

McKinleyville Community Services District

Management Report

June 30, 2021



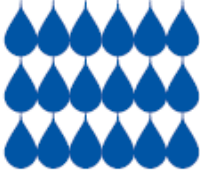
Fedak & Brown LLP
Certified Public Accountants

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, 2021, 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 adjusting and reclassifying 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.

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 adjusting and reclassifying 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.

* * * * *

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
January 5, 2022

APPENDIX

McKinleyville Community Services District

Audit/Finance Committee Letter

June 30, 2021



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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, 2021. 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 February 26, 2021. 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 which 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 which 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 which 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 which represents amounts susceptible to market fluctuations.

The disclosure of capital assets, net in Note 4 to the basic financial statements which is based on historical information that 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 which is based on actuarial assumptions.

The disclosure of the District's defined benefit pension plan in Note 8 to the basic financial statements which 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 13, 2021. Upon arrival, it was noted that the District was waiting for updated reports from the County of Humboldt. As a result, we encountered significant inefficiencies in performing our testing. On November 22, 2021, 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 January 5, 2022.

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 Patrick Kaspari, 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
January 5, 2022

McKinleyville Community Services District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2021

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust accrued interest.			
551-64001-000	SEWER INT. EXPENSE	16,683.97	
951-19011-000	GEN. L/T DEBT. AMT TO BE PROVIDED-MEAS.B GLTL	4,116.47	
551-21005-000	SEWER ACCRUED INTEREST		3,368.35
551-21005-071	SEWER Interest Payable-SRF WWMF Loan		13,315.62
951-21005-000	GEN. L/T DEBT. ACCRUED INTEREST		4,116.47
Total		<u>20,800.44</u>	<u>20,800.44</u>
Adjusting Journal Entries JE # 3			
To reconcile prior year ending net position to current year beginning net position.			
999-10099-000	CASH CLEARING FUND CASH BALANCE	40.00	
999-62196-000	CASH CLEARING WEB BAD CK INC	80.00	
999-10101-000	CASH CLEARING ACCOUNTS RECEIVABLE/UTILITY		120.00
Total		<u>120.00</u>	<u>120.00</u>
Adjusting Journal Entries JE # 4			
To adjust pooled cash.			
001-61001-902	GENERAL (PARKS) ADMIN. SALARY	37,303.47	
501-61001-902	WATER ADMIN. SALARY	13,014.40	
551-61001-902	SEWER ADMIN. SALARY	13,014.41	
001-10099-000	GENERAL (PARKS) FUND CASH BALANCE		37,303.47
501-10099-000	WATER FUND CASH BALANCE		13,014.40
551-10099-000	SEWER FUND CASH BALANCE		13,014.41
Total		<u>63,332.28</u>	<u>63,332.28</u>
Reclassifying Journal Entries JE # 201			
To reclassify prepaid expense.			
001-10099-000	GENERAL (PARKS) FUND CASH BALANCE	20,216.42	
001-10099-000	GENERAL (PARKS) FUND CASH BALANCE	27,200.54	
005-10099-000	STREET LIGHTING FUND CASH BALANCE	5,054.11	
501-10099-000	WATER FUND CASH BALANCE	50,541.06	
551-10099-000	SEWER FUND CASH BALANCE	50,540.62	
999-10011-000	CASH CLEARING CASH IN BANK - CHECKING	153,552.75	
001-10500-902	GENERAL (PARKS) PREPAID INS.		20,216.42
001-10550-000	GENERAL (PARKS) Prepaid Worker's Comp		27,200.54
005-10500-000	STREET LIGHTING PREPAID INS.		5,054.11
501-10500-000	WATER PREPAID INS.		50,541.06
551-10500-000	SEWER PREPAID INS.		50,540.62
999-10099-000	CASH CLEARING FUND CASH BALANCE		153,552.75
Total		<u>307,105.50</u>	<u>307,105.50</u>

McKinleyville Community Services District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2021

Account	Description	Debit	Credit
Reclassifying Journal Entries JE # 202			
To reclassify estimated property tax and interest from cash to receivable.			
001-10101-000	GENERAL (PARKS) ACCOUNTS RECEIVABLE/UTILITY	12,924.03	
501-10301-000	WATER ACCRUED INTEREST RECEIVABLE	15,019.80	
551-10301-000	SEWER ACCRUED INTEREST RECEIVABLE	19,877.67	
001-10020-000	GENERAL (PARKS) CASH IN COUNTY TREASURY (2560)		12,924.03
501-10021-000	WATER CASH IN COUNTY TREASURY 4240		16.07
501-10021-996	WATER Designated OPEB Reserve		8,599.21
501-11003-000	WATER CASH-CO. TREASURY D/G RESERVE		6,404.52
551-10021-000	SEWER CASH IN COUNTY TREASURY 4240		14.31
551-10021-554	SEWER BIOSOLIDS DISPOSAL RESERVE		13,949.88
551-10021-996	SEWER Designated OPEB Reserve		5,913.48
Total		<u>47,821.50</u>	<u>47,821.50</u>
Reclassifying Journal Entries JE # 203			
Reclassify accrued wages for financial statements presentation.			
501-20201-000	WATER FEDERAL INCOME TAX W/H	85.44	
501-21001-000	WATER ACCOUNTS PAYABLE		85.44
Total		<u>85.44</u>	<u>85.44</u>