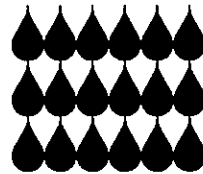


**Aromas Water District**

**Management Report**

**June 30, 2017**



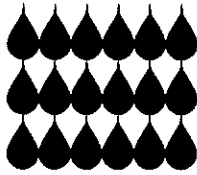
**Fedak & Brown LLP**

Certified Public Accountants

**Aromas Water District  
Management Report**

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Board of Directors  
Aromas Water District  
Aromas, California

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

In planning and performing our audit of the financial statements of the Aromas Water 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 opinion 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**

#### ***The Financial Reporting Entity – Blended Component Units***

During our audit, we noted that Assessment Districts established to provide funding for capital improvements within the District's service area were not reported as blended component units within the District's annual financial report.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statement No. 61, *The Financial Reporting Entity*. The District is considered the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

**Summary of Current Year Comments and Recommendations, Continued**

***The Financial Reporting Entity – Blended Component Units, Continued***

We recommend the District adopt the provisions of GASB 61 which will provide; greater clarity with regard to District operating activities, and compliance within the scope of generally accepted accounting principles.

**Management’s Response**

The District is in agreement with the auditor’s recommendation and will include the Assessment Districts as blended component units within the District’s annual financial report.

***Reconciliation of Accounts Balances to Supporting Schedule***

During the audit, we noted instances where account balances per the general ledger did not reconcile to the District’s supporting schedule and/or documentation. While some account balances are calculated based on facts and circumstances, depending on the nature of the account, other account balances consist of several smaller balances with descriptions, such as customer name for accounts receivable or vendor name for accounts payable. Whether an account balance is calculated, accumulated, or a combination of both, the supporting schedule and/or documentation should be reconcile to the general ledger balance.

We recommend that District reconcile its support for each account balance to the general ledger as its monthly closing procedures. Upon verifying the accuracy of the District’s account balances, the District should implement safeguards to ensure that subsequent transactions do not adversely affect the District’s historic records.

**Management’s Response**

The District will implement procedures to reconcile supporting schedules and documentation to it accountings records.

***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.

Aromas Water District  
Page 3

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*

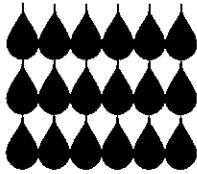
**Fedak & Brown LLP**  
Cypress, California  
February 27, 2018

**APPENDIX**

**Aromas Water District**

**Audit/Finance Committee Letter**

**June 30, 2017**



Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA  
Andy Beck, CPA

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Board of Directors  
Aromas Water District  
Aromas, California

We have audited the financial statements of the business-type activities of the Aromas Water District (District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 1, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### 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 financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2017. 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 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 estimates affecting the District's financial statements were):

Management's estimate of the District's capital assets, net of accumulated depreciation, which is based on the estimated useful life of the capital assets. We evaluated the key factors and assumptions used to develop the estimated useful life of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the District's net pension liability which is based on actuarial valuations. We evaluated the key factors and actuarial assumptions used to develop the estimated in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the District's defined benefit pension plans in Note 8 to the financial statements. The amounts and balances disclosed are based on an actuarial valuation.

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 each opinion unit's financial statements taken as a whole.

***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 the management representation letter dated February 27, 2018.

***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 Matters***

We applied certain limited procedures to the management discussion and analysis, schedules of the District's proportionate share of the net pension liability, and schedules of pension plan contributions, which are 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.

We were engaged to report on the schedule of operating expenses, which accompany the financial statements but are not RSI. 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.



**Conclusion**

We appreciate the cooperation extended us by Vicki Morris, General Manager (past), 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 27, 2018

**Aromas Water District**  
**Schedule of Audit Adjusting Journal Entries**  
**June 30, 2017**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>			
To agree the accounts receivable balance to the Aging report.			
1200.1	Accounts Receivable--UBMax	14,392.36	
2410	CUSTOMER DEPOSITS		10,634.13
303	Water Revenue		3,758.23
<b>Total</b>		<b><u>14,392.36</u></b>	<b><u>14,392.36</u></b>
<b>Adjusting Journal Entries JE # 2</b>			
To agree the Cash-LAIF account to the LAIF Statement as of June 30, 2017.			
1200	Accounts Receivable-Other	1,801.06	
1020	LAIF-State of Ca xx-05		1,801.06
<b>Total</b>		<b><u>1,801.06</u></b>	<b><u>1,801.06</u></b>
<b>Adjusting Journal Entries JE # 3</b>			
To correct beginning balance of accumulated depreciation to its proper amount as of June 30, 2017.			
1999	Less Accumuated Depreciation	24,005.00	
3000	Investment in Capital Assets		24,005.00
<b>Total</b>		<b><u>24,005.00</u></b>	<b><u>24,005.00</u></b>
<b>Adjusting Journal Entries JE # 5</b>			
To adjust prepaid insurance account as of June 30, 2017.			
406	Liability Ins	7,881.78	
1300	Prepaid Insurance		7,881.78
<b>Total</b>		<b><u>7,881.78</u></b>	<b><u>7,881.78</u></b>
<b>Adjusting Journal Entries JE # 6</b>			
To take out entry made to cash for customer credit balances as of June 30, 2017.			
1200.1	Accounts Receivable--UBMax	7,321.38	
1000	UB Checking		7,321.38
<b>Total</b>		<b><u>7,321.38</u></b>	<b><u>7,321.38</u></b>
<b>Adjusting Journal Entries JE # 7</b>			
CJE - To record pass through fees from PVWMA			
2030	PVWMA Payable	1,643.63	
304	Misc Income		1,643.63
<b>Total</b>		<b><u>1,643.63</u></b>	<b><u>1,643.63</u></b>

**Aromas Water District**  
**Schedule of Audit Adjusting Journal Entries**  
**June 30, 2017**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Adjusting Journal Entries JE # 8</b>			
To bring back accounts paid after June 30, 2017 that was erroneously entered by the District as of June, 30, 2017.			
1000	UB Checking	2,355.54	
1000	UB Checking	685.91	
1000	UB Checking	4,567.60	
2000	Accounts Payable		7,609.05
<b>Total</b>		<b><u>7,609.05</u></b>	<b><u>7,609.05</u></b>
<b>Adjusting Journal Entries JE # 9</b>			
To recognize check# 16164 that was voided after June 30, 2017 as part of cash for FY 2017.			
2000	Accounts Payable	46.30	
1000	UB Checking		46.30
<b>Total</b>		<b><u>46.30</u></b>	<b><u>46.30</u></b>
<b>Adjusting Journal Entries JE # 10</b>			
GASB 68 Entry 1 - To reclassify prior year employer contributions to net pension liability.			
2400	GASB 68 Pension Liability	51,643.00	
1700	Deferred Outflow of Resources		51,643.00
<b>Total</b>		<b><u>51,643.00</u></b>	<b><u>51,643.00</u></b>
<b>Adjusting Journal Entries JE # 11</b>			
GASB 68 Entry 2 - To reclassify current year employer contributions to deferred outflows of resources.			
1700	Deferred Outflow of Resources	61,410.00	
477	Retirement		61,410.00
<b>Total</b>		<b><u>61,410.00</u></b>	<b><u>61,410.00</u></b>
<b>Adjusting Journal Entries JE # 12</b>			
GASB 68 Entry 3 - To record changes in pension liability during measurement period.			
1700	Deferred Outflow of Resources	114,292.00	
2900	Deferred Inflows- Actuarial	5,558.00	
2400	GASB 68 Pension Liability		116,514.00
477	Retirement		3,336.00
<b>Total</b>		<b><u>119,850.00</u></b>	<b><u>119,850.00</u></b>

**Aromas Water District**  
**Schedule of Audit Adjusting Journal Entries**  
**June 30, 2017**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Adjusting Journal Entries JE # 13</b>			
GASB 68 Entry 4 - To record changes in the deferred outflows and deferred inflows (amortization).			
2900	Deferred Inflows- Actuarial	25,005.00	
477	Retirement	12,132.00	
1700	Deferred Outflow of Resources		7,766.00
1700	Deferred Outflow of Resources		4,366.00
1700	Deferred Outflow of Resources		25,005.00
<b>Total</b>		<b><u>37,137.00</u></b>	<b><u>37,137.00</u></b>
<b>Adjusting Journal Entries JE # 14</b>			
To write off issuance cost of debt.			
2312	Accumulated Amortiz-loan fees	3,125.00	
4593	Bond Issue Cost	11,875.00	
2311	LoanBrokerageFees		15,000.00
<b>Total</b>		<b><u>15,000.00</u></b>	<b><u>15,000.00</u></b>
<b>Adjusting Journal Entries JE # 15</b>			
To reconcile prior year ending net position to current year beginning net position.			
3100	Unrestricted Net Assets	24.00	
440	Misc Exp		24.00
<b>Total</b>		<b><u>24.00</u></b>	<b><u>24.00</u></b>
<b>Adjusting Journal Entries JE # 16</b>			
To restate prior net position for additional accrued interest payable in fiscal year 2016.			
3200	Allocation of Net Assets	49,087.55	
4590	Interest Expense	52,480.90	
2200	Interest Payable		52,480.90
4590	Interest Expense		49,087.55
<b>Total</b>		<b><u>101,568.45</u></b>	<b><u>101,568.45</u></b>

**Aromas Water District**  
**Schedule of Audit Adjusting Journal Entries**  
**June 30, 2017**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Adjusting Journal Entries JE # 17</b>			
To record long-term debt into District's account records.			
1090	Union Bank - Checking #7741	44,056.98	
1091	Union Bank - 101 - Redemption	2.43	
1092	Union Bank 102 - Reserve Acct	35,549.40	
1093	Union Bank Checking - #5587	373,804.39	
1094	UB CFD98-1	48,993.67	
1095	02 Provident T Fund - Reserve	43,543.73	
1096	05 Provident T Fund Redemption	0.39	
1291	Accounts Receivable - Orchard Acres	339,708.47	
1292	Accounts Receivable - USDA	2,329,859.60	
4290	Bank Fees	1,695.00	
4490	Other Expenses, net	1,842.24	
4590	Interest Expense	137,176.42	
4591	Administrative Fees	8,423.16	
4592	Professional Fees	2,215.68	
2391	Long-term Debt - Orchard Acres		420,000.00
2392	Long-term Debt - USDA		2,693,000.00
2393	Long-term Debt - CFD 98-1		80,000.00
2590	Unearned Revenue - CFD 98-1		13,436.52
3090	Voter Approved Assessment		160,140.73
3091	Interest Income		294.31
<b>Total</b>		<b><u>3,366,871.56</u></b>	<b><u>3,366,871.56</u></b>
<b>Reclassifying Journal Entries JE # 4</b>			
To reclassify and combine the related costs of idle fixed assets to its proper accounts.			
1900	Water System	42,400.00	
1990	Land and Easements	1,000.00	
1998	Less Accum Depr Idle Assets	42,400.00	
1995	Idle Assets		43,400.00
1999	Less Accumuated Depreciation		42,400.00
<b>Total</b>		<b><u>85,800.00</u></b>	<b><u>85,800.00</u></b>