

MEMORANDUM ON INTERNAL CONTROL

Board of Directors and Management
Stinson Beach County Water District

In planning and performing our audit of the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Stinson Beach County Water 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 Stinson Beach County Water 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 Stinson Beach County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Stinson Beach County Water 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 that were not identified. 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

- Booking the journal entries associated with the actuarial valuations for both pension (GASB 68) and Other Post-Employment Benefits (GASB 75).

We recommend that staff book the appropriate journal entries, which can be complicated, prior to the audit.

Management's response: The District has taken steps to ensure that necessary adjustments to the journal entries will be made prior to providing the auditor with the trial balance.

- Upon receipt of the trial balance, the audit team noted that the net position did not agree to the audited financial statements from the prior year.

We recommend that the District implement accounting policies and procedures to ensure that the audited trial balance agrees to the District's general ledger at the conclusion of fieldwork.

Management's response: The District will carefully review the audited trial balance and make any entries necessary to agree the general ledger to that trial balance.

- Unrestricted Net Position in the water fund has been negative for four consecutive years.

We recommend that the District establish service rates that will maintain each fund as self-sustaining. This may involve reassessing the current 70/30 split between the Water and Wastewater funds. General and administrative expenses (particularly pension and OPEB expense) may also need to be allocated by fund, and interfund transfers be made to cover the cost of fixed asset purchases.

Management's response: The District's net position is up \$292,276. The negative balance in Unrestricted Net Position is due to enhancing our capital assets in the last several years. The District expects to trend positive in the future. The Board will also review the 70/30 split between the Water and Wastewater funds.

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 do not consider any of the deficiencies in internal control to be significant deficiencies.

This communication is intended solely for the information and use of management, the Board of Directors, and others within Stinson Beach County Water District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California

REQUIRED COMMUNICATIONS

March 17, 2022

Board of Directors and Management
Stinson Beach County Water District

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Stinson Beach County Water 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, 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 11, 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 Stinson Beach County Water 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 2021. We noted no transactions entered into by Stinson Beach County Water 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 deferred inflows, outflows, OPEB expense, and net OPEB liability is based on an actuarial valuation and the standards set forth in GASB Statement No. 75. 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.

Management's estimate of the deferred inflows, outflows, pension expense, and net pension liability is based on an actuarial valuation and the standards set forth in GASB Statement No. 68. 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.

Management's estimate of the depreciation expense is based on the estimated useful lives of the associated assets. We evaluated the key factors and assumptions used to develop this estimate in determining that it is 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 information about the retirement plan in Note 6 to the financial statements. The information was derived from an actuarial valuation, District documents, and the CalPERS' website.

The disclosure of information regarding Other Post-Employment Benefits in Note 7 to the financial statements. The information was derived from an actuarial valuation, District documents, and the CalPERS' website.

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. The attached list of Adjusting Journal Entries shows material misstatements detected as a result of audit procedures that were corrected by management.

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 auditors' 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 March 17, 2022.

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 Stinson Beach County Water District's financial statements or a determination of the type of auditors' 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 Stinson Beach County Water 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 Management's Discussion and Analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Contributions, the Schedule of Changes in the Net OPEB Liability and Related Ratios, and the Schedule of 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.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of Stinson Beach County Water 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
Walnut Creek, California

Immaterial entries that *do not need* to be entered into QuickBooks

Client: STINSON BEACH COUNTY WATER DISTRICT
Engagement: Stinson Beach 2021
Current Period: 06/30/2021
Workpaper: Proposed Journal Entries

Account	Description	Misstatement	Debit	Credit	Net Income Effect
CJE 01		Known Classification			
AH: expense booked to a different GL after TB was provided					
400-5311	Studies		2,172.00	0.00	
400-5307	Wastewater Engineer		<u>0.00</u>	<u>2,172.00</u>	
Total			<u>2,172.00</u>	<u>2,172.00</u>	<u>0.00</u>
PJE 01		Known Classification			
AH: to move negative AR to unearned revenue(70% / 30% split)					
300-1205	Utility Accounts Receivable		13,850.72	0.00	
300-2200	Unearned Revenue		0.00	13,850.72	
400-1205	Utility Accounts Receivable		5,936.02	0.00	
400-2200	Unearned Revenue		<u>0.00</u>	<u>5,936.02</u>	
Total			<u>19,786.74</u>	<u>19,786.74</u>	<u>0.00</u>
PJE 02		Known Classification			
AH : To accrue property tax revenue					
300-1210	Property Tax Receivable		4,156.28	0.00	
400-1210	Property Tax Receivable		1,781.27	0.00	
300-4810	Property Tax Apportionment		0.00	4,156.28	
400-4810	Property Tax Apportionment		<u>0.00</u>	<u>1,781.27</u>	
Total			<u>5,937.55</u>	<u>5,937.55</u>	<u>5,937.55</u>
GRAND TOTAL			<u>27,896.29</u>	<u>27,896.29</u>	<u>5,937.55</u>

Material entries that *should be entered* into QuickBooks

Client:	STINSON BEACH COUNTY WATER DISTRICT
Engagement:	Stinson Beach 2021
Current Period:	06/30/2021
Workpaper:	Adjusting Journal Entries

Account	Description	Workpaper Reference	Debit	Credit	Net Income Effect
AJE 01					
KPK to balance beginning net position per 2020 audited trial balance					
300-3500	Retained Earnings		15,122.56	0.00	
300-3420	Transfer In to 300		0.00	15,122.56	
400-3500	Retained Earnings		8,479.50	0.00	
400-3420	Transfer In to 400		0.00	8,479.50	
500-3500	Retained Earnings		7,622.32	0.00	
500-3460	Transfer In to 500		0.00	7,622.32	
Total			31,224.38	31,224.38	31,224.38
AJE 02					
AH: To correct balances per GASB 68 valuation					
300-1919	Deferred Outflows of Resources		0.00	68,239.00	
300-2132	CalPERS Unfunded Accr. Pension		0.00	68,906.00	
300-2520	Deferred Inflows of Resources		70,069.00	0.00	
300-5805	Pension expense (income)		67,076.00	0.00	
Total			137,145.00	137,145.00	(67,076.00)
AJE 03					
AH: To correct balances per GASB 75 valuation					
300-1920	Deferred Outflows of Resources - OPEB		633.00	0.00	
300-2521	Deferred Inflows - OPEB		51,394.00	0.00	
300-2515	OPEB Net Obligation		20,223.00	0.00	
300-5144	OPEB Health Insurance Cost		0.00	72,250.00	
Total			72,250.00	72,250.00	72,250.00
AJE 04					
KPK - correct CY lien receivable					
300-4105	Basic Water Service Charge		36,775.91	0.00	
300-4110	Water Usage Charge		23,574.30	0.00	
300-1905	Lien - C. Airey		0.00	60,350.21	
400-4305	Wastewater Monitoring Charge		25,178.43	0.00	
400-1905	Lien - C. Airey		0.00	25,178.43	
Total			85,528.64	85,528.64	(85,528.64)
PPA 01					
Correct lien receivable at 06/30/2020					
300-1905	Lien - C. Airey		0.00	22,612.21	
300-3500	Retained Earnings		22,612.21	0.00	
400-1905	Lien - C. Airey		0.00	8,185.87	
400-3500	Retained Earnings		8,185.87	0.00	
Total			30,798.08	30,798.08	0.00
GRAND TOTAL					
			356,946.10	356,946.10	(49,130.26)

E 02