

Aromas Water District

Management Report

June 30, 2020



Fedak & Brown LLP

Certified Public Accountants

**Aromas Water District
Management Report**

Table of Contents

<u>Item</u>	<u>Page No.</u>
General Introduction	1
Current Year Comment and Recommendation	1-2
Prior Year Comment and Recommendation	2
Appendix:	
Audit/Finance Committee Letter	1-3
Schedule of Audit Adjusting and Reclassifying Journal Entries	4-5



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

Fedak & Brown LLP

Certified Public Accountants

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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 business-type activities of the Aromas Water District (District) as of and for the year ended June 30, 2020, 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 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.

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, 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.

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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Current Year Comment and Recommendation

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

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.

Current Year Comment and Recommendation, continued

Disclosure of Audit Adjustments and Reclassifications, continued

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.

Prior 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 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

Fedak & Brown LLP
Cypress, California
December 22, 2020

APPENDIX

Aromas Water District

Audit/Finance Committee Letter

June 30, 2020



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

Fedak & Brown LLP

Certified Public Accountants

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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, 2020. 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 February 5, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 2020. 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 disclosure affecting the financial statements was:

The disclosure of the District's defined benefit pension plan in Note 7 to the financial statements, that was based on an actuarial valuation.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Matters, continued

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 December 22, 2020.

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.

Other Matters, continued

We were engaged to report on the schedules 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

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

We appreciate the cooperation extended us by Robert Johnson, 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.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

December 22, 2020

Aromas Water District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust interest receivable.			
FB1210	Interest Receivable	3,022.42	
306	Interest		3,022.42
Total		3,022.42	3,022.42
Adjusting Journal Entries JE # 2			
To adjust loan payable.			
2300	Current Portion City National	1,761.26	
2310	City National Bank		0.05
417	Capital Loan Interest		1,761.21
Total		1,761.26	1,761.26
Adjusting Journal Entries JE # 3			
To adjust adjustment receivable.			
3090	Oakridge / OAWA Assessments	52,989.12	
1291	Accounts Rec - Orchard Acres		11,419.19
1292	Accounts Rec - USDA Loan		41,569.93
Total		52,989.12	52,989.12
Adjusting Journal Entries JE # 4			
To adjust prepaid expense			
1300	Prepaid Insurance	5,941.44	
410	Health Ins		5,941.44
Total		5,941.44	5,941.44
Adjusting Journal Entries JE # 5			
To adjust accounts payable.			
1900	Water System	74,137.72	
431	System Repair & Maint	13,521.50	
2000	Accounts Payable		87,659.22
Total		87,659.22	87,659.22
Adjusting Journal Entries JE # 6			
To adjust accrued interest.			
417	Capital Loan Interest	5,057.12	
4590	Bond Interest Exp - Assess Dist	22,385.63	
2200	Interest Payable		27,442.75
Total		27,442.75	27,442.75

Aromas Water District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 7			
To adjust accrued payroll.			
500	Gross	5,964.00	
2100	Payroll Liabilities		5,964.00
Total		<u>5,964.00</u>	<u>5,964.00</u>
Adjusting Journal Entries JE # 8			
To adjust net pension liability			
1700	Deferred Outflow of Resources	2,570.00	
477	Retirement	39,998.00	
2400	GASB 68 Pension Liability		32,478.00
2900	Deferred Inflows- Actuarial		10,090.00
Total		<u>42,568.00</u>	<u>42,568.00</u>