



Handout

Agenda Item 5

Date January 16, 2020

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December 31, 2019

Board of Directors
Las Gallinas Valley Sanitary District
300 Smith Ranch Road
San Rafael, California

We have audited the financial statements of the business-type activities of Las Gallinas Valley Sanitary District for the year ended June 30, 2019. 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 July 24, 2019. 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 Las Gallinas Valley Sanitary District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019. We noted no transactions entered into by Las Gallinas Valley Sanitary 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 pension related deferred inflows, deferred outflows, net pension liability, and pension expense is based on actuarial valuation and the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. We evaluated the key factors and assumptions used to develop the pension related estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the OPEB related deferred inflows, deferred outflows, net OPEB liability, and OPEB expense is based on actuarial valuation and the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We evaluated the key factors and assumptions used to develop the OPEB related estimates in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the depreciation expense is based on the District capitalization policy, judgment about which items represent routine maintenance and repairs, as well as the estimated useful lives of underlying assets. We evaluated the key factors and assumptions used to develop the estimate of the depreciation expense and determined that it is reasonable in relation to the basic 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 Defined Benefit Pension Plan disclosure in Note 11 to the financial statements, including disclosures regarding deferred inflows, deferred outflows, net pension liability, and pension expense.
- Note 12 to the financial statements regarding Other Post-Employment Benefits (OPEB), which describes the District's postretirement benefit policies.
- Commitments for ongoing projects found in Note 10 to the financial statements describing expected future expenses.
- The iBank loan disclosure found in Note 8F to the financial statements. This includes important information regarding loan provisions, including the disclosure that the \$12 million note is not included on the Statement of Net Position because it would gross up both accounts receivable and loans payable. Instead, the principal payment of \$349,134 is included in the short-term loan payable balance of \$2.5 million, and that payment actually decreases the long-term portion of notes payable because the District is paying principal on money it has not yet received.

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. Material misstatements detected as a result of audit procedures were corrected by management. These entries consist of adjusting journal entries numbers 3, 12, 14, and 15 on the attached adjusting journal entry listing (Attachment 1).

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 31, 2019.

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 Las Gallinas Valley Sanitary 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 Las Gallinas Valley Sanitary 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 Schedule of Proportionate Share of Net Pension Liability, Schedule of the District's Pension Plan Contributions, Schedule of Change in the Net OPEB Liability, and the Schedule of the District's OPEB 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.

We were not engaged to report on the introductory or statistical sections of the Comprehensive Annual Financial Report (CAFR), which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of Las Gallinas Valley Sanitary District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California

Client: SD - Las Gallinas Valley Sanitary District
Engagement: SD - Las Gallinas Valley Sanitary District 2019
Trial Balance: TB 00 - Trial Balance
Workpaper: TB 02 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 2				
KAP - to book client entries made subsequent to providing auditors with trial balance (MLC)		PrelimTB/GL		
1001.1009	1001 --+Employee Costs:1001.2 --+ Employee Benefits:1009 --+ Vacation/Sick Accrual		93,840.47	
1001.1404	1001 --+Employee Costs:1001.2 --+ Employee Benefits:1404 --+ Social Security Expense		4,441.02	
5021	5001A--+ Operating Accounts:5021 --+ Zero Balance - ACH account-9258		6,574.70	
5024	5001A--+ Operating Accounts:5024 --+ Bank of Marin-OPERATING xx3300		5,302.22	
6000	6000 --+Accounts Payable			11,876.92
6150	6150 --+Accrued Paid Time Off			93,840.47
6157	6157 --+Payroll Tax Liability			4,441.02
Total			<u>110,158.41</u>	<u>110,158.41</u>
Adjusting Journal Entries JE # 3				
KAP - to true up LT/ST debt balances		P 00		
2400.9781	2400 --+General and Administrative:9781 --+ Interest Expense		5,583.89	
6050	6299 --+ Long Term Debt:6050 --+ Current Maturities of LTD		409,172.86	
6350	6350 --+ Current Portion Long Term Debt		44,787.15	
6303	6299 --+ Long Term Debt:6303 --+ State Revolving Fund Loan 2010			5,307.69
6450	6299 --+ Long Term Debt:6450 --+ Certificate of Participation			20,000.00
6452	6452 --+ Interest Payable			5,583.99
6455	6299 --+ Long Term Debt:6455 --+ Bank of Marin Recycled Water			11,917.83
6456	6299 --+ Long Term Debt:6456 --+ Bank of Marin Recycled Water 2m			11,600.49
6460	6299 --+Long Term Debt:6460 --+ Loan - I-Bank			365,134.00
6600	6299 --+ Long Term Debt:6600 --+ 2017 Revenue Bond			40,000.00
Total			<u>459,544.00</u>	<u>459,544.00</u>
Adjusting Journal Entries JE # 4				
KAP - to true up balance sheet PSL balances.		E 02		
9200.9201	9200 --+Interest Income:9201 --+ Interest on Reserves		740.85	
5145	5145 --+Lateral Assistance Programs			740.85
Total			<u>740.85</u>	<u>740.85</u>
Adjusting Journal Entries JE # 5				
KAP - reverse depreciation on assets already fully depreciated in account 5553		K 01		
5590	5590 --+Accumulated Depreciation		5,206.46	
2400.9775	2400 --+General and Administrative:9775 --+ Depreciation			5,206.46
Total			<u>5,206.46</u>	<u>5,206.46</u>
Adjusting Journal Entries JE # 6				
KAP - to true up prepaid expenses and reverse one item listed as both accounts payable and prepaid		G 01/L 01		
6000	6000 --+Accounts Payable		11,356.00	
2059.2060	2059 --+Insurance:2060 --+ Fire, General Casualty & Liab			0.11
5051	5051 --+Prepaid Insurance			11,355.89
Total			<u>11,356.00</u>	<u>11,356.00</u>
Adjusting Journal Entries JE # 7				
KAP - to add in NMWD 1/1 - 6/30 invoices for recycled water		E 01.1		
5147	5147 --+Accounts Receivable - Other		20,088.98	
9880	9880 --+Recycled Water			20,088.98
Total			<u>20,088.98</u>	<u>20,088.98</u>
Adjusting Journal Entries JE # 8				
KAP - to correct coding error on prepaid expenses		G 02		
6157	6157 --+Payroll Tax Liability		2,307.21	
5055	5055 --+Prepaid Expenses			2,307.21
Total			<u>2,307.21</u>	<u>2,307.21</u>
Adjusting Journal Entries JE # 10				
KAP - to move MWH invoice into correct fiscal year		L 10		
5540	5540 --+Construction in Progress		124,733.46	
6000	6000 --+Accounts Payable			124,733.46
Total			<u>124,733.46</u>	<u>124,733.46</u>
Adjusting Journal Entries JE # 11				
KAP - to true up balance sheet to reflect Nicolay actuarial		N 02		
1001.1509.5	1001 --+Employee Costs:1001.2 --+ Employee Benefits:1509 --+ Health Insurance:1509.5 --+ GASB 75 OPEB		3,886.00	
5163	5160 --+Deferred Outflow of Resources:5163 --+ OPEB			1,192.00
6668	6665 --+Deferred Inflows of Resources:6668 --+ OPEB			2,694.00
Total			<u>3,886.00</u>	<u>3,886.00</u>
Adjusting Journal Entries JE # 12				
KAP - to remove unallocated (not real) liability from Balance Sheet		N 01		
6660	6660 --+Net Pension and OPEB Liability		374,937.39	
1001.1508	1001 --+Employee Costs:1001.2 --+ Employee Benefits:1506 --+ Pension Expense:1508 --+ GASB Pension Expense			374,937.39
Total			<u>374,937.39</u>	<u>374,937.39</u>

Client: SD - Las Gallinas Valley Sanitary District
Engagement: SD - Las Gallinas Valley Sanitary District 2019
Trial Balance: TB 00 - Trial Balance
Workpaper: TB 02 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 13				
KAP - Book interest per bank not shown on client GL		C 01 & C 16		
5020	5001A-+ Operating Accounts:5020 -+ Bank of Marin FEDERATED-SWEEP		26.27	
5065	5001B-+ Restricted Cash:5065 -+ Debt Reserve Fund-Recycled Water		1,141.28	
5067	5001B-+ Restricted Cash:5067 -+ Debt Service Reserve-SRF CD		578.25	
9200.9201	9200 -+Interest Income:9201 -+ Interest on Reserves			1,719.53
9200.9210	9200 -+Interest Income:9210 -+ Bank Interest			26.27
Total			<u>1,745.80</u>	<u>1,745.80</u>
Adjusting Journal Entries JE # 14				
KAP - to reverse balance sheet amounts for iBank loan not yet received		P 06		
6460	6299 -+Long Term Debt:6460 -+ Loan - I-Bank		12,329,134.45	
5125	5125 -+Long-term Receivables			12,000,000.00
6050	6299 -+ Long Term Debt:6050 -+ Current Maturities of LTD			329,134.45
Total			<u>12,329,134.45</u>	<u>12,329,134.45</u>
Adjusting Journal Entries JE # 15				
KAP - to net bond interest earnings against interest expense, per 2018 workpaper		P 00		
9200.9204	9200 -+Interest Income:9204 -+ Interest on Bond Funds		971,602.86	
2400.9781	2400 -+General and Administrative:9781 -+ Interest Expense			971,602.86
Total			<u>971,602.86</u>	<u>971,602.86</u>
Adjusting Journal Entries JE # 16				
KAP - to reverse amount posted to revenue instead of A/R		E 01/GL		
9011.9770	9011 -+User Charge:9770 -+ User Charge Allocation		117,600.00	
5141	5141 -+User Charge Accts Recvb			117,600.00
Total			<u>117,600.00</u>	<u>117,600.00</u>

Client: SD - Las Gallinas Valley Sanitary District
Engagement: SD - Las Gallinas Valley Sanitary District 2019
Period Ending: 6/30/2019
Trial Balance: TB 00 - Trial Balance
Workpaper: TB 03 - Proposed Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries				
Proposed Journal Entries JE # 1				
		C 08 & C 09		
KAP - to remove bank transfer that did not occur				
5024	5001A-+ Operating Accounts:5024 -+ Bank of Marin-OPERATING xx3300		31,700.00	
5020	5001A-+ Operating Accounts:5020 -+ Bank of Marin FEDERATED-SWEEP			31,700.00
Total			31,700.00	31,700.00
Proposed Journal Entries JE # 9				
		I 01		
KAP - pass immaterial difference in valuation of Sodium Bicarbonate				
5150	5150 -+Inventory - Materials & Supp)		537.65	
2101.2109	2101 -+Chemicals and Lab Supplies:2109 -+ Miscellaneous Chemicals			537.65
Total			537.65	537.65
Proposed Journal Entries JE # 17				
		LG 02.1		
KAP - Pass Byers Richardson not accrued				
2400.2713	2400 -+General and Administrative:2713 -+ Legal		6,875.00	
6000	6000 -+Accounts Payable			6,875.00
Total			6,875.00	6,875.00
Total Proposed Journal Entries			39,112.65	39,112.65
Total All Journal Entries			39,112.65	39,112.65