SAN MATEO COUNTY HARBOR DISTRICT

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2016

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SAN MATEO COUNTY HARBOR DISTRICT

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2016

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Commissioners of
the San Mateo County Harbor District,
South San Francisco, California

In planning and performing our audit of the basic financial statements of the San Mateo County Harbor District (District) as of and for the year ended June 30, 2016, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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This communication is intended solely for the information and use of management, Board of Commissioners, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards* and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
August 29, 2017

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2016-01: Bank and Investment Reconciliations

Criteria: Bank reconciliations are an important element of the District's internal control structure. In order to have an effective control, the District should complete bank reconciliations as soon as possible after each month-end, usually within thirty days of receipt of statements, and subsequently reviewed for accuracy. Errors and un-reconciled differences should be researched, understood and corrected immediately, so as to prevent additional errors and a decrease in efficiency.

Condition: During our testing of the June 30, 2016 Bank and Investment Reconciliations, we noted the reconciliations contained no signature or date documentation to show when the document was prepared or reviewed or by whom.

Cause: Due to transitions in District personnel, as well as an increase in workload for the District's limited staff, the District has fallen behind in in its standard practices and procedures.

Potential Effect: Errors, misstatements or unauthorized activities in the reconciliations will not be detected or corrected promptly if they are not being prepared and reviewed in a timely manner.

Recommendation: The District should ensure bank reconciliations are reviewed in a timely manner (within 30 days), and that evidence of the date the reconciliations were prepared and reviewed is noted on the reconciliations.

Management's Response: In April 2017, with the addition of the Accounting Manager, the District has implemented additional month-end close procedures which include the timely review of bank statements and bank reconciliations. Since then, the District has reconciled and reviewed operating bank accounts within 7 days after month-end. Additionally, the District has required the preparer (Accountant) and reviewer (Accounting Manager) to sign off on the documents to show an adequate audit trail of the timely preparation and review of these workpapers.

2016-02: Journal Entry Process

Criteria: Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. To maintain financial reporting accuracy, it is prudent that journal entries are prepared and reviewed by two separate employees and that this segregation of duties is evidenced by employee sign-offs.

Condition: During our review of the District's internal control procedures over the journal entry process, it appears there was an overall lack of evidence of review (signature or initial sign-off) on the face of the original entry. In addition, there appeared to be no evidence of employee sign-off by the final poster of the entry to the general ledger. While it is the District's practice to review each entry, the system does not prevent one employee from performing the preparation, review, and posting of a journal entry and without physical evidence of employee sign-off, there is no audit trail for proper segregation of duties.

Potential Effect: A lack of evidence of preparation and review as well as a failure to implement sufficient segregation of duties over the journal entry cycle increases the chances of errors or misstatements going uncorrected, and even undetected, in a timely manner.

Cause: The District has experienced significant staff and management turnover in recent years which has created a backhaul of work due to the limited amount of staff.

Recommendation: We recommend that all journal entries be posted and reviewed by two separate employees and that evidence of the preparation, review and posting be documented via employee signature or initial.

Management's Response: In April 2017, with the addition of the Accounting Manager, the District has implemented additional internal control procedures in the journal entry process. Fund Balance (the District's accounting and general ledger software) can limit specific software functions to certain users. In May 2017, the District reviewed and made changes to user profiles so certain profiles can only initiate journal entries (Accounting Specialist, Accountant, Accounting Technician) and certain profiles can only post journal entries (Accounting Manager, Super User). This ensures that at a minimum of two separate employees are involved in the recordation of all journal entries. Additionally, the District has updated internal journal entry forms to include date and signature fields so that evidence of the preparation, review, and posting is documented for every journal entry.

2016-03: Compliance with Fixed Asset System Policy & Inventory Control

Criteria: The District's Fixed Asset System Policy requires an inventory of current fixed assets to be completed at least on an annual basis. Physical inventories are essential to ensure capital asset records are complete and accurate and physical assets are adequately safeguarded.

Condition: The District had not performed a physical inventory of its fixed assets for at least five years. In May 2017, the District performed an inventory of its fixed assets and identified required restatements in order to accurately and appropriately state year-end balances:

- Asset items were incorrectly double-booked
- Valuation adjustments were required as a result of a work-study performed in 2012
- Useful life adjustments were required in order to accurately categorize asset-types in accordance with the District's capitalization policy.

In addition, the District's Fixed Asset System Policy requires various asset classifications to be depreciated over specified useful lives. We noted these useful lives were not being consistently applied to recorded assets.

Potential Effect: The District's fixed asset balances were overstated, and without adequate and frequent physical inventory/reconciliation of assets, there is an increased risk that the District's fixed asset records may be inaccurate.

Cause: The District is limited in staff, and has been unable to perform physical inventories due to day-to-day operations taking priority.

Recommendation: As fixed assets are the District's most material financial statement line item, we recommend the District perform annual inventories of its fixed assets to ensure the asset balances are accurately reported. We also recommend the District consistently review its depreciation policy to ensure assets are being depreciated over the appropriate useful life.

Management's Response: In fiscal year 2016-17 the District performed a physical inventory and reconciliation of its fixed assets. Going forward, the District will continue to perform a physical inventory and reconciliation of its fixed assets on an annual basis, per the District's Fixed Asset System Policy. The District will also ensure that all new fixed assets will adhere to the schedule of useful lives to consistently classify asset categories.

The District is confident that with the addition of several administrative staff in fiscal year 2016-17, communication between the Finance and Operations departments will increase and the District will be better at identifying fixed asset additions and dispositions in recurring discussions with Operations and its ongoing Accounts Payable process.

2016-04: Super User Rights

Criteria: A system super-user is an individual who has full access over the District's financial system including all modules and all functions. This type of access should be limited to as few people as possible. If possible, super-user rights should be removed from Finance Department staff.

Condition: We noted that Administrative Services Director and Accounting Manager have super-user rights to the general ledger, which includes unlimited access to the accounting system modules and security settings. In addition, the Accounting Manager also performs the duties of reviewing accounts payable, uploading positive pay to the bank and preparing bank reconciliations.

Potential Effect: When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other users' abilities to access the different modules in the accounting system (i.e. unauthorized adjustments can be made to the general ledger). In addition, unauthorized transactions could be processed without proper review and approval.

Cause: The District is limited in staff, and therefore it is necessary for someone to have the access to perform system maintenance duties.

Recommendation: The District should review the necessity of granting any employee the super-user rights to the financial system. For any module within the financial system that these employees do not need to edit, their access should be limited to read-only. The *"Super"* username should be password limited to employees who do not perform everyday accounting processes or be granted to third party contractor only for maintenance purposes only.

Management's Response: In May 2017, the District reviewed and made changes to Fund Balance user profiles for internal control purposes (see 2016-02, above). Previously, the password to the Super user account was known by several employees. The password was changed so that a minimal number of employees had access to the account. The Director of Administrative Services and the General Manager have access to the Super User account. Two employees with access are necessary because Fund Balance will periodically have a system error in which a user is locked out of the system. The Director of Administrative Services (or General Manager as backup) will reset the individual's user account with the Super user account. These errors occur about once per week.

The Accounting Manager does review accounts payable but does not upload positive pay to the bank or prepare bank reconciliations (the Accountant does these). There are several employees who only need read-only access to Fund Balance and they are appropriately assigned to the Read-Only Access profile.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2016-05: Cash Collection Review Process

Criteria: A complete reconciliation of the daily total cash and checks collected including the prepared deposit slips should be performed by an employee independent of the cash collection process. Additionally, reconciliations should be reviewed by an employee other than the preparer and there should be an audit trail for when the review takes place.

Condition: During our review of the District's internal control procedures for the cash receipt collection cycle, it appears there was an overall lack of evidence of review (signature or initial sign-off) on the face of the cash receipt packets. In addition, there appears to be no evidence that the review included the reconciliation of all carbon copies of receipts issued to customers.

Potential Effect: A lack of evidence of preparation and full review as well as a failure to implement sufficient segregation of duties over the cash collection cycle increases the chances of errors, misstatements going uncorrected and risk that cash collections may be lost or stolen.

Cause: The District has experienced significant staff and management turnover in recent years which has created a backhaul of work due to the limited amount of staff, it appears. Also, it appears District staff was not aware that a more thorough review of cash collected by a second party was necessary.

Recommendation: We recommend the District implement a more thorough review process, in which a second employee reviews all carbon copies of receipts during the reconciliation of cash and checks collected by marina staff, prior to bank deposit. In addition, we recommend the second employee physically indicate their review via sign off.

Management's Response: Beginning in fiscal year 2017-18 the District will perform reviews of all carbon copies of receipts during the reconciliation of cash and checks collected on at least a quarterly basis. In May 2017, the District implemented procedures to collect sign offs on daily cash batch forms which indicate two independent reviewers of the daily cash batches. The Accountant (1st reviewer) reviews the daily cash batch and initiates a journal entry into the GL. The Accounting Manager (2nd reviewer) reviews the cash batch and posts the journal entry to the GL.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016-06: <u>Credit Card Procurement Policy Compliance</u>

<u>Criteria:</u> The District's Purchasing Procedures Policy for District credit cards states that use of the cards should be used for purchases of $500 or less and that Requisition forms should be properly completed prior to use of credit cards.

<u>Condition:</u> During our testing of the credit card Requisition forms we noted the following:

- Several Requisition forms were filled out and signed off as used and approved by the same individual.
- Some Requisition forms had no indication of any sign off by an authorized approver.
- One Requisition form was noted to be for a purchase of over $500.
- One Requisition form appeared to have been completed after the credit card had already been used.

<u>Potential Effect:</u> The District is not in compliance with its Purchasing Procedures Policy.

<u>Cause:</u> The District staff is not completing the Requisition forms in accordance with the Purchasing Procedures Policy. Furthermore, it appears that 18 of the District's 29 staff members have credit cards making it harder to delegate proper use of the cards and follow all the required requisition procedures.

<u>Recommendation:</u> The District should limit the number of credit cards to select staff members who can then delegate the use of the cards to other staff. The District should also update its credit card policy if it intends to allow purchases to exceed the maximum transaction limit of $500 for emergency purposes. The District staff should follow the requirements required by the Purchasing Procedures Policy for the use of credit cards.

<u>Management's Response:</u> In fiscal year 2017-18 the District will enforce its Purchasing Procedure to ensure Requisition forms are being signed-off by proper individuals and completed prior to the purchase being made. We will update the policy as necessary if certain cardholders require more than $500 per purchase. We will also research into whether our credit card vendor is able to restrict purchases greater than $500.

The District does have more credit cards in circulation than necessary, which is further evidenced by the lack of monthly activity by each cardholder. We intend to reduce the amount of credit cards in fiscal year 2017-18 while providing suitable alternatives to purchasing (such as invoicing or opening accounts on credit with authorized purchasers at specific vendors) so that day to day operations are not affected.

2016-07: <u>Payroll Review Process</u>

<u>Criteria:</u> Payroll registers should be prepared and reviewed by two separate individuals and there should be an audit trail indicating the process took place. In addition, any changes made to the employee database should be reviewed and kept for the finance records.

<u>Condition:</u> During our review of payroll registers for the periods ending February 20, 2016 and December 12, 2015, there is no indication that they were being reviewed by the Administrative Services Director. Furthermore, it is not part of the District's practice to maintain records for changes made to the employee database.

<u>Potential Effect:</u> A lack of evidence of preparation and review as well as a failure to maintain sufficient records changes increases the risk of errors, misstatements, or unauthorized activities going uncorrected or undetected in a timely manner.

Cause: The District is limited in staff and has been unable to document review of the payroll process and keep records for audit evidence.

Recommendation: We recommend that the District establish procedures to clearly indicate the segregation of preparer and reviewer on payroll registers. Furthermore, the District should have an employee, who does not have access to the employee database, review pay rate changes and new employee set up to ensure that changes made are as authorized and maintain these changes in the respective personnel files.

Management's Response: Beginning in April 2017, the District implemented procedures to document evidence of preparation and review in the payroll review process. The Accountant prepares payroll workpapers (biweekly, which includes payroll registers) and inputs the payroll data into ADP for payroll processing. The payroll workpapers include a report that indicates all personnel changes made to ADP during the pay period, including changes made by employees themselves. The Accountant signs off as a preparer on the workpapers, then submits them to the Accounting Manager for review. The Accounting Manager reviews the payroll workpapers, signs off on them, and then reviews the payroll data in ADP. Once the review is complete the Accounting Manager will process the payroll batch in ADP, which completes the payroll cycle.

2016-08: Updated Signature Cards

Criteria: Signature cards should be updated immediately when there is a change in authorized signers.

Condition: During our review of the bank and investment accounts, we noted the District had not updated its signature cards for LAIF to remove the former District Treasurer.

Potential Effect: Having former/inactive employees listed as authorized users increases the risk of unauthorized activities going uncorrected or undetected in a timely manner.

Cause: This appears to have been an oversight by management caused by an increased workload on a limited finance staff.

Recommendation: We recommend the District review its signature cards to ensure all authorized users are current and active employees of the District.

Management's Response: As of July 2017, the District has made changes to its signature cards to include only current/active employees and/or current/active commissioners. No former/inactive employees or commissioners are listed on the signature cards. Going forward, the District intends to make these changes immediately if an authorized user separates from the District.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL 2016/17:

GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB 74 – *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*

The objective of this Statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 77 – *Tax Abatement Disclosures*

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

SCHEDULE OF OTHER MATTERS

GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Effective in fiscal year 2017-18:

GASB 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 81 – *Irrevocable Split-Interest Agreements*

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR OTHER MATTERS

2015-01: Capital Asset Inventory Management

Criteria: The Government Finance Officers Association recommends that every state and local government periodically inventory its tangible assets so that all such assets are accounted for, at least on a test basis, no less often than once every five years. While well-designed and properly maintained perpetual inventory systems can eliminate the need for an annual inventory of a government's tangible assets, no inventory system is so reliable as to eliminate completely the need for a periodic physical inventory.

Condition: The District does not have procedures in place to perform counts or verification of its capital asset inventory and is not reconciling capital assets on hand to its general ledger on a regular basis.

Cause: The District does not have policies or procedures for capital asset inventory management and has not assigned personnel to perform inventory counts or reconciling procedures.

Potential Effect: The District paid for and capitalized equipment in which it did not receive. The erroneously capitalized item went undetected by the District and was carried on the books for a period of time before being detected and corrected.

Recommendation: We recommend the District implement policies and procedures for capital asset inventory management, including acquisition and disposal of equipment. This should include specific tasks to be performed by the District's personnel, specific tasks to be performed by the Finance department, completion of the tags, and completion of the control sheets. This should also include reconciliation and recount procedures performed on a regular basis. Strong accounting and control procedures over inventory will be a significant benefit in providing better financial information with which to make well-informed financial decisions.

Current Status: See comment 2016-03 above.

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MAZE & ASSOCIATES

REQUIRED COMMUNICATIONS

To the Board of Commissioners of
the San Mateo County Harbor District
South San Francisco, California

We have audited the basic financial statements of the San Mateo County Harbor District (District) for the year ended June 30, 2016. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

Significant Audit Findings

Accounting Policies

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, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

> **GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

The following pronouncements became effective and required modifications to the notes to financial statements.

> **GASB Statement No. 72 – *Fair Value Measurement and Application***
>
> This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
>
> This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:
>
> - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
> - Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
> - Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

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This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The pronouncement became effective and affected the notes to the financial statements, but did not have a material effect on the financial statements. See Notes 1 and 2 to the financial statements for current year disclosures.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participant*

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

Unusual Transactions, Controversial or Emerging Areas

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

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:

> *Estimated Fair Value of Investments:* As of June 30, 2016, the District held $14.6 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.
>
> *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1.E. to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is somewhat reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the District. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Termination Benefits:* Management's estimate of the termination benefits is disclosed in Note 9 to the financial statements and is based on a manual calculation determined by the District, which is based on the experience of the District. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

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 a management representation letter dated August 29, 2017.

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 Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

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This information is intended solely for the use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, CA
August 29, 2017

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