



December 24, 2020

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California (Town) for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards Government Auditing Standards, 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 April 27, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated April 27, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

To The Honorable Mayor and Members
of the Town Council of the Town of Los Gatos
Los Gatos, California
Page 2

We performed the audit according to the timing previously communicated to you on the engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. The Town did not adopt any new accounting policies related to financial reporting in 2020.

We noted no transactions entered into by the Town 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 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's financial statements were:

- Depreciable lives and estimated residual value of property and equipment
- Pension plans (actuarial assumptions)
- Net Other Post-employment Benefits (OPEB) Obligation (actuarial assumptions)
- Accrued Compensation

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

- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Net Position/Fund Balances
- Employee Retirement Plans
- Other Postemployment Benefits (OPEB) Plan

The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements identified during the audit

To The Honorable Mayor and Members
of the Town Council of the Town of Los Gatos
Los Gatos, California
Page 3

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 24, 2020.

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 Town'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 Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison information, defined benefit pension plans and other post-employment benefit plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining nonmajor fund financials and budgetary comparison information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

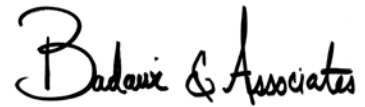
We were not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

To The Honorable Mayor and Members
of the Town Council of the Town of Los Gatos
Los Gatos, California
Page 4

Restriction on Use

This information is intended solely for the use of the Town Council and management of the Town and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates
Certified Public Accountants
Berkeley, California
December 24, 2020