



## Town Council Agenda Report

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Date: April 14, 2020 Item No. 15

To: Honorable Mayor and Town Council

Subject: COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

From: Douglas Robertson, Town Manager

Submitted by: Sydnie Harris, Director of Finance  
Finance Department

Budgeted Item:  Yes  No  N/A

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### 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, 2019.

### 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, 2019.

The June 30, 2019 audit was conducted by the public accounting firm of Harshwal & Company, 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, 2019.

Also, a component of the audit is an evaluation of the internal controls of the Town and the issuance of a report noting any material weaknesses or significant deficiencies in those controls. The auditors identified one such weaknesses. The Comprehensive Annual

Financial Report (CAFR) and related reports are 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, three letters addressed to the Town Council accompany the CAFR which present a Report on Internal Controls (Attachment 2), a Letter to Those Charged with Governance (Attachment 3), and Appropriations Limit report. If the auditors identified discrepancies regarding internal financial management controls and financial management practices, these discrepancies would be identified in these Letters. 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 2018 CAFR received the Certificate of Achievement award and the Town's fiscal year 2019 CAFR has again been submitted for consideration for this award.

Presented for your review are the following CAFR financial highlights for FY 2018-2019:

### **Town-wide Financial and Audit Highlights:**

- The assets of the Town exceeded its liabilities at the close of the Fiscal Year 2018-19 by \$431,006,084 (net position). Of this amount, \$20,544,050 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$7,092,002 from the prior fiscal year total of \$438,098,086.
- As of FY 2018-19 year end, the Town's governmental funds reported combined ending fund balances of \$40,573,928, an increase of \$5,505,863 in comparison with the prior fiscal year.
- At the end of fiscal year 2018-19, unrestricted fund balance for the general fund was \$5,534,347, or 21.36 percent of total general fund expenditures.
- 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, 2019.

- The auditors detected two deficiencies in internal controls.

A more detailed discussion of the financial statements is found in the Transmittal Letter and the Management Discussion and Analysis (MD&A) sections contained within the CAFR. Mr. Sanwar Harshwal, Garima Pathak and Jimmy Bhakta, Certified Public Accountants at Harshwal & Company, LLP, will be available during the April 14, 2019 Council meeting to present their findings and answer any questions that the Town Council may have regarding the presentation of the CAFR.

## **ATTACHMENTS**

- A. Comprehensive Annual Financial Report for the year ended June 30, 2019.  
(Distributed to the Town Council on April 8, 2020. Also available for the public's review on the Town website and at the Town Clerk's office).
- B. Report on Internal Control
- C. Independent Auditor's Report
- D. Appropriations Limit Computation



**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, the 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, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 30, 2020.

**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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as an item 2019-001 to be material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs as an item 2019-002 to be significant deficiency.

**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 and other matters that are required to be reported under *Government Auditing Standards*.

**Town of Apple Valley's Response to Findings**

The Town of Apple Valley's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Harshwal & Company LLP*

Oakland, California  
March 30, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

Town Council  
Town of Apple Valley  
Apple Valley, California

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Apple Valley's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2019. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Town of Apple Valley, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.



**Report on Internal Control Over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated March 30, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Harshwal & Company LLP*

Oakland, California  
March 30, 2020



**TOWN OF APPLE VALLEY**  
**APPROPRIATIONS LIMIT COMPUTATION**  
**2018 – 2019**

|  | <u>2018-19</u>       |
|--|----------------------|
| Change in Per Capital Personal Income                                  | 3.67%                |
| Population Change Town Population Growth                               | 0.87%                |
| Change in Per Capita Personal Income Converted to a Ratio              | 1.0367               |
| Population Change Converted to a Ratio                                 | 1.0087               |
| Calculation of Growth Factor   | 1.045719             |
| 2017 - 2018 Appropriations Limit                                       | <u>\$ 37,263,089</u> |
| 2018 - 2019 Appropriations Limit<br>( $\$37,263,089 \times 1.045719$ ) | <u>\$ 38,966,720</u> |