement Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.22603%	0.22394%	0.14860%	0.28588%
Proportionate share of the net pension liability	\$22,415,954	\$19,377,843	\$10,199,904	\$17,788,690
Covered payroll*	\$ 4,941,138	\$ 5,022,498	\$ 4,897,104	\$ 4,916,535
Proportionate share of the net pension liability as percentage of covered payroll	453.66%	385.82%	208.28%	361.81%
Plan fiduciary net position as a percentage of of the total pension liability	73.31%	74.06%	78.40%	75.66%

* For the year ending on the measurement date.

Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Schedule of Pension Plan Contributions – Miscellaneous Agent Multiple-Employer Plan*

Fiscal Year	2021	2020	2019	
Contractually Determined Contribution	\$ 3,529,373	\$ 3,366,304	\$ 3,049,748	
Contributions in Relation to the				
Contractually Determined Contribution	<u>(9,160,680)</u>	<u>(8,146,791)</u>	<u>(3,049,748)</u>	
Contribution Deficiency (Excess)	\$ (5,631,307)	\$ (4,780,487)	\$ -	
Covered Payroll	\$12,084,205	\$11,743,677	\$10,211,967	
Contributions as a Percentage of Covered Payroll	29.21%	28.66%	29.86%	
Fiscal Year	2018	2017	2016	2015
Contractually Determined Contribution	\$ 2,669,133	\$ 2,407,496	\$ 2,223,782	\$ 1,941,765
Contributions in Relation to the				
Contractually Determined Contribution	<u>(2,669,133)</u>	<u>(2,407,496)</u>	<u>(2,223,782)</u>	<u>(1,941,765)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 9,576,157	\$ 9,024,370	\$ 9,198,318	\$ 8,487,940
Contributions as a Percentage of Covered Payroll	27.87%	26.68%	24.18%	22.88%

* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Schedule of Pension Plan Contributions – Safety Cost-Sharing Plan*

Fiscal Year	2021	2020	2019
Contractually Determined Contribution	\$ 2,853,764	\$ 2,565,205	\$ 2,325,357
Contributions in Relation to the Contractually Determined Contribution	<u>(2,853,764)</u>	<u>(2,565,205)</u>	<u>(2,325,357)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 5,178,418	4,928,821	4,445,061
Contributions as a Percentage of Covered Payroll	55.11%	52.05%	52.31%

Fiscal Year	2018	2017	2016	2015
Contractually Determined Contribution	\$ 1,951,711	\$ 1,738,150	\$ 1,586,129	\$ 1,999,757
Contributions in Relation to the Contractually Determined Contribution	<u>(1,951,711)</u>	<u>(1,738,150)</u>	<u>(1,586,129)</u>	<u>(1,999,757)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	5,079,440	4,941,138	5,022,498	4,897,104
Contributions as a Percentage of Covered Payroll	38.42%	35.18%	31.58%	40.84%

* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Actuarial Methods and Assumptions used for Pension Contractually Required Contributions for FY2021

Actuarial Cost Method	Entry Age Normal
Amortization Method	For details, see June 30, 2018 CalPERS Funding Valuation Report
Amortization Period	For details, see June 30, 2018 CalPERS Funding Valuation Report
Asset Valuation Method	Fair Value of Assets. For details, see June 30, 2018 CalPERS Funding Valuation Report
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	2.75%
Investment Rate of Return	7.0% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	CalPERS 1997-2015 experience study
Mortality	CalPERS 1997-2015 experience study Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Schedule of Changes in Net OPEB Liability and Related Ratios*

Measurement Date	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Changes in Total OPEB Liability				
Service Cost	\$ 1,159,152	\$ 1,203,274	\$ 1,168,227	\$ 1,134,000
Interest on total OPEB liability	1,887,105	1,814,072	1,706,270	1,607,000
Difference between expected and actual experience	-	(149,297)	-	-
Changes in assumptions	(533,825)	(392,681)	-	-
Benefit payments	(1,399,933)	(1,298,623)	(1,326,313)	(1,269,000)
Net change in total OPEB liability	1,112,499	1,176,745	1,548,184	1,472,000
Total OPEB liability - beginning	27,497,929	26,321,184	24,773,000	23,301,000
Total OPEB liability - ending (a)	\$ 28,610,428	\$ 27,497,929	\$ 26,321,184	\$ 24,773,000
Changes in plan fiduciary net position				
Contributions - employer	2,508,306	2,406,636	2,935,313	3,878,000
Contributions - employee	-	-	-	-
Net Investment Income	652,656	1,009,315	1,082,977	1,049,000
Benefit payments	(1,399,933)	(1,298,623)	(1,326,313)	(1,269,000)
Administrative Expenses	(17,357)	(11,502)	(34,261)	(14,000)
Net change in plan fiduciary net position	1,743,672	2,105,826	2,657,716	3,644,000
Plan fiduciary net position - beginning	18,371,542	16,265,716	13,608,000	9,964,000
Plan fiduciary net position - ending (b)	\$ 20,115,214	\$ 18,371,542	\$ 16,265,716	\$ 13,608,000
Net OPEB liability - ending (a) - (b)	\$ 8,495,214	\$ 9,126,387	\$ 10,055,468	\$ 11,165,000
Plan fiduciary net position as a percentage of the total OPEB liability	70.3%	66.8%	61.8%	54.9%
Covered-employee payroll	\$ 17,406,541	\$ 17,338,201	\$ 16,192,060	\$ 14,985,716
Net OPEB liability as a percentage of covered-employee payroll	48.80%	52.64%	62.10%	74.50%

* Fiscal year 2018 was the first year of implementation

Schedule of Employer Contributions*

Fiscal Year	2021	2020	2019	2018
Actuarially Determined Contribution (ADC)	\$ 1,859,000	\$ 2,172,000	\$ 2,108,000	\$ 2,129,000
Actual Contributions	2,096,847	2,508,306	2,406,636	2,935,000
Contribution deficiency/(excess)	(237,847)	(336,306)	(298,636)	(806,000)
Covered-employee payroll	\$17,982,237	\$17,406,541	\$17,338,201	\$14,985,716
Contributions as a percentage of covered-employee payroll	11.7%	14.4%	13.9%	19.6%

* Fiscal year 2018 was the first year of implementation

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Actuarial Methods and Assumptions used for 2020/21 OPEB Actuarially Determined Contribution

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal, Level percentage of pay
Amortization Method	Level percentage of pay
Amortization Period	18-year fixed period for 2020/21
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Discount Rate	6.75%
General Inflation	2.75%
Medical Trend	Non-medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Mortality	CalPERS 1997-2015 experience study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2019

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Supplementary Information

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**MAJOR GOVERNMENTAL FUND BUDGET SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
NONMAJOR GOVERNMENTAL FUNDS**

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Capital Projects Funds:

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5, as well as for the Roads Maintenance Rehabilitation Act. The revenues must be used for the maintenance and construction of streets.

Special Revenue Funds:

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Lighting and Landscape Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

ARPA Fund was established to account for monies received under the American Rescue Plan Act of 2021 to respond to the COVID-19 emergency.

Library Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses & permits	\$ 110,000	\$ 110,000	\$ 473,427	\$ 363,427
Intergovernmental	2,239,863	7,547,085	630,035	(6,917,050)
Charges for services	1,429,080	2,837,369	1,199,697	(1,637,672)
Interest	-	-	35,312	35,312
Use of Property	-	48,000	4,000	(44,000)
Other	-	20,755	48,818	28,063
Total Revenues	<u>3,778,943</u>	<u>10,563,209</u>	<u>2,391,289</u>	<u>(8,171,920)</u>
EXPENDITURES				
Capital outlay	<u>7,371,447</u>	<u>25,386,926</u>	<u>5,675,604</u>	<u>19,711,322</u>
Total Expenditures	<u>7,371,447</u>	<u>25,386,926</u>	<u>5,675,604</u>	<u>19,711,322</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,592,504)</u>	<u>(14,823,717)</u>	<u>(3,284,315)</u>	<u>11,539,402</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	-	1,439,995	1,560,336	120,341
Transfers in	3,401,479	3,436,479	3,401,479	(35,000)
Transfers (out)	<u>(427,616)</u>	<u>(427,616)</u>	<u>(427,616)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>2,973,863</u>	<u>4,448,858</u>	<u>4,534,199</u>	<u>85,341</u>
CHANGE IN FUND BALANCE	<u>\$ (618,641)</u>	<u>\$ (10,374,859)</u>	<u>1,249,884</u>	<u>\$ 11,624,743</u>
BEGINNING FUND BALANCE			<u>13,866,028</u>	
ENDING FUND BALANCE			<u>\$ 15,115,912</u>	

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2021

Item 5.

	CAPITAL PROJECTS FUNDS			
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
ASSETS				
Cash & Investments	\$ 2,917,690	\$ 3,203,736	\$ 1,318,887	\$ 7,440,313
Receivables:				
Accounts	-	-	-	-
Intergovernmental Receivable	-	-	106,209	106,209
Long Term Notes Receivable	-	-	-	-
Total Assets	<u>\$ 2,917,690</u>	<u>\$ 3,203,736</u>	<u>\$ 1,425,096</u>	<u>\$ 7,546,522</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 2,425	\$ -	\$ 2,425
Accrued Payroll and Benefits	-	-	-	-
Due to other governments	-	-	-	-
Unearned revenue	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>2,425</u>	<u>-</u>	<u>2,425</u>
FUND BALANCE				
Restricted for:				
Repairs and Maintenance	-	-	-	-
Library	-	-	-	-
Capital Projects	2,917,690	3,201,311	1,425,096	7,544,097
Committed to:				
Repairs and Maintenance	-	-	-	-
Assigned for:				
Special Revenue Funds	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>2,917,690</u>	<u>3,201,311</u>	<u>1,425,096</u>	<u>7,544,097</u>
Total Liabilities and Fund Balances	<u>\$ 2,917,690</u>	<u>\$ 3,203,736</u>	<u>\$ 1,425,096</u>	<u>\$ 7,546,522</u>

(Continued)

SPECIAL REVENUE FUNDS							Total Nonmajor Governmental Funds
Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	ARPA Fund	Library Trust	Total Special Revenue Funds		
\$ 94,412	\$ 321,481	\$ 175,457	\$ -	\$ 554,726	\$ 1,146,076	\$ 8,586,389	
-	57,904	-	-	-	57,904	57,904	
58,344	-	109	200,911	-	259,364	365,573	
78,752	-	-	-	-	78,752	78,752	
<u>\$ 231,508</u>	<u>\$ 379,385</u>	<u>\$ 175,566</u>	<u>\$ 200,911</u>	<u>\$ 554,726</u>	<u>\$ 1,542,096</u>	<u>\$ 9,088,618</u>	
\$ -	\$ 3,399	\$ 3,210	\$ -	\$ 1,799	\$ 8,408	\$ 10,833	
-	4,747	-	-	-	4,747	4,747	
-	-	-	-	50	50	50	
64,855	-	-	-	-	64,855	64,855	
-	-	-	200,911	-	200,911	200,911	
64,855	8,146	3,210	200,911	1,849	278,971	281,396	
-	-	172,356	-	-	172,356	172,356	
-	-	-	-	552,877	552,877	552,877	
-	-	-	-	-	-	7,544,097	
-	-	-	-	-	-	-	
166,653	371,239	-	-	-	537,892	537,892	
-	-	-	-	-	-	-	
166,653	371,239	172,356	-	552,877	1,263,125	8,807,222	
<u>\$ 231,508</u>	<u>\$ 379,385</u>	<u>\$ 175,566</u>	<u>\$ 200,911</u>	<u>\$ 554,726</u>	<u>\$ 1,542,096</u>	<u>\$ 9,088,618</u>	

(Concluded)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	67,146	-	67,146
License and permits	121,428	-	-	121,428
Intergovernmental	-	-	1,273,789	1,273,789
Fines and Forfeitures	-	-	-	-
Interest	36,597	40,618	10,178	87,393
Other	-	-	-	-
Total Revenues	158,025	107,764	1,283,967	1,549,756
EXPENDITURES				
Current:				
Parks and Public Works	-	-	-	-
Community Development	-	-	-	-
Sanitation and Other	-	-	-	-
Library	-	-	-	-
Capital Outlay	611	24,626	43,241	68,478
Total Expenditures	611	24,626	43,241	68,478
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	157,414	83,138	1,240,726	1,481,278
OTHER FINANCING SOURCES (USES)				
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)
Changes in Fund Balances	157,414	83,138	1,134,726	1,375,278
Fund Balances - Beginning of year, as restated	2,760,276	3,118,173	290,370	6,168,819
Fund Balances - End of year	\$ 2,917,690	\$ 3,201,311	\$ 1,425,096	\$ 7,544,097

(Continued)

SPECIAL REVENUE FUNDS

Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	ARPA Fund	Library Trust	Total Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 38,593	\$ -	\$ -	\$ 38,593	\$ 38,593
-	-	-	-	-	-	67,146
-	231,322	-	-	-	231,322	352,750
-	68,155	-	200,911	-	269,066	1,542,855
-	-	1	-	-	1	1
-	-	2,389	-	6,785	9,174	96,567
-	-	-	-	38,392	38,392	38,392
-	299,477	40,983	200,911	45,177	586,548	2,136,304
-	-	53,957	-	-	53,957	53,957
-	-	-	200,911	-	200,911	200,911
-	166,173	-	-	-	166,173	166,173
-	-	-	-	19,115	19,115	19,115
-	-	-	-	-	-	68,478
-	166,173	53,957	200,911	19,115	440,156	508,634
-	133,304	(12,974)	-	26,062	146,392	1,627,670
-	-	(4,920)	-	-	(4,920)	(110,920)
-	-	(4,920)	-	-	(4,920)	(110,920)
-	133,304	(17,894)	-	26,062	141,472	1,516,750
166,653	237,935	190,250	-	526,815	1,121,653	7,290,472
\$ 166,653	\$ 371,239	\$ 172,356	\$ -	\$ 552,877	\$ 1,263,125	\$ 8,807,222

(Concluded)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	STORM DRAIN FUNDS			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	30,000	67,146	37,146
License and permits	92,500	121,428	28,928	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	3,810,558	-	(3,810,558)
Fines and Forfeitures	-	-	-	-	-	-
Interest	11,840	36,597	24,757	22,490	40,618	18,128
Other	-	-	-	-	-	-
Total Revenues	104,340	158,025	53,685	3,863,048	107,764	(3,755,284)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Library	-	-	-	-	-	-
Capital outlay	485,058	611	484,447	6,836,204	24,626	6,811,578
Total Expenditures	485,058	611	484,447	6,836,204	24,626	6,811,578
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(380,718)	157,414	538,132	(2,973,156)	83,138	3,056,294
OTHER FINANCING SOURCES (USES)						
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ (380,718)</u>	<u>157,414</u>	<u>\$ 538,132</u>	<u>\$ (2,973,156)</u>	<u>83,138</u>	<u>\$ 3,056,294</u>
BEGINNING FUND BALANCE		<u>2,760,276</u>			<u>3,118,173</u>	
ENDING FUND BALANCE		<u>\$ 2,917,690</u>			<u>\$ 3,201,311</u>	

(Continued)

GAS TAX			COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTANENCE		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	231,323	231,322	(1)
1,232,107	1,273,789	41,682	-	-	-	-	68,155	68,155
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,210	10,178	8,968	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,233,317	1,283,967	50,650	-	-	-	231,323	299,477	68,154
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	205,850	166,173	39,677
-	-	-	-	-	-	-	-	-
1,291,952	43,241	1,248,711	-	-	-	-	-	-
1,291,952	43,241	1,248,711	-	-	-	205,850	166,173	39,677
(58,635)	1,240,726	1,299,361	-	-	-	25,473	133,304	107,831
(106,000)	(106,000)	-	-	-	-	-	-	-
(106,000)	(106,000)	-	-	-	-	-	-	-
\$ (164,635)	1,134,726	\$ 1,299,361	\$ -	-	\$ -	\$ 25,473	133,304	\$ 107,831
	290,370			166,653			237,935	
	\$ 1,425,096			\$ 166,653			\$ 371,239	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	LIGHTING AND LANDSCAPING			ARPA Fund		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 38,220	\$ 38,593	\$ 373	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	200,911	200,911	-
Charges for services	-	-	-	-	-	-
Fines and Forfeitures	-	1	1	-	-	-
Interest	1,460	2,389	929	-	-	-
Other	-	-	-	-	-	-
Total Revenues	39,680	40,983	1,303	200,911	200,911	-
EXPENDITURES						
Parks and public works	48,906	53,957	(5,051)	-	-	-
Community services	-	-	-	200,911	200,911	-
Sanitation and other	-	-	-	-	-	-
Library	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	48,906	53,957	(5,051)	200,911	200,911	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,226)	(12,974)	(3,748)	-	-	-
OTHER FINANCING SOURCES (USES)						
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ (14,146)</u>	<u>(17,894)</u>	<u>\$ (3,748)</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
BEGINNING FUND BALANCE		190,250			-	
ENDING FUND BALANCE		<u>\$ 172,356</u>			<u>\$ -</u>	

(Continued)

LIBRARY TRUST			TOTALS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 38,220	\$ 38,593	\$ 373
-	-	-	30,000	67,146	37,146
-	-	-	323,823	352,750	28,927
-	-	-	1,433,018	1,542,855	109,837
-	-	-	3,810,558	-	(3,810,558)
-	-	-	-	1	1
4,100	6,785	2,685	41,100	96,567	55,467
-	38,392	38,392	-	38,392	38,392
4,100	45,177	41,077	5,676,719	2,136,304	(3,540,415)
-	-	-	48,906	53,957	(5,051)
-	-	-	200,911	200,911	-
-	-	-	205,850	166,173	39,677
28,200	19,115	9,085	28,200	19,115	9,085
20,755	-	20,755	8,633,969	68,478	8,565,491
48,955	19,115	29,840	9,117,836	508,634	8,609,202
(44,855)	26,062	70,917	(3,441,117)	1,627,670	5,068,787
-	-	-	(110,920)	(110,920)	-
-	-	-	(110,920)	(110,920)	-
\$ (44,855)	26,062	\$ 70,917	\$ (3,552,037)	1,516,750	\$ 5,068,787
	526,815			7,290,472	
	\$ 552,877			\$ 8,807,222	

(Concluded)

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021****PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS**

Internal Service Funds are used to finance and account for special activities and service performed by a designated department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds.

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Replacement Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self-Insurance Fund was established to account for future general liability claims against the Town.

Information Technology Fund was established to account for the replacement of management information computer systems and components.

Facilities Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2021

	Equipment Replacement	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
ASSETS						
Cash & Investments	\$ 1,887,680	\$ 3,105,307	\$ 1,223,213	\$ 2,906,098	\$ 239,963	\$ 9,362,261
Restricted Cash & Investments	-	85,724	-	-	-	85,724
Receivables:						
Accounts	1,856	-	-	4,255	24,853	30,964
Due from Other Funds	-	-	-	478	-	478
Total Assets	1,889,536	3,191,031	1,223,213	2,910,831	264,816	9,479,427
LIABILITIES						
Accounts Payable	-	22,529	1,540	40,009	108,393	172,471
Due to Other Governments	-	-	-	-	83	83
Claims Payable	-	1,495,482	200,590	-	-	1,696,072
Total Liabilities	-	1,518,011	202,130	40,009	108,476	1,868,626
NET POSITION						
Restricted for:						
Workers comp-ensation claims	-	85,724	-	-	-	85,724
Unrestricted	1,889,536	1,587,296	1,021,083	2,870,822	156,340	7,525,077
Total Net Position	\$ 1,889,536	\$ 1,673,020	\$ 1,021,083	\$ 2,870,822	\$ 156,340	\$ 7,610,801

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Equipment Replacement	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
OPERATING REVENUES						
Charges for services	\$ 267,545	\$ 917,555	\$ 376,964	\$ 972,775	\$ 847,373	\$ 3,382,212
Interest	-	5	-	-	-	5
Use of money and property	-	-	-	-	232,474	232,474
Other local taxes	-	-	-	-	67,146	67,146
Intergovernmental	-	-	-	-	-	-
Other	59,852	327,768	-	-	34,030	421,650
Total Operating Revenues	327,397	1,245,328	376,964	972,775	1,181,023	4,103,487
OPERATING EXPENSES						
Insurance expenses	-	596,665	573,174	-	-	1,169,839
Services and supplies	254,194	784,384	73,321	668,356	1,160,152	2,940,407
Total Operating Expenses	254,194	1,381,049	646,495	668,356	1,160,152	4,110,246
Operating Income (loss)	73,203	(135,721)	(269,531)	304,419	20,871	(6,759)
Transfers in	-	-	-	-	33,000	33,000
Transfers out	(108,720)	-	-	(37,800)	-	(146,520)
Net Transfers	(108,720)	-	-	(37,800)	33,000	(113,520)
Change in Net Position	(35,517)	(135,721)	(269,531)	266,619	53,871	(120,279)
BEGINNING NET POSITION	1,925,053	1,808,741	1,290,614	2,604,203	102,469	7,731,080
ENDING NET POSITION	\$ 1,889,536	\$ 1,673,020	\$ 1,021,083	\$ 2,870,822	\$ 156,340	\$ 7,610,801

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Equipment Replacement	Worker's Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 325,541	\$ 1,245,328	\$ 376,964	\$ 970,485	\$ 1,182,280	\$ 4,100,598
Payments to suppliers	(254,194)	(764,499)	(71,781)	(758,972)	(1,167,434)	(3,016,880)
Claims paid	-	(292,569)	(429,609)	-	-	(722,178)
Net Cash Provided (Used) by Operating Activities	71,347	188,260	(124,426)	211,513	14,846	361,540
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers In/(Out)	(108,720)	-	-	(37,800)	33,000	(113,520)
Net Cash Provided (Used) by Noncapital Financing Activities	(108,720)	-	-	(37,800)	33,000	(113,520)
Net Increase(Decrease) in Cash and Investments	(37,373)	188,260	(124,426)	173,713	47,846	248,020
Cash and investments - beginning of year	1,925,053	3,002,771	1,347,639	2,732,385	192,117	9,199,965
Cash and investments - end of year	\$ 1,887,680	\$ 3,191,031	\$ 1,223,213	\$ 2,906,098	\$ 239,963	\$ 9,447,985
Reconciliation of Operating Income to Cash Flows from Operating Activities:						
Operating Income	\$ 73,203	\$ (135,721)	\$ (269,531)	\$ 304,419	\$ 20,871	\$ (6,759)
Change in assets and liabilities:						
Receivables, net	(1,856)	-	-	(2,290)	1,257	(2,889)
Accounts payable	-	19,885	1,540	(90,616)	(7,365)	(76,556)
Claims payable	-	304,096	143,565	-	-	447,661
Due to other government	-	-	-	-	83	83
Cash Flows From Operating Activities	\$ 71,347	\$ 188,260	\$ (124,426)	\$ 211,513	\$ 14,846	\$ 361,540

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STATISTICAL SECTION

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STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Annual Comprehensive Financial Report (“ACFR”) presents the detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time. (Schedule 1, Schedule 2, Schedule 3, and Schedule 4).

Revenue Capacity

These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax (Schedule 5, Schedule 6, Schedule 7, and Schedule 8).

Debt Capacity

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and its ability to issue additional debt in the future (Schedule 9, Schedule 10, and Schedule 11)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

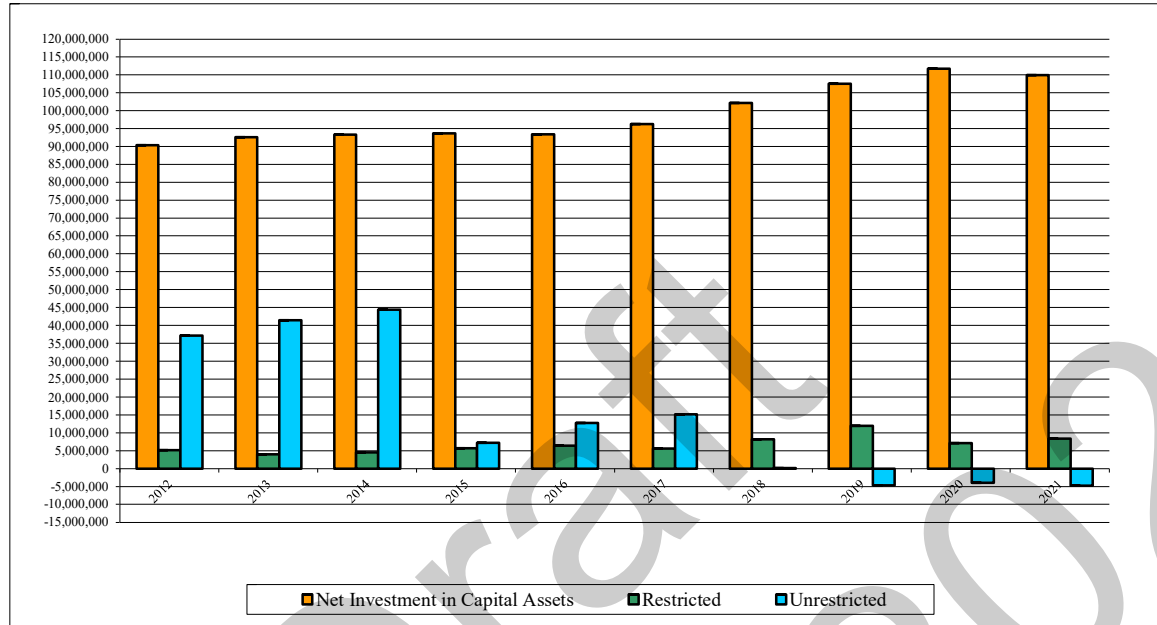
Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s ACFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

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Town of Los Gatos
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130 (2)
2016	93,383,855	6,386,014	12,744,637	112,514,506
2017	96,265,652	5,627,707	15,134,420	117,027,779
2018	102,098,729	8,199,598	170,590	110,468,917 (4)
2019	107,542,588	11,918,688	-4,642,167	114,819,109 (3)
2020	111,700,225	7,117,984	-3,967,178	114,851,031
2021	109,894,936	8,358,267	-4,735,103	113,518,100

(1) The decrease in Restricted Net Position from FY 2010 to FY 2011 was primarily due to the issuance of the \$15.7 million Certificates of Participation in FY 2010.

(2) The decrease in Restricted Net Position GASB 68 Implementation of Unfunded Pension Liability of Statement of Net Position.

(3) The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's GFAR fund during the year to invest in the Town's infrastructure and equipment.

(4) Net position was restated for FY 2018 for amounts placed into fiduciary funds, reclassified to General Fund Restricted Asset.

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Expenses	2011/12	2012/13	2013/14	2014/15
Governmental Activities:				
General Government	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804	\$ 6,465,852
Police Department	14,124,798	13,731,754	14,119,786	12,644,221
Parks and Public Works	7,827,332	7,829,315	8,154,616	8,069,352
Community Development	3,434,551	4,094,188	4,424,040	4,047,738
Community Services	-	-	-	-
Library Services	1,938,577	2,128,823	2,234,431	2,553,414
Sanitation	158,205	393,205	363,180	491,359
Redevelopment	919,821	1,277,063	21,687	-
Interest and Fees	1,123,842	-	-	-
Total Governmental Activities	<u>\$ 35,672,269</u>	<u>\$ 36,019,116</u>	<u>\$ 36,273,544</u>	<u>\$ 34,271,936</u>
Program Revenues				
Charges for Services:				
General Government	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077	\$ 1,888,213
Police Department	2,324,397	2,450,630	3,206,579	3,529,166
Parks and Public Works	1,215,382	3,044,401	1,550,867	2,206,765
Community Development	3,448,433	4,649,444	5,156,061	5,027,497
Community Services	-	-	-	-
Library Services	37,662	50,696	51,775	53,123
Sanitation	135,000	403,294	328,648	328,868
Operating Grants and Contributions:				
General Government	6,453	8,406	-	-
Police Department	29,980	91,360	42,661	24,838
Parks and Public Works	993,827	835,724	994,096	907,745
Community Development	-	-	-	-
Library Services	109	40	14,662	4,062
Sanitation	-	-	-	-
Capital Grants and Contributions:				
General Government	-	169,270	-	176,705
Police Department	-	-	-	-
Parks and Public Works	641,811	2,757,660	2,274,879	2,338,154
Community Development	-	-	19,360	-
Total Program Revenues	<u>\$ 9,964,478</u>	<u>\$ 15,877,518</u>	<u>\$ 15,818,665</u>	<u>\$ 16,485,136</u>
General Revenues	2011/12	2012/13	2013/14	2014/15
Property Taxes	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312	\$ 12,931,603
Sales Taxes	9,889,100	8,757,428	8,029,571	8,202,678
Franchise Taxes	-	-	-	2,215,430
Other Taxes	3,698,753	3,324,791	3,718,405	2,062,893
Motor Vehicle in Lieu	15,238	15,790	13,068	-
Investment Earnings	331,420 b	(133,375) b	772,200 b	428,772
Loss on Disposal of Capital Assets	-	-	-	-
Sale of Property	-	54,425	-	-
Miscellaneous	2,275,160	1,154,647	350,468	813,324
Extraordinary Gain (Loss) Dissolution of RDA	11,864,453	295,101	-	-
Total General Revenues	<u>\$ 42,162,990</u>	<u>\$ 25,437,184</u>	<u>\$ 24,596,024</u>	<u>\$ 26,654,700</u>
Change in Net Position	<u>\$ 16,455,199</u>	<u>\$ 5,295,586</u>	<u>\$ 4,141,145</u>	<u>\$ 8,867,900</u>

Schedule 2

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
\$ 6,993,661	\$ 6,771,628	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368	\$ 7,086,377
12,825,688	14,587,597	15,545,521	16,635,726	20,446,188	19,808,230
8,320,623	9,502,707	10,047,003	10,627,716	11,803,005	13,141,034
3,227,224	5,093,459	4,667,609	5,064,637	5,001,958	6,846,834
-	-	-	-	-	-
2,522,142	2,868,748	3,087,684	3,059,294	3,347,523	3,496,153
528,580	466,762	536,296	684,673	3,041	185,981
-	-	-	-	-	-
-	-	-	-	-	-
\$ 34,417,918	\$ 39,290,901	\$ 41,833,031	\$ 44,236,037	\$ 48,007,083	\$ 50,564,609

\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683	\$ 1,470,324	\$ 1,894,080
3,278,585	2,076,688	1,888,359	1,745,889	1,549,207	1,288,358
1,516,108	2,155,841	4,150,068	2,910,936	3,674,222	4,209,048
4,359,146	3,803,626	3,456,390	4,155,231	3,351,753	4,063,776
-	-	-	-	-	-
46,192	46,746	14,702	9,476	11,522	-
368,813	410,626	771,442	966,130	231,323	299,478
-	-	-	-	-	-
15,291	-	-	-	12,290	-
98,138	837,329	895,730	826,643	952,045	1,061,344
749,300	665,779	953,294	1,301,152	2,824,638	1,547,102
-	-	-	-	15,864	223,129
12,228	-	57,200	47,482	49,351	55,181
-	-	-	-	-	-
-	-	-	-	8,258	2,365
-	-	-	-	9,100	-
1,610,657	770,600	348,437	146,792	832,755	843,980
-	9,280	-	-	-	-
\$ 13,571,470	\$ 12,445,535	\$ 14,236,768	\$ 13,672,414	\$ 14,992,652	\$ 15,487,841

2015/16	2016/17	0	2017/18	2018/19	2019/20	2020/21
\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426	\$ 19,878,835	
7,501,175	8,925,276	7,466,253	8,158,152	7,531,425	7,933,604	
2,258,892	2,366,908	2,474,814	2,475,916	2,495,792	2,499,463	
1,997,497	2,351,223	2,667,840	2,726,743	1,911,774	1,126,887	
12,308	14,056	16,483	14,689	24,526	23,058	
698,324	192,260	333,120	1,809,128	2,428,470	227,136	
-	-	-	-	-	-	
-	-	-	-	-	-	
598,170	528,946	622,105	2,407,840	323,940	1,528,039	
-	-	-	-	-	-	
\$ 26,829,824	\$ 29,134,883	\$ 29,539,021	\$ 34,913,815	\$ 33,046,353	\$ 33,217,022	
\$ 5,983,376	\$ 2,289,517	\$ 1,942,758	\$ 4,350,192	\$ 31,922	\$ (1,859,746)	

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	2011/12	2012/13	2013/14	Fiscal Year 2014/15
General Fund				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	21,992,886	20,758,156	23,791,749	24,121,256
Unassigned	4,019,409	7,502,446	1,363,376	-
Total General Fund	<u>\$ 26,012,295</u>	<u>\$ 28,260,602</u>	<u>\$ 25,155,125</u>	<u>\$ 24,121,256</u>
All Other Governmental Funds				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special Revenue Funds	-	-	-	-
Capital Project Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Nonspendable	-	-	-	-
Restricted	5,167,236	3,949,583	4,485,246	5,663,182
Committed	-	-	-	-
Assigned	5,389,674	6,097,182	8,191,823	15,346,558
Unassigned	107,107	157,208	183,045	206,875
Total All Other Governmental Funds	<u>\$ 10,664,017</u>	<u>\$ 10,203,973</u>	<u>\$ 12,860,114</u>	<u>\$ 21,216,615</u>
Total Fund Balances	<u>\$ 36,676,312</u>	<u>\$ 38,464,575</u>	<u>\$ 38,015,239</u>	<u>\$ 45,337,871</u>

Schedule 3

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	159,000
-	-	1,206,851	5,015,316	669,978	-
20,019,187	15,129,925	12,953,399	15,070,944	15,387,706	11,220,970
9,555,085	14,050,699	17,475,285	18,256,895	13,277,813	12,534,648
-	-	-	-	-	-
<u>\$ 29,574,272</u>	<u>\$ 29,180,624</u>	<u>\$ 31,635,535</u>	<u>\$ 38,343,155</u>	<u>\$ 29,335,497</u>	<u>\$ 23,914,618</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,386,014	5,627,707	6,992,747	6,903,372	6,448,006	8,562,653
3,696,000	10,354,584	5,571,087	2,579,997	-	-
11,099,076	7,928,994	6,361,403	6,180,930	14,181,679	15,360,481
-	-	-	-	-	-
<u>\$ 21,181,090</u>	<u>\$ 23,911,285</u>	<u>\$ 18,925,237</u>	<u>\$ 15,664,299</u>	<u>\$ 20,629,685</u>	<u>\$ 23,923,134</u>
<u>\$ 50,755,362</u>	<u>\$ 53,091,909</u>	<u>\$ 50,560,772</u>	<u>\$ 54,007,454</u>	<u>\$ 49,965,182</u>	<u>\$ 47,837,752</u>

Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

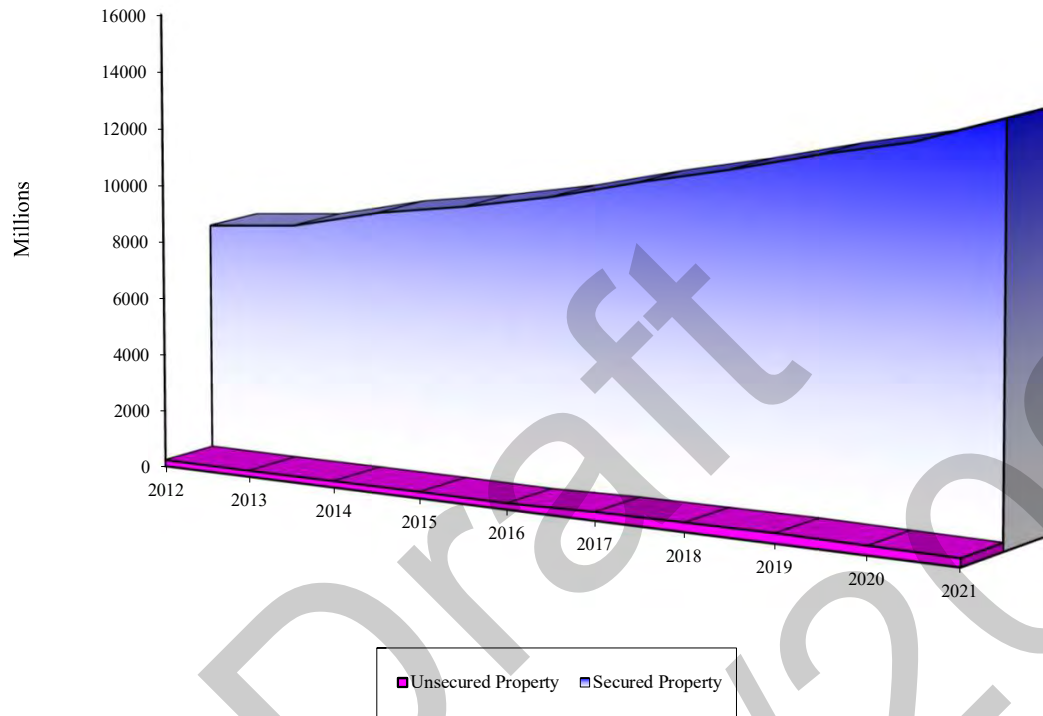
	Fiscal Year			
	2011/12	2012/13	2013/14	2014/15
Revenues:				
Taxes	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820
Intergovernmental	1,669,729	2,615,191	2,440,127	2,921,002
Charges for Services	5,550,671	6,529,234	5,837,581	5,794,386
Licenses & Permits	3,242,348	4,015,871	5,343,265	6,467,771
Investment Income	291,484	(133,380)	772,164	428,735
Fines and Forfeitures	809,790	688,125	795,720	868,564
Franchise Fees	-	-	-	2,215,430
Use of Property	38,974	38,910	37,741	32,209
Other	5,412,328	4,577,584	3,648,277	3,130,975
Total Revenues	44,692,043	42,928,334	42,350,268	45,067,892
Expenditures:				
Current				
Public Safety	13,392,953	13,370,032	13,742,189	13,747,198
Public Works	5,440,960	5,616,197	5,611,283	5,840,097
Community Development	3,226,195	4,235,832	4,335,599	4,218,500
Library Services	1,805,479	2,055,069	2,131,438	2,268,844
Sanitation & Other	116,607	359,725	322,817	411,863
General Government	8,046,794	8,331,444	8,499,854	8,647,451
Redevelopment	3,282,155	1,277,063	21,687	-
Capital Outlay	10,929,491	6,568,653	4,097,662	3,800,478
Debt Service				
Principal Repayment	934,167	-	-	-
Interest and Fiscal Charges	1,143,185	-	-	-
Total Expenditures	48,317,986	41,814,015	38,762,529	38,934,431
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,625,943)	1,114,319	3,587,739	6,133,461
Other Financing Sources(Uses):				
Debt Issuance	-	-	-	-
Transfers In	3,735,440	2,841,881	3,418,872	8,977,220
Transfers Out	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)
Proceeds from Sale of Property	-	-	-	-
Proceeds from Issuance of Debt	-	-	-	-
Total Other Financing Sources(Uses)	73,546	378,031	497,463	1,189,171
Special Item:				
Sale of Property	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	(5,038,620)	295,913	-	-
Prepayment of Pension Obligations	-	-	(4,534,538)	-
Net Change in Fund Balances	\$ (3,552,397)	\$ 1,492,350	\$ 4,085,202	\$ 7,322,632
Debt Service as a Percentage of Non Capital Expenditures	5.56%	0.00%	0.00%	0.00%

Schedule 4

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
\$ 23,269,892	\$ 25,945,129	\$ 26,253,026	\$ 28,244,329	\$ 27,811,665	\$ 28,977,919
2,573,475	1,715,580	2,124,903	2,310,655	4,498,153	3,746,587
4,773,001	4,210,174	5,395,057	5,584,504	5,309,470	6,035,659
5,442,133	5,075,503	5,937,044	5,173,876	4,818,671	5,212,831
698,308	192,978	332,938	1,809,164	2,428,453	227,940
879,277	917,105	676,212	510,266	271,117	103,468
2,258,892	2,366,908	2,474,814	2,475,916	2,495,792	2,499,463
31,723	32,096	32,206	32,960	31,039	40,372
2,396,992	1,011,939	640,844	579,755	376,922	423,115
42,323,693	41,467,412	43,867,044	46,721,425	48,041,282	47,267,354
13,763,316	13,251,288	14,423,554	14,945,407	15,793,815	16,570,836
6,307,266	6,633,748	7,125,686	7,962,135	8,168,599	8,229,944
3,695,504	3,793,930	4,192,165	4,577,495	4,473,790	5,195,302
2,332,268	2,508,677	2,529,017	2,493,617	2,700,802	2,847,988
452,726	466,762	521,147	628,240	162,837	166,173
9,144,797	8,390,959	8,770,082	8,004,254	13,024,146	14,040,134
-	-	-	-	-	-
3,241,657	6,867,034	9,778,058	7,888,914	7,861,972	5,746,447
-	-	-	-	-	-
-	-	-	-	-	-
38,937,534	41,912,398	47,339,709	46,500,062	52,185,961	52,796,824
3,386,159	(444,986)	(3,472,665)	221,363	(4,144,679)	(5,529,470)
-	-	-	-	-	-
3,315,846	7,907,692	3,176,760	4,264,131	8,935,260	4,053,535
(1,284,514)	(7,612,012)	(3,880,131)	(3,323,756)	(8,628,719)	(3,940,015)
-	-	378,219	1,912,316	1,566	1,201,369
-	4,435	-	-	-	1,560,336
2,031,332	300,115	(325,152)	2,852,691	308,107	2,875,225
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 5,417,491	\$ (144,871)	\$ (3,797,817)	\$ 3,074,054	\$ (3,836,572)	\$ (2,654,245)
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Town of Los Gatos
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Schedule 5

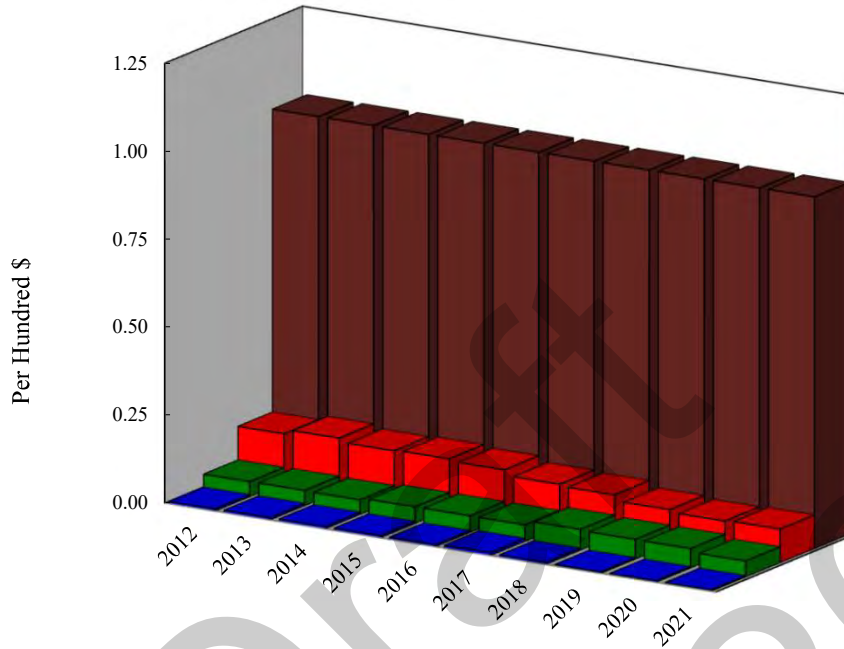


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533
2017	304,443,013	40.27%	11,240,554,198	7.90%	11,544,997,211	44,962,216,792	1.0560
2018	330,504,877	8.56%	11,969,049,272	6.48%	12,299,554,149	47,876,197,088	1.0659
2019	359,276,665	8.71%	12,795,393,103	6.90%	13,154,669,768	51,181,572,412	1.0607
2020	331,517,212	-7.73%	13,510,676,336	5.59%	13,842,193,548	54,042,705,344	1.0598
2021	308,749,655	-6.87%	14,599,669,332	8.06%	14,908,418,987	58,398,677,328	0.0000

Source: Santa Clara County Assessed Value Report

Town of Los Gatos
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

Schedule 6



Santa Clara Valley Water District County
County Bonds and Levies
School District Bonds and Loans
Basic County Wide Levy

Fiscal Year	Basic County Wide Levy	County Bonds and Levies	Santa Clara Valley Water District	School District Bonds and Loans	Total
2012	1.0000	0.0435	0.0064	0.1393	1.1892
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914
2017	1.0000	0.0474	0.0086	0.1223	1.1783
2018	1.0000	0.0597	0.0062	0.1177	1.1836
2019	1.0000	0.0565	0.0042	0.1006	1.1613
2020	1.0000	0.0557	0.0041	0.0935	1.1533
2021	1.0000	0.0457	0.0037	0.0959	1.1453

Source: Santa Clara County Book of Tax Rates

Town of Los Gatos
Principle Property Tax Payers
Last Five Fiscal Years *

Schedule 7

ASSEESSEE NAME	2011/12		2012/13		2013/14		2014/15		2015/16	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
750 University LLC	\$ -	0.00%	\$ 12,137,999	0.14%	\$ 18,600,000	0.20%	\$ 19,000,000	0.19%	\$ 19,379,620	0.19%
980 JR LLC										
Alberto Way Holdings LLC	21,034,623	0.26%	23,145,064	0.27%	23,607,964	0.26%	23,715,141	0.24%	24,188,966	0.23%
Ann R. Desantis					13,823,779	0.15%				
Boccardo Corporation	37,173,877	0.46%	37,550,368	0.44%	38,617,912	0.42%	38,772,905	0.40%	21,617,318	0.21%
CH Realty IV Downing LP	19,143,068	0.23%	19,525,927	0.23%	19,916,443	0.22%				
CHL Ventures LP	20,266,630	0.25%	20,671,962	0.24%	-	0.00%	-	0.00%	-	0.00%
D&K Los Gatos LLC	15,284,324	0.19%	15,590,010	0.18%	15,901,809	0.17%	15,974,003	0.16%	16,293,163	0.16%
David A. and Shari Flick Trustee	14,724,487	0.18%	15,018,971	0.18%			15,388,884	0.16%		
Donahue Schriber Realty Group LP										
DS Downing Los Gatos LLC							20,006,861	0.20%	21,980,568	0.21%
DS Village Square										
El Camino Hospital							20,803,609	0.21%	26,477,160	0.25%
Equestrian 3 Investments LLC										
Fox Creek Fund LLC										
Good Samaritan Hospital LP	19,372,795	0.24%	19,530,183	0.23%	19,710,897	0.21%	19,602,594	0.20%	19,880,366	0.19%
Grade Way Associations VI	14,508,482	0.18%	14,798,651	0.17%	15,094,623	0.16%	15,163,152	0.16%		
Green Eyes LLC			12,542,555	0.15%	12,793,404	0.14%				
Grosvenor USA Ltd.	21,066,630	0.26%	22,437,962	0.27%	22,886,720	0.25%	22,990,624	0.24%	23,449,975	0.23%
Health Care REIT Inc.	19,869,245	0.24%	19,223,348	0.23%	20,671,960	0.22%	20,765,810	0.21%	20,089,903	0.19%
Hercules Holding II LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
International Hotel										
Kay Kaoru and Go Sasaki Sr., Trustees					22,752,809	0.25%			24,744,983	0.24%
Knowles Los Gatos LLC	46,123,468	0.57%	47,045,934	0.56%	47,986,850	0.52%	48,204,708	0.49%	49,167,836	0.47%
KSL Capital Partners	41,698,751	0.51%	42,532,721	0.50%	43,383,370	0.47%	43,580,326	0.45%	30,134,614	0.29%
Leland E Lester, Trustee										
LG Business Park Bldg 3 LLC									61,947,284	0.59%
LG Business Park Bldg 4 LLC										
LG Business Park LLC	18,342,931	0.23%			47,276,977	0.51%	39,347,485	0.40%	17,507,261	0.17%
LG Hotel LLC							15,448,057	0.16%	15,497,395	0.15%
Los Gatos Hotel Corp.	15,683,979	0.19%	15,617,134	0.18%	18,134,182	0.20%	15,573,314	0.16%	15,676,113	0.15%
Lyon Baytree Apartments LLC	14,177,039	0.17%	14,430,123	0.17%	14,674,716	0.16%				
Paul H. Roskoph	12,926,457	0.16%	13,416,452	0.16%	-	0.00%			-	0.00%
Preylock Los Gatos LLC										
Safeway Inc.										
San Jose Water Works	29,369,137	0.36%	30,882,009	0.36%	33,626,381	0.36%	36,693,453	0.38%	37,081,049	0.36%
Serramonte Corporate Center LLC										
SI 32 LLC							150,563,119	1.54%	141,348,894	1.36%
Sobrato Interests IV LLC	157,554,525	1.93%	157,559,245	1.86%	169,809,676	1.84%	20,869,338	0.21%	44,930,482	0.43%
SRI Old Town LLC	29,778,712	0.37%	30,374,286	0.36%	30,981,771	0.34%	31,122,427	0.32%	31,744,252	0.30%
Summerhill N40 LLC										
Summerhill Prospect Avenue LLC										
Toll House Hotel LLC	15,696,089	0.19%	-	0.00%						
Wealthcap Los Gatos 121										
Wealthcap Los Gatos 31										
Windrose Los Gatos Properties LLC										
Total - Principal taxpayers	\$ 583,795,249	7.16%	\$ 584,030,904	6.90%	\$ 650,252,243	7.68%	\$ 394,337,473	6.49%	\$ 1,296,723,012	6.37%
Total - All real properties assessed by the Town (1)	\$8,151,530,237		\$8,464,491,112		\$9,237,887,980		\$9,766,765,025		\$10,416,786,877	

(1) Assessed value includes only net secured real properties.

(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

Schedule 7

ASSEESSEE NAME	2016/17		2017/18		2018/19		2019/20		2020/21	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
750 University LLC	\$ 19,675,159	0.18%	\$ 25,241,863	0.21%	\$ 25,746,699	0.20%	\$ 26,261,632	0.19%	\$ 26,786,863	0.18%
980 JR LLC					19,277,879	0.15%				
Alberto Way Holdings LLC	24,557,845	0.22%	25,048,998	0.21%	25,549,975	0.20%	24,158,350	0.18%	24,641,514	0.17%
Ann R. Desantis										
Boccardo Corporation	21,918,921	0.20%	22,211,650	0.19%	22,651,732	0.18%	23,099,314	0.17%		
CH Realty IV Downing LP										
CHL Ventures LP										
D&K Los Gatos LLC										
David A. and Shari Flick Trustee										
Donahue Schriber Realty Group LP			53,872,083	0.45%	56,370,186	0.44%	57,497,587	0.43%	58,647,535	0.40%
DS Downing Los Gatos LLC	22,315,770	0.20%								
DS Village Square	22,799,599	0.20%								
El Camino Hospital	26,880,933	0.24%	23,353,576	0.20%	28,596,104	0.22%	30,789,155	0.23%	42,611,768	0.29%
Equestrian 3 Investments LLC			29,584,251	0.25%	28,563,864	0.22%	25,525,880	0.19%	26,036,395	0.18%
Fox Creek Fund LLC					21,558,664	0.17%				
Good Samaritan Hospital LP	22,402,756	0.20%	22,516,823	0.19%	22,934,274	0.18%	23,391,289	0.17%	23,846,402	0.16%
Grade Way Associations VI										
Green Eyes LLC										
Grosvenor USA Ltd.										
Health Care REIT Inc.	20,396,274	0.18%								
Hercules Holding II LLC			-	0.00%	-	0.00%				
International Hotel			30,144,617	0.25%	30,747,509	0.24%	31,362,458	0.23%	31,989,706	0.22%
Kay Kaoru and Go Sasaki Sr., Trustees	25,122,131	0.22%	25,624,027	0.21%	26,135,962	0.20%	28,864,942	0.21%	27,190,951	0.19%
Knowles Los Gatos LLC	49,917,644	0.44%	50,915,995	0.43%	51,934,313	0.41%	52,972,998	0.39%	54,032,455	0.37%
KSL Capital Partners	30,105,945	0.27%	25,893,946	0.22%	26,411,820	0.21%	33,069,058	0.24%	33,118,759	0.23%
Leland E Lester, Trustee	29,004,169	0.26%								
LG Business Park Bldg 3 LLC			53,465,724	0.45%						
LG Business Park Bldg 4 LLC			43,937,857	0.37%						
LG Business Park LLC	31,070,572	0.28%								
LG Hotel LLC										
Los Gatos Hotel Corp.										
Lyon Baytree Apartments LLC										
Paul H. Roskoph			-	0.00%	-	0.00%				
Preylack Los Gatos LLC							89,141,472	0.66%	95,880,000	0.66%
Safeway Inc.			24,394,468	0.20%			25,752,231	0.19%	25,577,034	0.18%
San Jose Water Works	38,710,728	0.34%	41,202,805	0.34%	46,150,577	0.36%	47,777,432	0.35%	49,649,154	0.34%
Serramonte Corporate Center LLC					200,844,610	1.57%	204,861,501	1.52%	208,958,729	1.43%
SI 32 LLC	143,442,269	1.28%	146,317,944	1.22%	149,208,182	1.17%	152,166,578	1.13%	155,181,793	1.06%
Sobrato Interests IV LLC	42,240,994	0.38%	43,071,837	0.36%	43,919,879	0.34%	44,781,377	0.33%	45,682,006	0.31%
SRI Old Town LLC	32,228,351	0.29%	32,872,917	0.27%	33,530,374	0.26%	34,200,980	0.25%	34,884,999	0.24%
Summerhill N40 LLC							56,244,782	0.42%	57,369,661	0.39%
Summerhill Prospect Avenue LLC	18,274,508	0.16%								
Toll House Hotel LLC			-	0.00%	-	0.00%			35,043,180	0.24%
Wealthcap Los Gatos 121	109,100,000	0.97%	111,282,000	0.93%	113,507,640	0.89%	115,777,792	0.86%	118,093,347	0.81%
Wealthcap Los Gatos 31	84,000,000	0.75%	85,680,000	0.72%	87,393,600	0.68%				
Windrose Los Gatos Properties LLC										
Total - Principal taxpayers	\$ 814,164,568.00	7.24%	\$ 916,633,381.00	7.66%	\$ 1,061,033,843.00	8.29%	\$ 1,127,696,808.00	8.35%	\$ 1,175,222,251.00	8.05%
Total - All real properties assessed by the Town (1)	\$11,239,536,718		\$11,968,031,792		\$12,793,751,423		\$13,509,034,656		\$14,598,027,652	

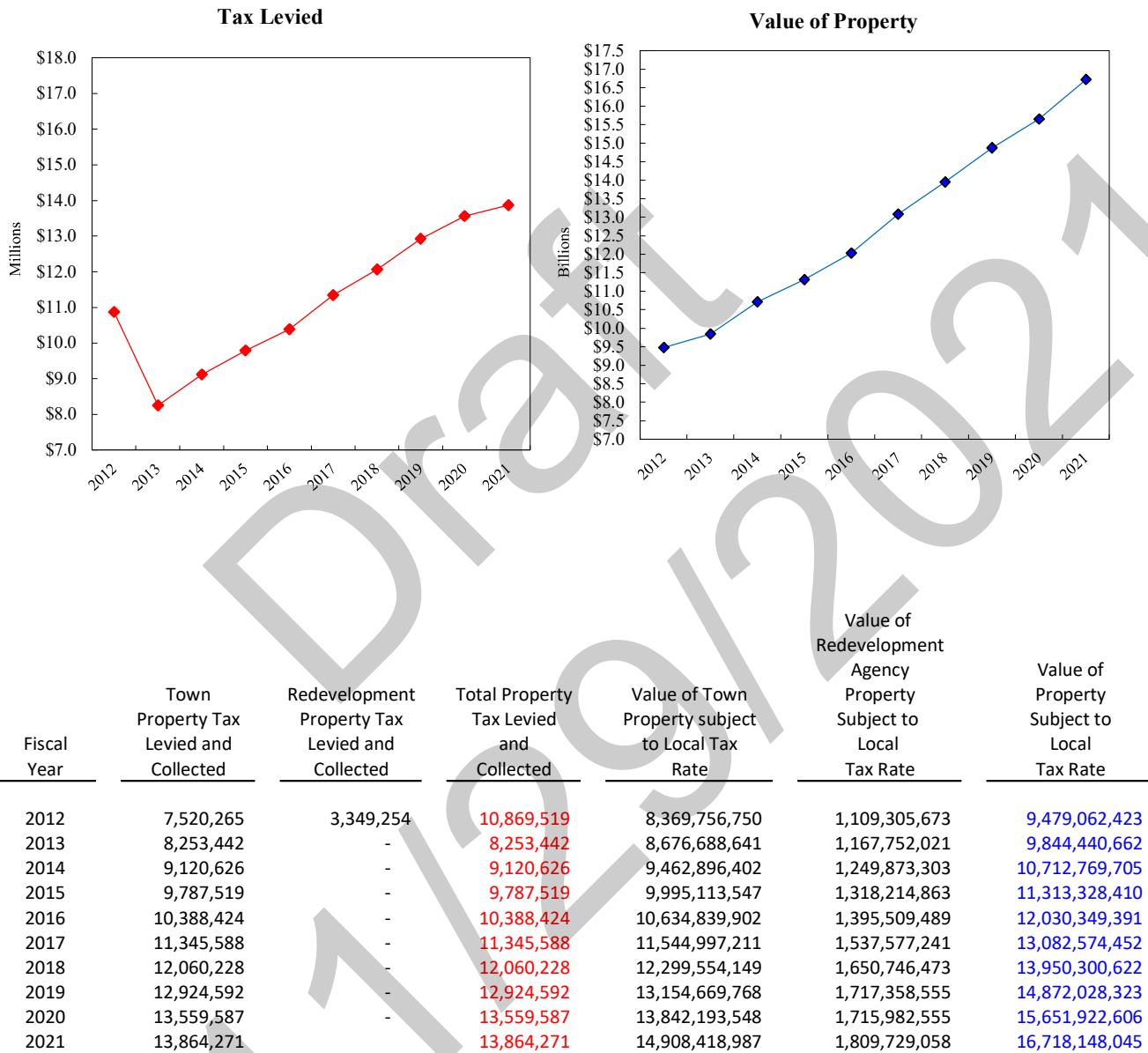
(1) Assessed value includes only net secured real properties.

(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

Town of Los Gatos
Property Tax Levies and Collections
Last Ten Fiscal Years

Schedule 8



Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Town of Los Gatos
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Schedule 9

Fiscal Year	Governmental Activities						
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
2012	-	-	-	-	-	0.0% ¹⁾	0.00
2013	-	-	-	-	-	0.0%	0.00
2014	-	-	-	-	-	0.0%	0.00
2015	-	-	-	-	-	0.0%	0.00
2016	-	-	-	-	-	0.0%	0.00
2017	-	-	-	-	-	0.0%	0.00
2018	-	-	-	-	-	0.0%	0.00
2019	-	-	-	-	-	0.0%	0.00
2020	-	-	-	-	-	0.0%	0.00
2021	-	-	-	-	-	0.0%	0.00

¹⁾ Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution in FY 2011

Town of Los Gatos
Direct and Overlapping Governmental Activities Debt
As of June 30, 2021

Schedule 10

2020/21 Assessed Valuation:

\$14,908,418,987

	% Applicable	(1)	Total Debt at June 30, 2021	Estimated Share of Direct and Overlapping Debt at June 30, 2021
DIRECT AND OVERLAPPING BONDED DEBT:				
Overlapping Tax & Assessment Debt				
Santa Clara County	2.706%		\$ 812,685,000	\$ 21,991,256
West Valley-Mission Community College District	9.383%		\$ 589,080,000	\$ 55,273,376
Campbell Union High School District	7.774%		\$ 357,945,000	\$ 27,826,644
Los Gatos-Saratoga Joint Union High School District	36.253%		\$ 86,585,000	\$ 31,389,660
Cambrian School District	0.437%		\$ 62,324,944	\$ 272,360
Campbell Union High School District	7.665%		\$ 211,274,895	\$ 16,194,221
Los Gatos Union School District	74.127%		\$ 72,185,000	\$ 53,508,575
Saratoga Union School District	0.034%		\$ 19,249,458	\$ 6,545
Union School District	20.369%		\$ 109,815,349	\$ 22,368,288
Midpeninsula Regional Open Space District	4.430%		\$ 86,400,000	\$ 3,827,520
Santa Clara Valley Water District Benefit Assessment District	2.706%		\$ 57,010,000	\$ 1,542,691
Total Overlapping Tax and Assessment Debt				\$ 234,201,136
Overlapping General Fund Debt				
Santa Clara County General Fund Obligations	2.706%		\$ 914,957,860	\$ 24,758,760
Santa Clara County Pension Obligations	2.706%		\$ 341,399,194	\$ 9,238,262
Santa Clara County Board of Education Certificates of Participation	2.706%		\$ 2,670,000	\$ 72,250
West Valley-Mission Community College District General Fund Obligations	9.383%		\$ 49,850,000	\$ 4,677,426
Campbell Union High School District General Fund Obligations	7.774%		\$ 20,000,000	\$ 1,554,800
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	36.253%		\$ 1,709,000	\$ 619,564
Campbell Union School District General Fund Obligations	7.665%		\$ 2,180,000	\$ 167,097
Saratoga Union School District Certificates of Participation	0.034%		\$ 2,750,000	\$ 935
Santa Clara County Vector Control District Certificates of Participation	2.706%		\$ 1,765,000	\$ 47,761
Midpeninsula Regional Open Space Park District General Fund Obligations	4.430%		\$ 106,000,600	\$ 4,695,827
Total Gross Overlapping General Fund Debt				\$ 45,832,682
Less: Santa Clara County Supported Obligations				\$ 684,004
Total Overlapping General Fund Debt				\$ 45,148,678
Overlapping Tax Increment Debt (Successor Agency)				
Town of Los Gatos Certificated of Participations				\$ 14,085,000
Total of Overlapping Tax Increment Debt				\$ 14,085,000
Total Direct Debt				
Total Gross Overlapping Debt				\$ 294,118,818
Total Net Overlapping Debt				\$ 293,434,814
Gross Combined Total Debt				\$ 294,118,818 (2)
Net Combined Total Debt				\$ 293,434,814

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Ratios to 2020/21 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.57%

Total Direct Debt: 0.00%

Gross Combined Total Debt: 1.97%

Net Combined Total Debt: 1.97%

Ratios to Redevelopment Incremental Valuation (\$1,560,073,787):

Total Overlapping Tax Increment Debt: 0.90%

Source Data: California Municipal Statistics, Inc.

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Town of Los Gatos
Legal Debt Margin Information,
Last Ten Fiscal Years
(In Thousands of Dollars)

	Fiscal Year				
	2011/12	2012/13	2013/14	2014/15	2015/16
Debt Limit	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943
Debt Applicable to Limit	-	-	-	-	-
Legal Debt Margin	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

- (1) The Town of Los Gatos is a general law city and has a debt limit of 15%.
(2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the

Schedule 11

Legal Debt Margin Calculation
for Fiscal Year 2020/21

Assessed Value	\$	14,908,418,987
Debt Limit		2,236,262,848
Debt Applicable to Limit:		
Legal Debt Margin	\$	<u>2,236,262,848</u>

		Fiscal Year			
2016/17	2017/18	2018/19	2019/20	2020/21	
\$ 1,556,252	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329	\$ 2,236,263	
-	-	-	-	-	
\$ 1,556,252	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329	\$ 2,236,263	

0.00% 0.00% 0.00% 0.00% 0.00%

Town of Los Gatos
Demographic and Economic Statistics
Last Ten Fiscal Years

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.8	6,420	6.8%
2014	30,443	2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	2,286,087	72,861	46.30	6,646	3.5%
2017	31,314	2,281,569	72,861	46.50	6,631	3.8%
2018	30,601	2,290,638	74,855	46.81	6,588	2.6%
2019	30,998	2,365,178	76,301	46.72	6,544	2.6%
2020	31,439	2,546,748	81,006	46.83	6,520	10.7%
2021	30,836	2,686,155	87,111	46.83	6,180	5.2%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2019)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) US Census Bureau - QuickFacts
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

Schedule 13

	2011/12		2012/13		2013/14		2014/15		2015/16	
	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
Principal Employers										
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.89%	2,000	13.29%	2,000	13.52%	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	700	4.86%	700	4.65%	700	4.73%	560	3.73%	560	3.53%
Los Gatos Union School District	275	1.91%	275	1.83%	237	1.60%	273	1.82%	280	1.76%
Los Gatos-Saratoga High School District	270	1.88%	270	1.79%	256	1.73%	157	1.05%	157	0.99%
Netflix	800	5.56%	900	5.98%	825	5.58%	1,530	10.19%	1,976	12.45%
Safeway	250	1.74%	250	1.66%	250	1.69%	314	2.09%	314	1.98%
Alain Pinel Realtors	150	1.04%	150	1.00%	156	1.05%	156	1.04%	146	0.92%
Courtside Tennis Club	200	1.39%	200	1.33%	295	1.99%	440	2.93%	440	2.77%
Town of Los Gatos	136	0.94%	138	0.92%	144	0.97%	157	1.05%	158	1.00%
Whole Foods	-	0.00%	-	0.00%	-	0.00%	179	1.19%	179	1.13%
Vasona Creek Health Care Center	-	0.00%	-	0.00%	-	0.00%	233	1.55%	233	1.47%
Good Samaritan Regional Cancer Center	-	0.00%	-	0.00%	-	0.00%	200	1.33%	200	1.26%
Roku	-	0.00%	-	0.00%	-	0.00%	-	0.00%	487	3.07%
Terraces of Los Gatos	-	0.00%	-	0.00%	-	0.00%	-	0.00%	228	1.44%

Source: Town of Los Gatos, Finance Department and Muniservices

	2016/17		2017/18		2018/19		2019/20		2020/21	
	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
Principal Employers										
Columbia Health Care Assoc/Mission Oaks Hospital	-	0.00%		0.00%		0.00%		0.00%		0.00%
El Camino Hospital, Los Gatos	560	3.49%	560	3.43%	560	3.49%	560	3.49%	560	3.35%
Los Gatos Union School District	274	1.71%	267	1.64%	281	1.75%	281	1.75%	281	1.68%
Los Gatos-Saratoga High School District	370	2.30%	367	2.25%	367	2.28%	367	2.28%	320	1.92%
Netflix	1,864	11.61%	2,117	12.98%	2,314	14.41%	2,314	14.41%	2,524	15.11%
Safeway	314	1.95%	314	1.92%	314	1.95%	314	1.95%	314	1.88%
Alain Pinel Realtors	148	0.92%	131	0.80%	131	0.82%	131	0.82%		0.00%
Courtside Tennis Club	468	2.91%	542	3.32%	542	3.37%	542	3.37%	542	3.24%
Town of Los Gatos	160	1.00%	159	0.97%	160	1.00%	160	1.00%	161	0.96%
Whole Foods	179	1.11%	179	1.10%	125	0.78%	125	0.78%	125	0.75%
Vasona Creek Health Care Center	233	1.45%	233	1.43%	233	1.45%	233	1.45%	250	1.50%
Good Samaritan Regional Cancer Center	200	1.25%	200	1.23%	200	1.25%	200	1.25%	200	1.20%
Roku	554	3.45%	664	4.07%	516	3.21%	516	3.21%		0.00%
Terraces of Los Gatos	228	1.42%	228	1.40%	228	1.42%	228	1.42%	228	1.36%

Town of Los Gatos
 Full-time-Equivalent Employees by Function/Program
 Last Ten Fiscal Years

Schedule 14

Function/Program	Full-time-Equivalent Employees as of June 30									
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	20/21
General Government	20.15	20.40	20.73	20.97	20.97	21.35	21.97	22.16	21.80	21.80
Police	60.50	58.00	57.50	60.00	59.00	59.00	59.00	59.00	60.00	60.00
Culture and Recreation	-	-	-	-	-	-	-	-	-	-
Economic Development	1.00	-	0.50	0.63	0.63	0.63	0.75	0.75	0.75	0.75
Library	8.60	8.60	10.30	10.80	11.00	12.25	12.25	12.50	12.50	12.50
Planning	16.00	17.50	17.50	19.50	19.00	19.26	19.63	20.08	20.08	20.20
Public Works	32.00	31.00	31.50	32.00	33.50	33.50	34.50	34.50	34.50	34.75
Total	138.75	138.25	135.50	137.53	144.10	145.98	148.10	148.99	149.63	150.00

Full-time equivalent employment is calculated as one or more employee positions totaling one full year of service or approximately 2,080 hours a year.

Town of Los Gatos
Operating Indicators
Last Ten Fiscal Years

FUNCTION/PROGRAM

	2011/12	2012/13	2013/14	2014/15
General government				
Building Permits Issued				
Residential Permits Issued	747	738	813	805
Residential Permits Value	66,072,341	75,227,889	87,307,822	76,896,111
Commercial Permits Issued	107	137	139	133
Commercial Permits Value	17,663,124	46,855,615	138,676,507	178,195,997
Publically Owned Permits Issued	-	-	-	-
Publically Owned Permits Value	-	-	-	-
Residential Parking Permits				
Number of Special Event Permits Issued	89	125	133	127
Number of Annual Permits Issued	1,223	1,320	1,376	1,570
City Clerk				
Number of Council Resolutions Passed	59	74	86	72
Number of Ordinances Passed	13	20	16	9
Number of Contracts Passed	227	220	196	222
General Services				
Number of Purchase Orders Issued	358	318	301	277
Police				
Physical Arrests	690	648	641	695
Parking Violations	12,938	11,991	14,421	13,321
Traffic Violations	2,908	3,333	4,747	4,633
DUI Arrests	89	86	62	48
Library				
Circulated e-audiobooks	3,388	4,774	2,414 *	5,867 *
Other Public Works				
Street Resurfacing/Overlay/Reconstruction (miles)	8.0	8.0	10.0	1.8
ADA Compliance: Curb Ramps	19	19	19	23
Traffic Circles	1	1	-	1
Street Poles	1,611	1,611	1,611	1,609
Planning and Development Department				
Building & Safety Inspections Performed	11,738	11,902	12,764	11,652
Redevelopment: Number of active projects	1	-	-	-

* July 2013 the Library separated from Northern CA Digital Library, Patrons had no longer access to collections of multiple libraries. By 2014 patrons access to more materials.

** The Town streamlined the special event application where multiple events require only one permit.

Source: Town of Los Gatos, Finance Department

Schedule 15

Fiscal Year					
2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
899	744	849	814	898	1,128
85,000,754	53,625,891	63,083,249	80,030,846	47,961,529	111,242,724
147	135	105	122	92	68
20,185,884	50,024,177	16,626,196	13,295,999	12,389,688	37,285,259
-	-				-
-	-				-
107	118	113	78	-	**
1,363	1,251	1,342	1,395	1,400	1,568
61	69	69	59	57	50
11	5	17	11	24	9
283	240	262	245	242	205
334	331	322	343	359	376
987	1,030	1,164	1,138	616	360
13,975	12,863	11,784	6,817	4,023	1,584
5,400	4,634	4,757	2,877	1,225	764
58	60	51	70	64	23
7,761	10,006	8,844	12,130	57,839	54,614
8.0	10.0	2.6	5.8	16.2	10.0
11	30	68	49	68	91
1	1	1	1	1	1
1,609	1,609	1,762	1,830	1,830	1,830
8,655	14,722	13,918	13,966	13,633	13,806
-	-	-	-	-	-

14 the Library has expanded its contents giving

Town of Los Gatos
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Schedule 16

Function/Program	Fiscal Year									
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Police										
Number of Stations	2	2	2	2	2	2	2	2	2	2
Number of Patrol Units	14	14	14	14	14	14	14	14	14	14
Parking Enforcement Vehicles	2	2	2	2	2	2	2	2	2	2
Other Public Works										
Streets (miles)	132	132	132	132	132	132	132	132	132	132
Streetlights	2,116	2,116	2,109	1,609	1,609	1,609	1,762	1,830	1,830	1,830
Traffic Signals	29	29	29	29	30	30	30	31	31	31
Parks and Recreation										
Number of Parks	12	12	12	12	12	12	12	N/A	N/A	N/A
Number of Community Centers	1	1	1	1	1	1	1	1	1	1
Number of Parks & Open Spaces	N/A	N/A	N/A	N/A	N/A	N/A	N/A	17	17	17
Parking										
Number of Parking Garages	1	1	1	1	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126	1,126	N/A	N/A	N/A
Number of Downtown Off-Street Parking Spaces	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,269	1,269	1,269

Source: Town of Los Gatos, Finance Department

Draft
11/29/2021





**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/06/2021

ITEM NO: 5

DESK ITEM

Item 5.

DATE: December 6, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Town Manager's Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year and Provide Written Comments and Recommendations

REMARKS:

After the release of the Draft ACFR further review by staff identified that a revenue reclassification was needed in the Statement of Activity between Charges for Services and Operating Grants and Contribution. Per reclassification Charges for Services decreased by \$400,808 from \$11,754,740 to \$11,353,932 while the Operating Grants and Contribution increased by the same amount from \$2,886,756 to \$3,287,564. The reclassification of the revenue does not change the Town Net Position. Replacement pages containing information on the Statement of Activity are included in Attachment 2 of this Desk Item. In addition, the auditor identified a typographical error in the Other Post Employment Benefits Sensitivity Analysis schedule in Note 10 (page 92). Attachment 3 contains replacement page 92.

Staff will continue to review the Draft ACFR and present any recommended updates as warranted until the final approval by Council on December 21, 2021.

Attachment previously distributed with the Staff Report:

1. Draft FY 2020/21 ACFR

Attachments distributed with this Desk Item:

2. Replacement pages related to the Statement of Activity Schedule: - pages 25, 26 ,41, and 129
3. Replacement page on OPEB Sensitivity Analysis Schedule: - page 92

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

Governmental Activities

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities is financed and determine the annual change in net position.

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2021

	2021	2020	2019
Revenues:			
Program revenues:			
Charges for Services	\$ 11,353,932	\$ 10,288,351	\$ 11,350,345
Operating Grants and Contributions	3,287,564	3,854,188	2,175,277
Capital Grants and Contributions	846,345	850,113	146,792
General Revenues:			
Property Taxes	19,878,835	18,330,426	17,321,347
Sales Taxes	7,933,604	7,531,425	8,158,152
Franchise Taxes	2,499,463	2,495,792	2,475,916
Other Taxes	1,126,887	1,911,774	2,726,743
Motor Vehicle in Lieu	23,058	24,526	14,689
Investment Earnings	227,136	2,428,470	1,809,128
Miscellaneous	1,528,039	323,940	2,407,840
Total Revenues	48,704,863	48,039,005	48,586,229
Expenses:			
Police Department	19,808,230	20,446,188	16,635,726
Parks and Public Works	13,141,034	11,803,005	10,627,716
General Government	7,086,377	7,405,368	8,163,991
Community Development	6,846,834	5,001,958	5,064,637
Library Services	3,496,153	3,347,523	3,059,294
Sanitation	185,981	3,041	684,673
Total Expenses	50,564,609	48,007,083	44,236,037
Change in Net Position	(1,859,746)	31,922	4,350,192
Net Position, beginning	115,377,846	114,819,109	110,468,917
Net Position, Ending	\$ 113,518,100	\$ 114,851,031	\$ 114,819,109

Governmental Activities Revenue Discussion

The Statement of Activities shown above details how the \$48.7 million in Governmental Activities revenue was derived. As categorized in the Statement of Activities as program revenues,

approximately \$11.3 million or 23.3% of the revenues were recorded from residents who directly benefited from the program as a charge for service. Another \$4.1 million or 8.5% of the revenues were sourced from operating/capital grants and contributions. The remaining \$33.2 million or 68.2% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues increased by approximately \$495K from the prior year. This is largely due to an increase in revenues from charges for services of \$1.06 million offset by decreases of approximately \$567K in operating grant revenues and contributions.

The Town's General Revenues related to Governmental Activities increased by approximately \$171K from the prior year. The increase is attributable to a combination of approximately \$1.5 million increase in property taxes, a \$402K increase in sales tax, and a \$1.2 million gain on sale of property. The increases were offset by nearly \$2.2 million reduction in investment earnings from the prior year as result of lower market values above purchase cost on the Town's investment portfolio and declines of approximately \$820K in transient occupancy tax receipts due to the pandemic and its related effects on business travel and tourism.

Property tax is the largest individual revenue source for the Town and collections finished the year \$1.5 million higher than the previous year. This increase was mostly due to an increase of \$600K in secured taxes received as a rebate of excess property taxes collected and available from the State of California's Educational Revenue Augmentation Fund (ERAF), \$430K increase in property transfer tax as well as continued strong demand for residential Town property. In addition, the approval of the annexations of County pockets with tax revenues accruing to the Town effective FY 2019/20 and new developments helped to drive property values higher. It's important to note that assessed valuations for FY 2020/21 were established on the tax roll in January 2020 and collected in FY 2020/21.

At \$7.9 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes increased \$402K from the previous year largely due the gradual recovery from the economic impacts related to COVID-19 which began with the March 2020 shelter-in-place public health orders. The increase was aided by the receipt of online purchase revenues which accrue to a new additional 1/8 cent District Sales Tax approved by the Los Gatos voters in the fall of 2018 which became effective fully in FY 2019/20.

Franchise taxes, the Town's third largest revenue source, finished the year at \$2.5 million, reflecting only a very small increase of \$4K from the previous fiscal year.

Investment earnings decreased \$2.2 million from the prior year. The primary factor responsible for this decline was the lower total market value above historical investment cost than the prior year. These non-cash or paper gains/losses are recognized as investment income/loss as a result of the "mark to market value" procedure required by GASB 31.

Miscellaneous other revenues increased by approximately \$1.2 million from the prior year. The increase is due to a gain on sale of property on gain of the 14850 Winchester Boulevard land sale finalized in July 2020.

TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental Activities:					
General government	\$ 7,086,377	\$ 1,505,899	\$ 388,181	\$ 2,365	\$ (5,189,932)
Public safety	19,808,230	1,275,731	1,073,971	-	(17,458,528)
Parks and public works	13,141,034	4,209,048	1,547,102	843,980	(6,540,904)
Community development	6,846,834	4,063,776	223,129	-	(2,559,929)
Library services	3,496,153	-	55,181	-	(3,440,972)
Sanitation	185,981	299,478	-	-	113,497
Total Governmental Activities	\$ 50,564,609	\$ 11,353,932	\$ 3,287,564	\$ 846,345	(35,076,768)
General revenues:					
Taxes:					
Property taxes					19,878,835
Sales taxes					7,933,604
Franchise taxes					2,499,463
Other taxes					1,126,887
Motor vehicle in lieu					23,058
Investment earnings					227,136
Miscellaneous					1,528,039
Total general revenues					33,217,022
Change in Net Position					(1,859,746)
Net Position - Beginning, as restated					115,377,846
Net Position - Ending					\$ 113,518,100

Schedule 2

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
\$ 6,993,661	\$ 6,771,628	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368	\$ 7,086,377
12,825,688	14,587,597	15,545,521	16,635,726	20,446,188	19,808,230
8,320,623	9,502,707	10,047,003	10,627,716	11,803,005	13,141,034
3,227,224	5,093,459	4,667,609	5,064,637	5,001,958	6,846,834
-	-	-	-	-	-
2,522,142	2,868,748	3,087,684	3,059,294	3,347,523	3,496,153
528,580	466,762	536,296	684,673	3,041	185,981
-	-	-	-	-	-
-	-	-	-	-	-
\$ 34,417,918	\$ 39,290,901	\$ 41,833,031	\$ 44,236,037	\$ 48,007,083	\$ 50,564,609

\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683	\$ 1,470,324	\$ 1,505,899
3,278,585	2,076,688	1,888,359	1,745,889	1,549,207	1,275,731
1,516,108	2,155,841	4,150,068	2,910,936	3,674,222	4,209,048
4,359,146	3,803,626	3,456,390	4,155,231	3,351,753	4,063,776
-	-	-	-	-	-
46,192	46,746	14,702	9,476	11,522	-
368,813	410,626	771,442	966,130	231,323	299,478
15,291	-	-	-	12,290	388,181
98,138	837,329	895,730	826,643	952,045	1,073,971
749,300	665,779	953,294	1,301,152	2,824,638	1,547,102
-	-	-	-	15,864	223,129
12,228	-	57,200	47,482	49,351	55,181
-	-	-	-	-	-
-	-	-	-	8,258	2,365
-	-	-	-	9,100	-
1,610,657	770,600	348,437	146,792	832,755	843,980
-	9,280	-	-	-	-
\$ 13,571,470	\$ 12,445,535	\$ 14,236,768	\$ 13,672,414	\$ 14,992,652	\$ 15,487,841

2015/16	2016/17	0	2017/18	2018/19	2019/20	2020/21
\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426	\$ 19,878,835	
7,501,175	8,925,276	7,466,253	8,158,152	7,531,425	7,933,604	
2,258,892	2,366,908	2,474,814	2,475,916	2,495,792	2,499,463	
1,997,497	2,351,223	2,667,840	2,726,743	1,911,774	1,126,887	
12,308	14,056	16,483	14,689	24,526	23,058	
698,324	192,260	333,120	1,809,128	2,428,470	227,136	
-	-	-	-	-	-	
-	-	-	-	-	-	
598,170	528,946	622,105	2,407,840	323,940	1,528,039	
-	-	-	-	-	-	
\$ 26,829,824	\$ 29,134,883	\$ 29,539,021	\$ 34,913,815	\$ 33,046,353	\$ 33,217,022	
\$ 5,983,376	\$ 2,289,517	\$ 1,942,758	\$ 4,350,192	\$ 31,922	\$ (1,859,746)	

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Item 5.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Sensitivity of Actuarial Assumptions – The following tables indicate how much the net OPEB liability varies if the discount rate and healthcare trend rate used to calculate the liability are increased or decreased by one percentage point.

<u>Discount Rate</u>	<u>1% Decrease</u> <u>(5.75%)</u>	<u>Current Rate</u> <u>(6.75%)</u>	<u>1% Increase</u> <u>(7.75%)</u>
Net OPEB Liability	\$ 12,103,433	\$ 8,495,214	\$ 5,503,087

<u>Healthcare Trend</u>	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 5,682,510	\$ 8,495,214	\$ 11,413,048

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Partial amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. Investment gains and losses are spread evenly over a 5-year period. All other deferred outflows and inflows created during the measurement period are recognized over a 5.9-year period. The total OPEB expense recognized in the fiscal year ending June 30, 2021 was \$1,668,119 and the Town reported deferrals from the following sources:

	<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
• Employer contributions made subsequent to the measurement date	\$ 2,096,847	\$ -
• Changes in assumptions	-	702,915
• Difference between expected and actual experiences	-	98,687
• Net difference between projected and actual earnings on plan investments	381,722	-
Totals	<u>\$ 2,478,569</u>	<u>\$ 801,602</u>

ATTACHMENT 3