

**SONOMA COUNTY AGRICULTURAL PRESERVATION  
AND OPEN SPACE DISTRICT**

**MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED  
JUNE 30, 2017**

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**SONOMA COUNTY AGRICULTURAL PRESERVATION AND OPEN SPACE DISTRICT  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2017**

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## MEMORANDUM ON INTERNAL CONTROL

Board of Directors  
Sonoma County Agricultural Preservation and Open Space District  
Santa Rosa, California

In planning and performing our audit of the basic financial statements of the Sonoma County Agricultural Preservation and Open Space District (District) as of and for the year ended June 30, 2017, 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 our 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 District'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. 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. 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.

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.

This communication is intended solely for the information and use of management, Board of Directors, 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.



Pleasant Hill, California  
October 4, 2017

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## **MEMORANDUM ON INTERNAL CONTROL**

### **SCHEDULE OF OTHER MATTERS**

#### **2017-01 Review of County-Prepared Journal Entries**

Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate that no single employee should process a transaction without the involvement of another employee. For journal entries, this typically takes the form of a second employee performing a review and approving the proposed entry prior to posting. Journal entries prepared, reviewed, and posted to the general ledger by Sonoma County personnel should be reviewed by the District for reasonableness. The review and approval should be documented by a reviewer signing and dating that their review has been completed and the entry is approved.

During our testing of internal controls of the District, it was noted that, although the general ledger is reviewed at year-end, and the County occasionally alerts the District of impending general ledger transfers, the District does not consistently review journal entries posted by the County.

Based on inquiries with District staff, it appears that unless notified by the County, the District relies on the County's accountant to ensure journal entries are accurate and reasonable. We recommend the District review the general ledger and journal entries posted by the County on a monthly basis to ensure entries are reasonable.

#### ***Management Response:***

As a result of this recommendation a change has been adopted in the Countywide Enterprise Finance System that precludes any entries from being posted to the District General Ledger without approval by the Administrative and Fiscal Services Manager.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **2017-02 Upcoming Governmental Accounting Standards Board Pronouncements**

**The following pronouncements are 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.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 81 – Irrevocable Split-Interest Agreements**

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

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.

#### **GASB 85 – Omnibus 2017**

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 85 – Omnibus 2017 (Continued)**

- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

#### **EFFECTIVE FISCAL YEAR 2020/21:**

#### **GASB 87 – Leases**

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

## REQUIRED COMMUNICATIONS

Board of Directors  
Sonoma County Agricultural Preservation and Open Space District  
Santa Rosa, California

We have audited the basic financial statements of the Sonoma County Agricultural Preservation and Open Space District (the District) for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Audit 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. 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**

**GASB Statement No. 74 – Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans**

**GASB Statement No. 77 – Tax Abatement Disclosures**

**GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**

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

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

### **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 estimate(s) affecting the District's financial statements were:

Management's estimate of depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Accrued compensated absences is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year. 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.

Net pension liability is determined by the Actuary of the Sonoma county Employees' Retirement Association based on a December 31, 2016 measurement date. We evaluated the key factors and assumptions used to develop the net pension liability 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. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the District's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Directors.

### ***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 October 4, 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.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, 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.

We were not engaged to report on the Introductory and Statistical Sections which accompany the financial statements, but are not required supplementary information. 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 them.

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

Pleasant Hill, California  
October 4, 2017

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