

Cabazon Water District

Management Report

June 30, 2015



Fedak & Brown LLP
Certified Public Accountants

Cabazon Water District

Management Report

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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 financial statements of Cabazon Water District (District) as of and for the year ended June 30, 2015, 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.

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.

A control 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Summary of Current Year Comments and Recommendations

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 audit begins. 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 or for comparison purposes with the prior year. 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 to close-out the District's year-end trial balance.

* * * * *

This report is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.



Fedak & Brown LLP
Cypress, California
February 22, 2016

APPENDIX

Cabazon Water District

Audit/Finance Committee Letter

June 30, 2015



Charles Z. Fedak, CPA, MBA
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Board of Directors
Cabazon Water District
Cabazon, California

We have audited the basic financial statements of the Cabazon Water District (District) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated April 10, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Auditor's Responsibility under United States Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 15, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the District. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management discussion and analysis, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Planned Scope and Timing of the Audit, continued

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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 basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2015. We noted no transactions entered into by the District during fiscal year 2015 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 basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

Management's estimate of the allowance for delinquent/doubtful accounts is based on historical write-offs of past due delinquent/doubtful customer accounts, customer creditworthiness, and calculated assumptions of expected future write-offs. We evaluated the key factors and assumptions used to develop the allowance for delinquent/doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the basic financial statements. 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For the purpose 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 basic 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 representational letter dated February 22, 2016.

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 basic 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 auditor. 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 management discussion and analysis, which is 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.

Conclusion

We appreciate the cooperation extended us by Calvin Louie, General Manager, in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than the specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 22, 2016

Cabazon Water District
Schedule of Audit Adjusting Journal Entries
For Fiscal Year Ended June 30, 2015

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
AJE - To reconcile prior year ending net position to current year beginning net position.			
14321	Source of Supply- DHPO Intercon	148,010.26	
61120	Miscellaneous	221.67	
14500	Accumulated Depreciation		527.00
32000	Retained Earnings		221.67
32000	Retained Earnings		21,510.83
CZF41000	Contributed Capital		125,972.43
Total		<u>148,231.93</u>	<u>148,231.93</u>
Adjusting Journal Entries JE # 2			
AJE - To depreciate capitalized contributions.			
65110	Depreciation	4,934.00	
14500	Accumulated Depreciation		4,934.00
Total		<u>4,934.00</u>	<u>4,934.00</u>
Adjusting Journal Entries JE # 3			
CPE - To reclassify debit balance in accounts payable.			
13040	Prepaid Expenses	8,518.89	
21100	Accounts Payable		8,518.89
Total		<u>8,518.89</u>	<u>8,518.89</u>
Adjusting Journal Entries JE # 4			
CPE - To adjust fixed assets for assets still in use.			
14340	Buildings & Structures	3,109.00	
14360	Office Furniture and Equipment	9,559.06	
14360	Office Furniture and Equipment	24,710.00	
65110	Depreciation	77.73	
14500	Accumulated Depreciation		1,504.48
14500	Accumulated Depreciation		9,559.06
14500	Accumulated Depreciation		24,710.00
81200	Gain/Loss		1,682.25
Total		<u>37,455.79</u>	<u>37,455.79</u>

**Cabazon Water District
Schedule of Audit Adjusting Journal Entries
For Fiscal Year Ended June 30, 2015**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 5			
CPE - To dispose fixed assets that are no longer held by the District.			
14500	Accumulated Depreciation	1,462.00	
14500	Accumulated Depreciation	7,561.73	
14360	Office Furniture and Equipment		1,462.00
14360	Office Furniture and Equipment		7,561.73
Total		<u>9,023.73</u>	<u>9,023.73</u>
Adjusting Journal Entries JE # 6			
PPA - To restate capital assets.			
14500	Accumulated Depreciation	6,859.82	
14500	Accumulated Depreciation	86,111.91	
31010	Net Investment in Capital Asset	96,835.62	
14320	Source of Supply		189,807.35
Total		<u>189,807.35</u>	<u>189,807.35</u>
Adjusting Journal Entries JE # 7			
CPE - To reverse depreciation for capital assets that was written off.			
14500	Accumulated Depreciation	6,859.82	
65110	Depreciation		6,859.82
Total		<u>6,859.82</u>	<u>6,859.82</u>