

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

AUDIT COMMUNICATION LETTER

Year Ended June 30, 2016

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December 21, 2016

Audit Committee
McKinleyville Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McKinleyville Community Services District (District) for the year ended June 30, 2016. 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 May 11, 2016. 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 McKinleyville Community Services District are described in Note 1 to the financial statements. 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 estimate(s) affecting the District's financial statements were:

Management's estimate of the useful lives of capitalized equipment

The allocation of expenses to the respective funds

Pension benefits obligations are based on valuations provided by actuarial specialists

Postemployment benefits obligations are based on valuations provided by actuarial specialists

We evaluated the key factors and assumptions used to develop these estimates 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(s) affecting the financial statements were:

Note 3 Capital Assets – Underlying the disclosure is an estimate of the useful lives and the associated depreciation of those assets.

Note 5 Fund Balance – In accordance with the District’s reserve policy, the fund balance of the general fund has been committed for specific spending purposes. In addition, in accordance with the Quimby Act, the general fund has been restricted to reflect unexpended Quimby fees.

Note 6 Public Employees Retirement System – The disclosure includes a summarized description of the pension plan benefit provisions, assumptions, and membership information.

Note 7 Postemployment Benefits Other than Pensions (OPEB) – The disclosure includes a description of the plan, the funding policy, the calculation of the annual OPEB cost, the net OPEB obligation, and the funding status.

Note 9 Commitments and Contingencies – The disclosure includes information about the Districts commitments for ongoing and future projects, as well as compliance requirement provisions both requiring the expense of resources in the future.

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. 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 December 21, 2016.

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 McKinleyville Community Services 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 McKinleyville Community Services 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's discussion and analysis; the budgetary comparison information; and the schedules of the District's proportionate share of the net pension liability, pension contributions, and funding progress – other post employment benefits 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.

Restriction on Use

This information is intended solely for the use of the audit committee, 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

Sincerely,

Hunter, Hunter & Hunt

SUMMARY OF AUDIT DIFFERENCES
Year ended June 30, 2016

Statement of activities misstatements

Understatement of lab testing expense	\$ 468
Overstatement of taxes and assessments expense	<u>(2,266)</u>
Cumulative effect on change in net position	<u>\$ (1,798)</u>

Statement of financial position misstatements

Overstatement of accounts payable	\$ (2,688)
Overstatement of construction in progress	<u>890</u>
Effect on net position as of June 30, 2016	<u>\$ (1,798)</u>