

Cabazon Water District

Management Report

June 30, 2024



C.J. Brown & Company CPAs
An Accountancy Corporation

Cabazon Water District

Management Report

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An Accountancy Corporation

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Board of Directors
Cabazon Water District
Cabazon, California

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Cabazon Water District (District) as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control over financial reporting.

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 over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Current Year Comment and Recommendation

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America.

For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system as of June 30, 2024.

* * * * *

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
September 17, 2024

APPENDIX

Cabazon Water District

Audit/Finance Committee Letter

June 30, 2024



C.J. Brown & Company CPAs

An Accountancy Corporation

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Board of Directors
Cabazon Water District
Cabazon, California

We have audited the financial statements of the Cabazon Water District (District) as of and for the year ended June 30, 2024, and have issued our report thereon dated September 17, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 24, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence. Whenever threats to independence have been identified, safeguards have been applied to either eliminate identified threats or reduce them to an acceptable level.

Required Risk Assessment Procedures per Auditing Standards

As auditors of the District, we are required per AU-C Section 240, “Consideration of Fraud in a Financial Statement Audit”, to “ordinarily” presume and consider the following risks in designing our audit procedures:

- Management override of controls
- Revenue recognition

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on 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 markedly from management’s current judgments.

The most sensitive accounting estimates affecting the financial statements are as follows:

- Management’s estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments and determined that it is reasonable in relation to the financial statements taken as a whole and in relation to the opinion unit.
- Management’s estimate of capital assets depreciation is based on historical estimates of each capitalized item’s useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation expense and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the opinion unit.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting District’s financial statements relate to:

- The disclosure of fair value of cash and investments in Note 2 to the financial statements represents amounts susceptible to market fluctuations.
- The disclosure of capital assets, net in Note 6 to the financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were identified as a result of our audit procedures that were brought to the attention of management.

Identified or Suspected Fraud

We have not identified or have not obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule on page 5 presents the material journal entries that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. There were no circumstances that affect the form and content of the auditor's report.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated September 17, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding audit and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Conclusion

We appreciate the cooperation extended to us by Michael Pollack, General Manager, and Evelyn Aguilar, Business Administrative Assistant in the performance of our audit testwork.

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

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
September 17, 2024

Cabazon Water District
Schedule of Audit Adjusting Journal Entries
For Fiscal Year Ended June 30, 2024

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
To recognize lease receivable per GASB 87 at year-end.			
15101	Lease receivable	\$ 907,890.93	
44002	Contra lease revenue	33,353.40	
32001	Prior Period Adjustment		59,541.22
42210	Cell Tower Lease Income		34,711.72
25102	Deferred inflows of resources - leases		833,081.38
44001	Interest revenue - leases		13,910.01
Adjusting Journal Entries JE # 2			
To recognize the expiration of the RCEDA Loan properly.			
43500	RCEDA Loan - Dissolved	300,000.00	
32001	Prior Period Adjustment	\$	300,000.00