

## **SUMMARY OF AUDIT RESULTS**

City Council  
City of Avalon  
Avalon, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Avalon, California (City), for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *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 August 8, 2019. 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 City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. 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 and judgments affecting the City's financial statements were:

- Judgment as to the recording of grant reimbursements and the related period of recognition (current period or unearned revenue) is based on the program being funded and any restrictions placed on amounts received.
- Judgment as to which city capital projects should be capitalized and depreciated in the proprietary funds and government-wide financial statements is based on the dollar amount of expenditures, as well as whether or not the expenditures preserve or increase the asset's utility or extends the useful life of certain assets.
- Judgment involving the estimated useful lives and depreciation methodology for capital assets is based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the City.

- Judgment related to the collectability of accounts and notes receivable is based on past history with the payor or for similar types of receivables.
- Estimated other post employments benefit (OPEB) liabilities and the net pension liability is based on management's process of applying third party actuarial studies and rolling forward their assumptions to the end of the fiscal year.
- Judgments with respect to recording the remediation obligation is based on applying third party studies.

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

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

- Disclosures regarding significant contingent liabilities associated with pollution remediation.
- Disclosures regarding the net pension liability and OPEB liability.

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 was one uncorrected prior period adjustment related to recording a capital asset that was incorrectly removed in the prior year, that management has determined is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Material audit adjustments included adjustments to record changes to the Landfill trust and liability, record pension activity, adjust capital assets, and adjust claims payable.

#### 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 March 27, 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 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.

Other Matters

We applied certain limited procedures to the *Schedule of the Plan's Proportioned Share of the Net Pension Liability*, the *Schedule of Plan Contributions*, *Schedule of Changes in Total OPEB Liability and Related Ratios* and the *Budgetary Comparison Schedules*, which is 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.

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.

**Restriction on Use**

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

Davis Firm LLP

Irvine, California  
March 27, 2020