



TOWN OF APPLE VALLEY

TOWN COUNCIL STAFF REPORT

To: Honorable Mayor and Town Council **Date:** January 14, 2014

From: Marc Puckett, Assistant Town Manager **Item No:** 15
Finance & Administration

Subject: COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE
FISCAL YEAR ENDED JUNE 30, 2013

T.M. Approval: _____

Budgeted Item: Yes No N/A

RECOMMENDED ACTION:

It is recommended that the Town Council receive and file the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013.

SUMMARY:

The Town is required to engage a public accounting firm to conduct an annual independent audit of the Town's basic financial statements in accordance with Governmental Auditing Standards issued by the Comptroller General of the United States. The audit must be conducted by licensed Certified Public Accountants who, at the conclusion of their test work, must opine upon the accuracy and completeness of the statements and whether the statements present fairly the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013.

The June 30, 2013 audit was conducted by the public accounting firm of Van Lent and Fankhanel, LLP, who have issued their Independent Auditor's Report accompanying the financial statements. The Auditor's have issued an unqualified "clean" opinion" letter meaning that the financial statements present fairly in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013.

Also, a component of the audit is an evaluation of the internal controls of the Town's Finance Department and the issuance of a management letter noting any material weaknesses in those controls. The auditors did not find any such weaknesses. The Comprehensive Annual Financial Report (CAFR) is attached for your review to receive and file.

BACKGROUND:

At the end of every fiscal year, the financial statements and books and records of the Town are audited by an outside independent public accounting firm. After issuance of the Auditor's Independent Report, the Town issues audited financial statements inclusive of the Auditor's Report as part of its CAFR. The presentation format of the CAFR is in accordance with professional standards established by the Government Finance Officers Association of the United States and Canada (GFOA). The Town is required to present Audited Basic Financial Statements annually. Preparation and presentation of the CAFR significantly exceeds those reporting minimum requirements. In addition to the CAFR, two letters addressed to the Town Council accompany the CAFR which present a Report on Internal Controls (Attachment 2) and a Management Comment Letter (Attachment 3). If the auditors identified discrepancies regarding internal financial management controls and financial management practices, these discrepancies would be identified in these Letters. No discrepancies were identified.

The Town annually submits its CAFR to the GFOA's Certificate of Achievement for Excellence in Financial Reporting awards program for consideration for the award. The Town's fiscal year 2012 CAFR received the Certificate of Achievement award and the Town's fiscal year 2013 CAFR has again been submitted for consideration for this award.

Presented for your review are the following CAFR financial highlights for FY 2012/2013:

Town-wide Financial and Audit Highlights:

- The assets of the Town of Apple Valley exceeded its liabilities at the close of the most recent fiscal year by \$446,195,415 (*net position*). Of this amount, \$404,631,235 represents the net investment in capital assets or infrastructure assets. Also, \$15,919,736 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governmental activities total net assets decreased by \$8,125,444 and the Business-Type total net assets decreased by \$1,976,227. These decreases are attributable to depreciation of capital (infrastructure) assets.
- As of the close of the current Fiscal Year, the Town's governmental funds reported combined ending fund balances of \$31,000,671, an increase of \$487,090 in comparison with the prior year.
- As of the end of the fiscal year, the General Fund fund balance totaled \$17,340,269 which represented a net decrease or net loss for the fiscal year of \$15,379.

- The auditors rendered an unqualified “clean” opinion which means that the financial statements present fairly in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013.
- The auditors detected no deficiencies in internal controls.
- Tabs have been added to the CAFR for the first time to help the reader navigate through the report.

A more detailed discussion of the financial statements is found in the Transmittal Letter and the Management Discussion and Analysis sections contained within the CAFR.

Mr. Greg Fankhanel, Certified Public Accountant and Managing Partner at Van Lent and Fankhanel, LLP, will be attending the January 12, 2014 Council meeting to present their findings and answer any questions that the Town Council may have regarding the presentation of the CAFR.

ATTACHMENTS:

1. Comprehensive Annual Financial Report for the year ended June 30, 2013.
(Distributed to the Town Council on December 19, 2013)
2. Report on Internal Control
3. Audit Management Letter

**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Town Council
Town of Apple Valley
Apple Valley, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Apple Valley (the "Town"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Lant & Fankhaush, LLP

December 11, 2013

December 11, 2013

Town Council
Town of Apple Valley
Apple Valley, CA

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Apple Valley for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 May 9, 2013. 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. The significant accounting policies used by the Town are described in Note I to the financial statements. As described in Note V F, the Town changed accounting policies by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities* in the fiscal year 2012-13. Also, in the current fiscal year, the Town adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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 financial statements were:

Management's estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements as a whole.

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Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life. We evaluated key factors and assumptions used to develop the estimated useful lives in determining that they are reasonable in relation to the financial statements as a whole.

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

The disclosure of the fair value of investments in Note IV A to the financial statements represents amounts susceptible to market fluctuation.

The disclosure of accumulated depreciation in Note IV E to the financial statements is based on estimated useful lives which could differ from actual useful lives of each capitalized item.

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. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 11, 2013.

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.

It should be noted, as described in our letter to management dated December 11, 2013 and disclosed in Note IV B to the financial statements, the Town's Parks and Recreation and Apple Valley Golf Club Funds had significant deficit fund balance/net position, as well as current year operating deficits as of the end of the 2012-13 fiscal year. These deficits existed in previous fiscal years, but increased even more in the 2012-13 fiscal year. The aforementioned letter also describes actions the Town has taken or will be taking to address these fund deficits.

Other Matters

With respect to the supplementary information accompanying the financial statements, 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.

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,

Van Lant + Fankhaush, LLP