

**Westborough Water District**

**Management Report**

**June 30, 2017**



**Fedak & Brown LLP**

Certified Public Accountants

**Westborough Water District**

**Management Report**

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Board of Directors  
Westborough Water District  
South San Francisco, California

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

We have audited the basic financial statements of the Westborough 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 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 District 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 misstatements on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies in internal control 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 deficiency, or combination of deficiencies in internal control that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected and corrected, on a timely basis.

Our consideration on internal control was for the limited purpose 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.

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 at June 30, 2017.

## **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.

### **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 at June 30, 2016.

\* \* \* \* \*

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  
January 11, 2018

**APPENDIX**

**Westborough Water District**

**Audit/Finance Committee Letter**

**June 30, 2017**



Charles Z. Fedak, CPA, MBA  
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Board of Directors  
Westborough Water District  
South San Francisco, California

We have audited the basic financial statements of the Westborough Water District (District) for the year ended June 30, 2017 and 2016 and have issued our report thereon dated January 11, 2018. 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 March 13, 2017, 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 at the Audit Entrance Conference meeting performed during 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 years 2017 and 2016 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 estimates affecting the position in the basic financial statements 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.

Management's estimate of the other post-employment benefits payable is based on the alternative measurement method to determine the liability balance. This alternative measurement method was determined and prepared by the District's third-party actuary. We evaluated the basis, methods and assumptions used by the actuary to calculate the annual required contribution for the District to determine that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the defined benefit pension plan's: deferred outflows of resources, net pension liability, and deferred inflows of resources are based on an actuarial evaluation of these amounts which was conducted by a third-party actuary. We evaluated the basis, actuarial methods and assumptions used by the actuary to calculate these amounts for the District to determine that it is 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 disclosures affecting the basic financial statements 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.

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

The most sensitive disclosures affecting the basic financial statements, continued

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.

The disclosure of other post-employment benefits, in Note 6 to the basic financial statements is based on information which could differ from those in future periods.

The disclosure of the District's defined benefit pension plan in Note 7 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

### **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 sixteen audit adjustments and/or reclassification entries proposed by the auditor during our audit. Of the sixteen, thirteen were recorded to the original trial balance presented to us to begin our audit and three were proposed but not recorded to the original trial balance. Of the thirteen made adjustments; all were prepared by the auditor. Four of the sixteen audit adjustments related to the third-year implementation of GASB 68. Of the remaining recorded adjustments; one related to a correction of beginning net position, one related to the reclassification of accounts payable from cash, one related to adjustment to accounts receivable balances, one adjustment related to the reclassification of accounts payable between water and sewer, one adjustment related to the reclassification of customer deposits to deferred revenue, and four of the adjustments related to adjustments to capital assets account balances. and one adjustment related to cash and investments was prepared but not posted to the trial balance. Of the remaining reported adjustments, one related to the adjustment of LAIF interest receivable, one related to the adjustment of compensated absences, and one related to the adjustment of accounts payable balance per the general ledger to provided support. We have provided a listing of these audit adjustments to the District's management and have included them 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 January 11, 2018.

**Conclusion**

We appreciate the cooperation extended us by Darryl Barrow, General Manager and Patricia Mairena, Assistant General Manager, in the performance of our audit testwork.

We will be pleased to respond to any question 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  
January 11, 2018

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

Account	Description	Debit	Credit
<b>Adjusting Journal Entries</b>			
<b>Adjusting Journal Entries JE # 1</b>			
AJE #1 - To correct beginning net position to reported ending net position per June 30, 2016 issued financial statements.			
56890	MISCELLANEOUS	6,657.00	
31100	UNAPPROPRIATED FUND BAL.		6,657.00
<b>Total</b>		<b><u>6,657.00</u></b>	<b><u>6,657.00</u></b>
<b>Adjusting Journal Entries JE # 2</b>			
AJE #2 - To reclassify outstanding checks (disbursements) not transmitted until July at June 30, 2017.			
13110	CASH-GEN.OPRTG.	10,787.15	
22200	ACCOUNTS PAYABLE		10,787.15
<b>Total</b>		<b><u>10,787.15</u></b>	<b><u>10,787.15</u></b>
<b>Adjusting Journal Entries JE # 3</b>			
AJE #3 - To adjust accounts receivable Unbilled Water and Sewer to actual per calculation percentage by days coverage at June 30, 2017.			
13712	ACCTS.REC.-WATER ADJ.	38,463.10	
13713	A/R SEWER	2,335.92	
41100	WATER SALES - RESIDENTIAL		38,463.10
42351	CHARGES - SANITATION		2,335.92
<b>Total</b>		<b><u>40,799.02</u></b>	<b><u>40,799.02</u></b>
<b>Adjusting Journal Entries JE # 4</b>			
AJE #4 - To reclassify customer overpayments from deposit payable to unearned revenue at June 30, 2017.			
22600	DEPOSITS - CUSTOMERS	13,269.30	
22905	Deferred Rev.		13,269.30
<b>Total</b>		<b><u>13,269.30</u></b>	<b><u>13,269.30</u></b>
<b>Adjusting Journal Entries JE # 5</b>			
AJE #5 - To reclassify sewer service charges for January - June from accounts payable water to accounts payable sewer at June 30, 2017.			
22200	ACCOUNTS PAYABLE	869,835.13	
22210	ACCRUED SEWER SERV.CHGS.		869,835.13
<b>Total</b>		<b><u>869,835.13</u></b>	<b><u>869,835.13</u></b>
<b>Adjusting Journal Entries JE # 6</b>			
GASB 68 Entry #1 - To reclassify 2016 contributions to net pension liability at June 30, 2017.			
25000	PENSION LIAB.	51,191.00	
17000	Def. Pen. O/F		51,191.00
<b>Total</b>		<b><u>51,191.00</u></b>	<b><u>51,191.00</u></b>
<b>Adjusting Journal Entries JE # 7</b>			
GASB 68 Entry #2 - To reclassify 2017 contributions to deferred outflows of resources at June 30, 2017.			
17000	Def. Pen. O/F	67,156.00	
51115	CALPERS-FIELD		21,490.00
56115	CALPERS-ADMIN		45,666.00
<b>Total</b>		<b><u>67,156.00</u></b>	<b><u>67,156.00</u></b>

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

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 8</b>			
GASB 68 Entry #3 - To record changes in pension liability during fiscal year 2017 at June 30, 2017.			
17000	Def. Pen. O/F	13,288.00	
17000	Def. Pen. O/F	139,540.00	
25000	PENSION LIAB.	0.29	
27000	Def. Pen. I/F	4,491.00	
27000	Def. Pen. I/F	10,102.00	
27000	Def. Pen. I/F	18,382.00	
51115	CALPERS-FIELD	21,641.00	
56115	CALPERS-ADMIN	45,986.00	
17000	Def. Pen. O/F		18,382.00
17000	Def. Pen. O/F		1,148.00
17000	Def. Pen. O/F		10,102.00
17000	Def. Pen. O/F		0.12
25000	PENSION LIAB.		205,446.00
27000	Def. Pen. I/F		18,352.00
51115	CALPERS-FIELD		0.17
<b>Total</b>		<b><u>253,430.29</u></b>	<b><u>253,430.29</u></b>
<b>Adjusting Journal Entries JE # 9</b>			
GASB 68 Entry #4 - To record changes in the deferred outflows and deferred inflows (amortization) during fiscal year 2017 at June 30, 2017.			
17000	Def. Pen. O/F	1,017.00	
27000	Def. Pen. I/F	11,882.00	
27000	Def. Pen. I/F	7,596.00	
17000	Def. Pen. O/F		1,074.00
17000	Def. Pen. O/F		15,528.00
51115	CALPERS-FIELD		1,246.00
56115	CALPERS-ADMIN		2,647.00
<b>Total</b>		<b><u>20,495.00</u></b>	<b><u>20,495.00</u></b>
<b>Adjusting Journal Entries JE # 10</b>			
AJE #6 - To adjust capital asset cost and accumulated depreciation for assets which no longer exist at June 30, 2017, based on review of placed in service dates and descriptions.			
11412	ALL. BUILDING	52,441.38	
11413	ALL. JOINT USE FACILITIES	1,278.95	
11414	ALL. METERS	109,185.04	
11415	ALL. OFFICE FURN. & EQUIP.	175,665.63	
11416	ALL. MAINTENANCE FACILITY	71,062.28	
11182	BUILDING		45,364.39
11183	JOINT USE FACILITIES		5,115.78
11184	WATER METERS		109,185.07
11185	OFFICE FURN. & EQUIPMENT		175,665.63
11186	MAINTENANCE FACILITY		71,062.28
56891	GAIN LOSS ON DISPOSAL		3,240.13
<b>Total</b>		<b><u>409,633.28</u></b>	<b><u>409,633.28</u></b>
<b>Adjusting Journal Entries JE # 11</b>			
AJE #7 - To reclassify allocation of depreciation between water and sewer per detail schedule for financial statement purposes at June 30, 2017.			
57101	DEPRECIATION-SE	93.73	
57100	DEPRECIATION		93.73
<b>Total</b>		<b><u>93.73</u></b>	<b><u>93.73</u></b>

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

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 12</b>			
AJE #8 - To adjust capital asset account group Maintenance Facility for initially capitalized truck engine purchase which should be expensed as it will not increase disposal value of the vehicle at June 30, 2017.			
11416	ALL. MAINTENANCE FACILITY	738.31	
51170	VEHICLE EXPENSE	11,074.60	
11186	MAINTENANCE FACILITY		11,074.60
57100	DEPRECIATION		738.31
<b>Total</b>		<b><u>11,812.91</u></b>	<b><u>11,812.91</u></b>
<b>Adjusting Journal Entries JE # 13</b>			
AJE #9 - To reclassify Skyline Tank Structural Improvements / Upgrades from Engineering Services to construction in progress at June 30, 2017.			
11190	Work In Progress	6,971.06	
11190	Work In Progress	221.00	
11190	Work In Progress	1,279.69	
11190	Work In Progress	11,431.31	
56830	ENGINEERING SERVICES		6,971.06
56830	ENGINEERING SERVICES		221.00
56830	ENGINEERING SERVICES		1,279.69
56830	ENGINEERING SERVICES		11,431.31
<b>Total</b>		<b><u>19,903.06</u></b>	<b><u>19,903.06</u></b>
<b>Total Adjusting Journal Entries</b>		<b><u>1,775,062.87</u></b>	<b><u>1,775,062.87</u></b>
<b>Proposed Journal Entries</b>			
<b>Proposed Journal Entries JE # 14</b>			
PAJE #1 - To correct LAIF interest receivable per statement at June 30, 2017.			
13750	ACCTS.REC.-OTHER	502.85	
49234	INTEREST-L.A.I.F.		502.85
<b>Total</b>		<b><u>502.85</u></b>	<b><u>502.85</u></b>
<b>Proposed Journal Entries JE # 15</b>			
PAJE#2 - To correct ending general ledger balance for compensated absences to actual per compensated absence schedule provided by District at June 30, 2017.			
51110	SALARIES	1,510.71	
56110	SALARIES	3,010.26	
22500	ACCRD.VACATION		4,520.97
<b>Total</b>		<b><u>4,520.97</u></b>	<b><u>4,520.97</u></b>
<b>Proposed Journal Entries JE # 16</b>			
PAJE#3 - To adjust for difference of accounts payable aging report shows a balance of \$962,572.36 less the Cash transfer between the General and Payroll account of \$34,484.58 is \$928,088 while books show \$933,577.97, a difference of \$5,489.91.			
22200	ACCOUNTS PAYABLE	5,489.91	
56890	MISCELLANEOUS		5,489.91
<b>Total</b>		<b><u>5,489.91</u></b>	<b><u>5,489.91</u></b>
<b>Total Proposed Journal Entries</b>		<b><u>10,513.73</u></b>	<b><u>10,513.73</u></b>
<b>Total All Journal Entries</b>		<b><u>1,785,576.60</u></b>	<b><u>1,785,576.60</u></b>

**Legend:**

AJE	Audit adjusting journal entry
GASB 68 Entry	GASB 68 year three implementation adjusting journal entry
PAJE	Proposed adjusting journal entry (Not Posted)