

McKinleyville Community Services District

Management Report

June 30, 2019



Fedak & Brown LLP
Certified Public Accountants

McKinleyville Community Services District

Management Report

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Board of Directors
McKinleyville Community Services District
McKinleyville, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District (District) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Our comment, of which have been discussed with the appropriate members of management, are summarized as follows:

Current Year Comment and Recommendation

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Current Year Comment and Recommendation, continued

Disclosure of Audit Adjustments and Reclassifications, continued

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and will enter those entries into the District's accounting system to close-out the District's year-end trial balance at June 30, 2019.

Prior Year Comment and Recommendation

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance at June 30, 2018.

* * * * *

This report is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 5, 2020

APPENDIX

McKinleyville Community Services District

Audit/Finance Committee Letter

June 30, 2019



Charles Z. Fedak, CPA, MBA
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Board of Directors
McKinleyville Community Services District
McKinleyville, California

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District (District) 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, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District 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 the year. We noted no transactions entered into by the District 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 District's financial statements were:

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

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

Management's estimate of the net other post-employment benefit (OPEB) liability is based on an actuarial valuation that was conducted by a third-party actuary. We evaluated the basis, methods, and assumptions used by the actuary in calculating the net OPEB liability, OPEB expense, and deferred OPEB outflows/inflows for the District to determine that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Matters, continued

Qualitative Aspects of Accounting Practices, continued

Management's estimate of the net pension liability is based on an actuarial valuation that was conducted by a third-party actuary. We evaluated the basis, methods, and assumptions used by the actuary, to calculate the net pension liability, pension expense, and deferred pension outflows/inflows 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:

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of capital assets, net in Note 4 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of the District's net OPEB liability in Note 7 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

The disclosure of the District's defined benefit pension plan in Note 8 to the basic financial statements is based on actuarial assumptions.

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

Difficulties Encountered in Performing the Audit

We encountered the following significant difficulty in performing and completing our audit:

To properly and efficiently execute an audit, we rely on the District to provide a final trial balance and supporting documentation at the time of our scheduled fieldwork. We began our scheduled final field procedures in October 9, 2019. On December 4, 2019, we were provided with the final trial balance which required us to reevaluated various workpapers.

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. 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.

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 February 5, 2020.

Significant Audit Matters, continued

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 District’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 District’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 Management Discussion and Analysis, Schedules of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual, Schedules of Changes in District’s Total OPEB Liability and Related Ratios, Schedules of the District’s Proportionate Share of the Net Pension Liability, and Schedules of Pension Plan Contributions, 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.

Conclusion

We appreciate the cooperation extended us by Greg Orsini, General Manager, and Colleen Trask, Finance Director, in the performance of our audit testwork. We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 5, 2020

McKinleyville Community Services District
Schedule of Audit Adjusting Journal Entries
June 30, 2019

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To reconcile prior year ending net position to current year beginning net position.			
001-32001-000	GENERAL (PARKS) FUND BALANCE - UNRES. UNDESIG.	3,732,311.94	
004-32001-000	MEASURE B ASSMT FUND BALANCE - UNRES. UNDESIG.	85,798.00	
901-10099-000	GEN.FIXED ASSET FUND CASH BALANCE	3,732,311.94	
951-10099-000	GEN. L/T DEBT. FUND CASH BALANCE	85,798.00	
001-10099-000	GENERAL (PARKS) FUND CASH BALANCE		3,732,311.94
004-10099-000	MEASURE B ASSMT FUND CASH BALANCE		85,798.00
901-30010-000	GEN.FIXED ASSET INVESTMENT IN FIXED ASSETS		3,732,311.94
951-19011-000	GEN. L/T DEBT. AMT TO BE PROVIDED-MEAS.B GLTL		85,798.00
Total		<u>7,636,219.88</u>	<u>7,636,219.88</u>
Adjusting Journal Entries JE # 2			
To reconcile pooled cash.			
999-62195-000	CASH CLEARING CWS BAD CK EXP	135.00	
999-10011-000	CASH CLEARING CASH IN BANK - CHECKING		75.00
999-10101-000	CASH CLEARING ACCOUNTS RECEIVABLE/UTILITY		60.00
Total		<u>135.00</u>	<u>135.00</u>
Adjusting Journal Entries JE # 3			
To adjust deferred outflows of resources.			
501-15500-000	WATER Pension Deferred Outflows	60,530.01	
501-61014-902	WATER EMPLOYER PERS ADMIN./GENERAL	99,346.84	
551-15500-000	SEWER Pension Deferred Outflows	67,811.85	
551-61014-902	SEWER EMPLOYER PERS ADMIN./GENERAL	106,723.52	
951-15500-000	GEN. L/T DEBT. Pension Deferred Outflows	56,075.14	
501-23211-000	WATER Pension Liability Contra PERS		99,346.84
501-61014-902	WATER EMPLOYER PERS ADMIN./GENERAL		60,530.01
551-23211-000	SEWER Pension Liability Contra PERS		106,723.52
551-61014-902	SEWER EMPLOYER PERS ADMIN./GENERAL		67,811.85
951-23550-000	GEN. L/T DEBT. PensionDeferredOutflowsOffset		56,075.14
Total		<u>390,487.36</u>	<u>390,487.36</u>