

McKinleyville Community Services District

AUDIT COMMUNICATION LETTER

Year Ended June 30, 2011

TABLE OF CONTENTS

Audit Communication Letter	1 - 3
Summary of Audit Differences	4
Adjusting Journal Entries	5
Reclassifying Journal Entries	6

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January 23, 2012

Board of Directors
McKinleyville Community Services District
McKinleyville, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of McKinleyville Community Services District for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 June 6, 2011. 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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2011. We noted no transactions entered into by McKinleyville Community Services 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 financial statements were Management's estimate of the useful lives of capitalized equipment and actuarial assumptions in other post employment benefits. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with Management as 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 January 23, 2012.

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.

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 Board of Directors and Management of McKinleyville Community Services District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hunter, Hunter & Hunt

Hunter, Hunter and Hunt

SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
Year ended June 30, 2011

Statement of activities misstatements:	
Current year:	
Revenue overstated	\$ 3,159
Depreciation expense overstated	(47,764)
Amortization expense understated	<u>5,254</u>
Total current year misstatements	(39,351)
Effect of prior year misstatements	
Revenue understated	(3,159)
Depreciation expense understated	47,764
Amortization expense overstated	<u>(1,501)</u>
Cumulative overstatement of change in net assets	<u>\$ 3,753</u>
Statement of financial position misstatements:	
Equipment not recorded	\$ (21,495)
Accounts payable for equipment not recorded	21,495
Prepaid capital improvement understated	(1,000)
Capital improvement overstated	1,000
Accumulated amortization understated (unamortized loan issuance cost is overstated)	<u>3,753</u>
Overstatement of net assets at June 30, 2011	<u>\$ 3,753</u>

Client: 3878 - McKinleyville Community Services District
 Engagement: McKinleyville Community Services District
 Period Ending: 6/30/2011
 Trial Balance: 1250 - TB Database
 Workpaper: 1235 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
This entry was done by client after they provided us with a TB. Rather than get a new TB I just entered the JE. See also AJE 2				
501-10099-000	FUND CASH BALANCE		38,673.14	
551-62130-000	DEPRECIATION		38,673.14	
501-62130-000	DEPRECIATION			38,673.14
551-10099-000	FUND CASH BALANCE			38,673.14
Total			77,346.28	77,346.28
Adjusting Journal Entries JE # 2				
		1258		
Misposting discovered after we received the trial balance. Client requested we post this.				
501-10099-000	FUND CASH BALANCE		4,822.00	
551-62030-553	LAB TESTS		4,822.00	
501-62030-553	LAB TESTS			4,822.00
551-10099-000	FUND CASH BALANCE			4,822.00
Total			9,644.00	9,644.00
Adjusting Journal Entries JE # 5				
		4221		
Prior Period adjustment of A/R for Water and Sewer charges unbilled. This should be reversed.				
501-10101-000	ACCOUNTS RECEIVABLE/UTILITY		93,170.00	
501-40000-000	WATER BASE CHG		96,713.00	
551-10101-000	ACCOUNTS RECEIVABLE/UTILITY		69,975.00	
551-40002-000	SWR SVC CHGS.		69,591.00	
501-32001-000	FUND BALANCE - UNRES. UNDESIG.			96,713.00
501-40000-000	WATER BASE CHG			93,170.00
551-32001-000	FUND BALANCE - UNRES. UNDESIG.			69,591.00
551-40002-000	SWR SVC CHGS.			69,975.00
Total			329,449.00	329,449.00
Adjusting Journal Entries JE # 6				
		4620		
To record capital contribution as requested by client				
501-12210-000	TRANS. & DISTRIBUTION LINES		81,850.00	
501-32001-000	FUND BALANCE - UNRES. UNDESIG.		81,850.00	
501-30001-000	INVEST. IN GENERAL FIXED ASSET			81,850.00
501-51011-000	CONTRIB. CONST.			81,850.00
Total			163,700.00	163,700.00
Adjusting Journal Entries JE # 7				
		4610		
To record contribution of the Library Expansion Project from the Friends of McKinleyville Library				
001-32001-000	FUND BALANCE - UNRES. UNDESIG.		105,730.00	
901-12151-000	BUILDINGS: P&R		105,730.00	
001-51011-000	CONTRIB. CONSTR.			105,730.00
901-30010-000	INVESTMENT IN FIXED ASSETS			105,730.00
Total			211,460.00	211,460.00

Client: 3878 - McKinleyville Community Services District
 Engagement: McKinleyville Community Services District
 Period Ending: 6/30/2011
 Trial Balance: 1250 - TB Database
 Workpaper: 1236 - Reclassifying Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Reclassifying Journal Entries JE # 3		4220		
Reclassification of A/R credit balances				
501-10101-000	ACCOUNTS RECEIVABLE/UTILITY		22,000.00	
501-20101-000	CUSTOMER CREDIT DEPOSITS			22,000.00
Total			22,000.00	22,000.00
Reclassifying Journal Entries JE # 4		4430		
Reclass Prepaid workers comp for FS purposes				
001-10500-000	PREPAID INS.		7,019.00	
001-20330-000	ACCRUED WORKERS COMPENSATION			7,019.00
Total			7,019.00	7,019.00