

McKinleyville Community Services District

AUDIT COMMUNICATION LETTER

Year Ended June 30, 2012

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November 27, 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, 2012. 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 1, 2012. 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, 2012. 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, allocation of expenses, and other postemployment benefits obligation 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 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:

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

Note 4 Debt - The note includes the new debt entered into with the California Infrastructure and Economic Development Bank.

Note 5 Committed Fund Balance - In accordance with the District's reserve policy, the fund balance of the general fund has been committed for specific spending purposes.

Note 7 Post Employment Benefits Other than Pensions (OBEB) - The disclosure includes a description of the plan, the funding policy, the calculation of the annual OPEB cost, the net OPEB obligation, the funding status and funding progress, the methods used and the assumptions made, and the plan for funding.

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 of management. 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 November 27, 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.

Other Matters

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 and Hunt

SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
Year ended June 30, 2012

Statement of financial position misstatements:

Inventory understated - estimate	\$ (19,600)
Non-current assets overstated – Proposition 1A receivable	39,325
Current assets understated – Proposition 1A receivable	(39,325)
Accounts receivable understated due to credit balances	(22,000)
Deferred revenue understated due to credit balances in A/R	<u>22,000</u>
Understatement of net assets at June 30, 2012	<u>\$ (19,600)</u>