



TOWN OF LOS GATOS  
TOWN COUNCIL FINANCE COMMITTEE  
AGENDA

*Finance Committee – 2010*

*Steve Rice, Council Member*  
*Mike Wasserman, Council Member*

TOWN COUNCIL CHAMBERS  
110 EAST MAIN STREET  
JANUARY 26, 2010 – 4:00 P.M.

**VERBAL COMMUNICATIONS** *(Three minute time limit)*

1. Discuss and accept Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2009 (including Independent Auditor's Report)
2. Discuss and accept Auditor's Report to Management and Town Council

**ADJOURNMENT**

cc: Post *(also post on Town Web)*  
Town Council



# MEMORANDUM

## OFFICE OF THE TOWN MANAGER

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**To:** Council Finance Committee  
Steve Rice  
Mike Wasserman

**From:** Greg Larson, Town Manager

**By:** Stephen Conway, Director of Finance & Administrative Services

**Subject:** Finance Committee Meeting to Review the Town's FY 2008/2009 Financial Statements and the Auditor's Report to Management and Town Council

**Date:** January 21, 2010

Attached is the Town's Comprehensive Annual Financial Report (CAFR) for FY 2008/09, including the Independent Auditor's Report, in preparation for the Council Finance Committee's January 26 meeting. Staff will provide a detailed overview of the report and an update of the implementation status of the recommendations made by the auditors in their Report to Management. After review of the reports, the Committee may recommend the report's acceptance by the Town Council at its February 16, 2010 Council meeting.

Staff believes the report continues to meet the criteria necessary to receive both the Government Finance Officer's Association and the California Society of Municipal Finance Officers awards for Excellence in Financial Reporting. The Comprehensive Annual Financial Report (CAFR) is considered by the Governmental Accounting Standards Board (GASB) to be the "official annual report" of the Town.

The Comprehensive Annual Financial Report contains three basic sections. The first is the Introductory Section, which provides general information on the Town's financial position, including management's discussion and analysis of the fiscal years financial highlights. The Financial Section provides information on both fund types and individual funds and account groups. The final Statistical Section provides a broad range of trend data covering key financial indicators from the past ten fiscal years and demographic and miscellaneous data used to assess a municipality's financial situation.

New requirements for financial reporting and government auditing are imposed each year. The Town has complied with implementing Governmental Accounting Standards Board Statement 34 (GASB), which required changes in the financial reporting model. The Town also implemented GASB 44 to include more financial and economic trending information in the Statistical Section of the report. Work on GASB 45 relating to enhanced disclosure on future liabilities for post retirement benefits is required to be implemented this fiscal year ending June 30, 2009.

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Town Council

Subject: Finance Committee Meeting to Review the Town's FY 2007/2008 Financial  
Statements and the Auditor's Report to Management and Town Council

January 21, 2010

As mentioned, included in the CAFR is the Independent Auditor's Report reflecting the examination of the Town's financial statements by C.G. Uhlenberg & Company. They have found the Town's financial statements to be in conformance with generally accepted accounting principles (GAAP), presenting fairly in all material respects, the financial position of the Town as of June 30, 2009, the results of its operations, and the cash flows of its proprietary fund types.

Should you have any questions about the CAFR or Independent Auditor's Report, please contact Steve Conway, Finance Director at (408) 354-6828.

SC:pg

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Attachments

**TOWN OF LOS GATOS  
CALIFORNIA**

**REPORT TO MANAGEMENT  
AND TOWN COUNCIL**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2009**

*Submitted by:*



**C. G. UHLENBERG LLP**  
Certified Public Accountants  
333 Twin Dolphin Rd., Ste. 230  
Redwood City, CA 94065

Phone: (650) 802-8668

Fax: (650) 802-0866

Contact: Jeffrey J. Ira

**January 21, 2010**

**Attachment 1**

**TOWN OF LOS GATOS**

**REPORT TO MANAGEMENT AND TOWN CONCIL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**C. G. UHLENBERG LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A.    JEFFREY J. IRA, C.P.A.    KATHERINE CHAO, C.P.A.    JULIE T. LIN, C.P.A.

January 21, 2010

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

We have audited the basic financial statements of the Town of Los Gatos California (the "Town"), as of and for the year ended June 30, 2009, and have issued our reports thereon dated December 17, 2009.

In planning and performing our audit of the financial statements of the Town of Los Gatos as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Control deficiencies in internal control indentified in the audit are discussed on page 3 of this report.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weakness as defined above.

Our comments contained herein are based solely on observations made during our audit of the Town's 2008-2009 basic financial statements and, accordingly, are not based on the results of any special studies designed to report on these matters. Accordingly, additional information and study may be required before acting on our suggestions.

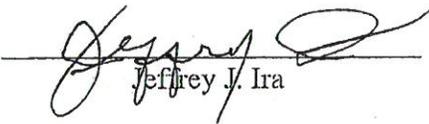


This letter is intended solely for the information and use of management, the Mayor, and Town Council and should not be used for any other purpose. However, this restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We would be pleased to discuss these matters in greater detail at your convenience.

Very truly yours,

C. G. UHLENBERG LLP

By  Jeffrey J. Ira

The signature is a cursive, handwritten name in dark ink, written over a horizontal line. The name 'Jeffrey J. Ira' is printed in a smaller, sans-serif font directly below the signature.

JJI/wh

CURRENT YEAR  
CONTROL DEFICIENCIES

## TOWN OF LOS GATOS

### REPORT TO MANAGEMENT AND TOWN COUNCIL FOR THE FISCAL YEAR ENDED JUNE 30, 2009

#### CURRENT YEAR CONTROL DEFICIENCIES

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#### **TOWN OF LOS GATOS REDEVELOPMENT AGENCY (THE AGENCY)**

**Deficiency 09-01: Repeat Recommendation** – Pursuant to Health and Safety Code Section 33334.12(g), "excess surplus" means any unexpended and unencumbered amount in an agency's Low and Moderate Income Housing Fund that exceeds the greater of: one million dollars (\$1,000,000), or the aggregate amount of tax increment deposited into the Low and Moderate Income Housing Fund during the agency's preceding four fiscal years (pursuant to Sections 33334.2 and 33334.6). It was determined that the Los Gatos Redevelopment Agency retained an excess surplus of approximately \$1,830,971 for the fiscal year ended June 30, 2009, based on the aggregate amount of tax increment deposited in the Low and Moderate Income Housing Fund.

**Recommendation:** Pursuant to Health and Safety Code Section 33334.12(a) (1) (B), we recommend that the Los Gatos Redevelopment Agency encumbers or expends the excess surplus. The funds should be encumbered to carry out activities consistent with a redevelopment agency as defined in Health and Safety Code Sections 33334.2 and 33334.3.

PRIOR YEAR  
CONTROL DEFICIENCIES

## TOWN OF LOS GATOS

### REPORT TO MANAGEMENT AND TOWN COUNCIL FOR THE FISCAL YEAR ENDED JUNE 30, 2009

#### PRIOR YEAR CONTROL DEFICIENCIES

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#### TOWN OF LOS GATOS REDEVELOPMENT AGENCY (THE AGENCY)

**Deficiency 08-01: Repeat Recommendation** – Pursuant to Health and Safety Code Section 33334.12(g), "excess surplus" means any unexpended and unencumbered amount in an agency's Low and Moderate Income Housing Fund that exceeds the greater of: one million dollars (\$1,000,000), or the aggregate amount of tax increment deposited into the Low and Moderate Income Housing Fund during the agency's preceding four fiscal years (pursuant to Sections 33334.2 and 33334.6). It was determined that the Los Gatos Redevelopment Agency retained an excess surplus of approximately \$1,795,145 for the fiscal year ended June 30, 2008, based on the aggregate amount of tax increment deposited in the Low and Moderate Income Housing Fund.

**Recommendation:** Pursuant to Health and Safety Code Section 33334.12(a) (1) (B), we recommend that the Los Gatos Redevelopment Agency encumbers or expends the excess surplus. The funds should be encumbered to carry out activities consistent with a redevelopment agency as defined in Health and Safety Code Sections 33334.2 and 33334.3.

**Town Response** - The Town agrees with this finding and acknowledged the need to expend and encumber these funds. The Agency is pleased to report the acquisition of two affordable housing parcels as of December 2009 totaling approximately \$4.3 million. This expenditure is anticipated to eliminate the excess surplus status for the year ended June 30, 2009. In the future, the Agency intends to initiate additional affordable housing projects and work with local non-profit developers to produce affordable housing units.

**Status** - The implementation of our recommendation is in progress. However, we did note an increase in the surplus of \$35,826 during the fiscal year ended June 30, 2009. See finding 09-01 on page 3 for our repeat recommendation. This was also included as a finding in the Redevelopment Agency's audit report.

REQUIRED  
COMMUNICATION  
TO THE COUNCIL

## TOWN OF LOS GATOS

### REPORT TO MANAGEMENT AND TOWN COUNCIL FOR THE FISCAL YEAR ENDED JUNE 30, 2009

#### REQUIRED COMMUNICATION TO THE COUNCIL

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Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 31, 2009. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town are described in Note 1 to the financial statements. The following new accounting policies were adopted and the application of existing policies was changed during the year ended June 30, 2009.

- GASB Statement number 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

This statement requires that governmental entities evaluate their current and past service liabilities for other post employment benefits (OPEB), such as health or vision plans offered to retirees, to determine the annual required contributions for the postemployment benefits. Liabilities or assets may result from the difference between the actual payments and the annual required contributions. The past service liability will be allocated prospectively, thus a liability will not be recorded for past service liabilities in the first year.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the Town of Los Gatos' financial statements were:

- Valuation methodology of infrastructure assets

## TOWN OF LOS GATOS

### REPORT TO MANAGEMENT AND TOWN COUNCIL FOR THE FISCAL YEAR ENDED JUNE 30, 2009

#### REQUIRED COMMUNICATION TO THE COUNCIL

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- Accrual and disclosure of compensated absences
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property
- Liabilities for OPEB

Management's judgments and estimates were based on the following:

- Valuation methodology of infrastructure assets was based on the Town's consultant study adjusted for annual capital asset activity.
- Accrual and disclosures of compensated absences were based on accrued eligible hours of vacation and sick leave at current pay rates for eligible employees.
- Useful lives for depreciable property were determined by management based on the nature of the capital asset.
- Liabilities for OPEB are based on the actuarial valuation report

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### *Significant financial statement disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of cash and investments in Note 2 to the financial statements is sensitive because of the dollar amounts relative to the financial statements as a whole.
- The disclosure of capital asset activity in Note 5 informs the reader about the use of Town resources for improvements throughout the year.
- The disclosure of long-term debt in Notes 6 reports the Town's debt balances and activity.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

TOWN OF LOS GATOS

REPORT TO MANAGEMENT AND TOWN COUNCIL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

REQUIRED COMMUNICATION TO THE COUNCIL

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*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 17, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Very truly yours,



C. G. Uhlenberg LLP