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Board of Supervisors
County of Humboldt
Eureka, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of County of Humboldt as of and for the year ended June 30, 2018, and have issued our report thereon dated June 6, 2019. Our report included an adverse opinion on the omission of the discretely presented component unit and unmodified opinions for all other opinion units. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by County of Humboldt are described in Note 1 to the financial statements.

The County implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018.

We noted no transactions entered into by the entity 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 financial statements was (were):

- Management's estimate of the claims liability is based on actuarial reports obtained from experts.

- Management's estimate of the net other post-employment benefits (OPEB) liability and related deferred inflows/outflows of resources is based on actuarial valuation reports obtained from experts.

- Management's estimate of the net pension liability and the related deferred inflows/outflows is based on actuarial valuation reports obtained from CalPERS.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement 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 with the exception of some delays in receiving information needed to complete our audit due to recent turnover in the Auditor-Controller's Office.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following summarizes uncorrected misstatements of the financial statements:

- Reduction of the County's total cash and investments by $462 thousand to adjust cash and investments to fair value at June 30, 2018. The fair value of the County's cash and investments represents 99.87% of the carrying value of the County's total cash and investments.

Corrected misstatements

The following material and immaterial misstatements detected as a result of audit procedures were corrected by management:

- Adjust loans receivable and fund balance in the General Fund by $1.14 million to reflect the cumulative amount of loan disbursements that were improperly reported as grant disbursements (expenditures) instead of loan disbursements (loans receivable asset).

- Adjust fund balance in the nonmajor governmental funds by $4.2 million to reflect reclassification of the Fortuna Fire Protection District from a blended component unit to a discretely presented component unit after determining the District has its own separate board appointed by the County's Board of Supervisors.

- Adjust net position in the Medical internal service fund by $1.7 million to restate the beginning unearned revenue balance that should have been reversed in a prior year.

- Adjust accounts receivable and revenue in the General Fund by $2.5 million to reflect receipts collected after year-end that should have been accrued.

- Adjust accounts payable and public ways and facilities expenditures in the Road Fund by $333,329 to reflect services provided during 2017-18 that were not properly accrued.

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. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated June 6, 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 the entity'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. We were informed by management that there were no consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Significant findings or issues that were discussed, or the subject of correspondence, with management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. The following summarizes the significant findings or issues arising from the audit that were discussed, or the subject of correspondence, with management:

- The County restated the General Fund's beginning balance at the beginning of the year by $154 thousand to reflect the regrouping of the State Transit Fund (no. 3832) to a fiduciary fund.

- The County restated its loans receivable balance by $1.1 million at the beginning of the year to reflect the Brownsfields loan. The County was improperly recording the loan disbursements as expenditures rather than increases in the loans receivable balance.

- During our audit, we noted several significant account balances such as restricted cash (PARS), interfund transfers, unearned revenue and long-term receivables that were not reconciled in the general ledger. While the County was able to produce reliable schedules to support its account balances, these balances were not reflected in the general ledger. Additionally, the County does not currently record all of our year-end audit adjustments.

- During our audit, we noted that unearned revenue was not reconciled in the general ledger. The lack of a reconciliation for unearned revenue in the Medical internal service fund resulted in a $1.7 million restatement to beginning unearned revenue and net position balances.

- During our audit, we noted receipts collected after year-end totaling $2.5 million that should have been accrued in the General Fund.

- During our audit, we noted vendor invoices totaling $333 thousand for services provided during 2017-18 that were not properly accrued in the Road Fund.

Other audit findings or issues

We have provided a separate letter to you in our single audit report dated June 6, 2019, communicating internal control related matters identified during the audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated June 6, 2019.

With respect to the combining and individual fund financial statements (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, 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 or the reasons for such changes, 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 have issued our report thereon dated June 6, 2019.

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

CliftonLarsonAllen LLP

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Roseville, California
June 6, 2019