

**Cabazon Water District**

**Management Report**

**June 30, 2012**



**Charles Z. Fedak & Company**

Certified Public Accountants  
An Accountancy Corporation

**Cabazon Water District**

**Management Report**

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Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

6081 Orange Avenue  
Cypress, California 90630  
(714) 527-1818  
(562) 598-6565  
FAX (714) 527-9154  
EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
WEB [www.czfcpa.com](http://www.czfcpa.com)

Board of Directors  
Cabazon Water District  
Cabazon, California

## **Dear Members of the Board:**

In planning and performing our audits of the financial statements of Cabazon Water District (District) as of and for the year ended June 30, 2012 and 2011, 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration on internal control was for the limited period described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above; however, we did identify control deficiencies as noted on page two.

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**

### **Capital Asset System**

Currently, the District maintains capital asset records and calculates depreciation expense in Microsoft Excel spreadsheets. During our audit, we noted formulaic errors within the spreadsheet tested. Although the amount is considered immaterial, we recommend that the District convert to a computerized capital asset system designed to accumulate asset cost records and calculate depreciation expense on a comprehensive basis. These types of capital asset accounting systems have been refined over the years and now can be purchased at a very reasonable cost. This will eliminate a significant amount of manual record keeping duties, make operations more efficient and provide more accurate information with which to make business decisions regarding capital assets.

### **Management's Response**

The District's management concurs with the auditor's recommendation relative to the acquisition and implementation of a capital asset system. An automated system would allow the District to maintain, update and more effectively control its capital assets and annual depreciation expense calculations. Management plans to review available software applications in the current fiscal year and consider the relative merits of implementing such a system.

### **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.

## **Summary of Prior 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.

\* \* \* \* \*

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.



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

**Charles Z. Fedak & Company, CPA's – An Accountancy Corporation**

Cypress, California

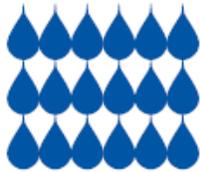
November 27, 2012

**APPENDIX**

**Cabazon Water District**

**Audit/Finance Committee Letter**

**June 30, 2012**



Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
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WEB [www.czfcpa.com](http://www.czfcpa.com)

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, 2012 and have issued our report thereon dated November 27, 2012. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

### **Auditor's Responsibility under United States Generally Accepted Auditing Standards**

As stated in our Audit Engagement Letter dated April 27, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities of oversight in the District's external financial reporting process or any other processes.

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

We are 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 specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing requirements previously communicated to management during our interim fieldwork.

### **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.

We noted no transactions entered into by the District during fiscal year 2012 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### **Management's Judgments, Accounting Estimates and Financial Disclosures**

Accounting estimates play an integral part in the preparation of basic financial statements by management and are based upon management's knowledge, experience and current judgment(s) 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(s) affecting the position in the basic financial statements is (are):

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 in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

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 calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the basic financial statements are neutral, consistent and clear. Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the basic financial statements is (are):

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of the District's allowance for delinquent/doubtful accounts in Note 3 to the basic financial statements represents amounts susceptible to external factors the District has no control over, such as, the state of the economy in the District's service area.

The disclosure of capital assets, net in Note 4 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

### **Corrected and Uncorrected Misstatements**

Generally Accepted Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management as follows:

There were six audit adjustment and/or reclassification entries made to the original trial balance presented to us to begin our audit. The overall net effect of the adjustments was to increase the net assets of the District by approximately \$2,922.61. We have provided the audit adjustment to the District's management and have included it at the end of this report.

### **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 the application of an accounting principal 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.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit processes and testwork.

### **Disagreements with Management**

For the purpose of this letter, professional standards define a disagreement with management as 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 of the District.

### **Management Representations**

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated November 27, 2012.

### **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.



Charles Z. Fedak : Company CPAs - An Accountancy Corporation

**Charles Z. Fedak & Company, CPA’s – An Accountancy Corporation**

Cypress, California  
November 27, 2012

**Cabazon Water District  
Audit Adjusting Journal Entries  
June 30, 2012**

**Adjusting Journal Entries JE # 1**

AJE - To increase receivables and miscellaneous short term liability by "negative receivables"

	12001	Accounts Receivable - Co 1	973.43	
	12002	Accounts Receivable - Co 2	175.98	
	26201	Misc Short Term Liability		1,149.41
<b>Total</b>			<b>1,149.41</b>	<b>1,149.41</b>

**Adjusting Journal Entries JE # 2**

AJE - To record immaterial variances in ending AR at 6/30/2012.

	12001	Accounts Receivable - Co 1	20.42	
	12002	Accounts Receivable - Co 2	71.60	
	56560	Miscellaneous		92.02
<b>Total</b>			<b>92.02</b>	<b>92.02</b>

**Adjusting Journal Entries JE # 3**

AJE - To adjust Allowance for Doubtful Accounts at 6/30/2012.

	65600	Bad Debt Expense	12,069.00	
	12004	Allowance for Doubtful Accounts		12,069.00
<b>Total</b>			<b>12,069.00</b>	<b>12,069.00</b>

**Adjusting Journal Entries JE # 4**

AJE - To adjust LAIF Interest Receivable to actual at 6/30/2012. □

	12100	Interest Receivable	24.07	
	40050	Interest Income LAIF		24.07
<b>Total</b>			<b>24.07</b>	<b>24.07</b>

**Adjusting Journal Entries JE # 5**

AJE - To recognize 2012 taxes received subsequent to 6/30/2012.

	12200	Taxes Receivable	14,915.52	
	40020	Ad Valorem - Tax Revenue		945.98
	40060	Stand By Fees - Tax Revenue		1,999.50
	40085	Teeter Settlement Income		11,970.04
<b>Total</b>			<b>14,915.52</b>	<b>14,915.52</b>

**Adjusting Journal Entries JE # 6**

AJE - To adjust accumulated depreciation to agree to client schedule at 6/30/2012.

	56560	Miscellaneous	40.00	
	16000	Accumulated Depreciation		40.00
<b>Total</b>			<b>40.00</b>	<b>40.00</b>