

Westborough Water District

Management Report

June 30, 2016



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, 2016, 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, 2016.

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, 2015.

* * * * *

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
January 12, 2017

APPENDIX

Westborough Water District

Audit/Finance Committee Letter

June 30, 2016



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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, 2016 and 2015 and have issued our report thereon dated January 12, 2017. 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 1, 2016, 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 2016 and 2015 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 nine audit adjustments and/or reclassification entries made to the original trial balance presented to us to begin our audit. Of the nine adjustments; all were prepared by the auditor. Four of the ten audit adjustments related to the second-year implementation of GASB 68. Of the remaining adjustments; two of the adjustments related to adjustments to receivable account balances, two 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. 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 12, 2017.

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 12, 2017

**Westborough Water District
Schedule of Audit Adjusting Journal Entries
June 30, 2016**

Account	Description	Debit	Credit
Adjusting Journal Entries			
Adjusting Journal Entries JE # 1			
GASB 68 Entry #1 - To reclassify 2015 contributions to Net Pension Liability at June 30, 2016.			
25000	PENSION LIAB.	60,470.00	
17000	Def. Pen. O/F		60,470.00
Total		<u>60,470.00</u>	<u>60,470.00</u>
Adjusting Journal Entries JE # 2			
GASB 68 Entry #2 - To reclassify 2016 contributions to deferred outflows of resources at June 30, 2016.			
17000	Def. Pen. O/F	51,191.00	
51115	CALPERS-FIELD		17,405.00
56115	CALPERS-ADMIN		33,786.00
Total		<u>51,191.00</u>	<u>51,191.00</u>
Adjusting Journal Entries JE # 3			
GASB 68 Entry #3 - To record changes in pension liability during FY15/16 at June 30, 2016.			
17000	Def. Pen. O/F	5,260.00	
27000	Def. Pen. I/F	93,782.00	
51115	CALPERS-FIELD	14,145.00	
56115	CALPERS-ADMIN	27,459.00	
25000	PENSION LIAB.		74,000.00
27000	Def. Pen. I/F		10,017.00
27000	Def. Pen. I/F		49,764.00
27000	Def. Pen. I/F		6,865.00
Total		<u>140,646.00</u>	<u>140,646.00</u>
Adjusting Journal Entries JE # 4			
GASB 68 Entry #4 - To record changes in pension liability during FY15/16 at June 30, 2016.			
27000	Def. Pen. I/F	33,938.00	
17000	Def. Pen. O/F		1,384.00
27000	Def. Pen. I/F		1,218.00
51115	CALPERS-FIELD		10,654.00
56115	CALPERS-ADMIN		20,682.00
Total		<u>33,938.00</u>	<u>33,938.00</u>
Adjusting Journal Entries JE # 5			
AJE #1 - To close Nitrification Monitoring and Control Plan project balance of \$15,615, as no current year activity was recorded to project.			
11181	WATER FACILITY	15,615.00	
11190	Work In Progress		15,615.00
Total		<u>15,615.00</u>	<u>15,615.00</u>

**Westborough Water District
Schedule of Audit Adjusting Journal Entries
June 30, 2016**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 6			
AJE #2 - To adjust depreciation expense to actual per depreciation detail schedule at June 30, 2016. Difference identified to be researched by C&A.			
51150	SPECIAL SERVICES	9,377.00	
57100	DEPRECIATION		9,377.00
Total		<u>9,377.00</u>	<u>9,377.00</u>
Adjusting Journal Entries JE # 7			
AJE #3 - To adjust AR Unbilled Water and Sewer to actual per calculation % by days coverage at June 30, 2016.			
13712	ACCTS.REC.-WATER ADJ.	31,386.50	
13713	A/R SEWER	3,380.49	
41100	WATER SALES - RESIDENTIAL		31,386.50
42351	CHARGES - SANITATION		3,380.49
Total		<u>34,766.99</u>	<u>34,766.99</u>
Adjusting Journal Entries JE # 8			
AJE #4 - To adjust property taxes receiveable per support at June 30, 2016.			
13900	TAXES RECEIVABLE	4,645.01	
49310	TAX & ASSMTS.-SECURED		4,645.01
Total		<u>4,645.01</u>	<u>4,645.01</u>
Total Adjusting Journal Entries		<u>350,649.00</u>	<u>350,649.00</u>
Proposed Journal Entries			
Proposed Journal Entries JE # 9			
PAJE#1 - To adjust MultiBank Securities account to actual per statement balance at June 30, 2016.			
13160	Timed Deposits	457.84	
49240	Interest Income		457.84
Total		<u>457.84</u>	<u>457.84</u>
Total Proposed Journal Entries		<u>457.84</u>	<u>457.84</u>
Total All Journal Entries		<u>351,106.84</u>	<u>351,106.84</u>

Legend:

GASB 68 Entry	GASB 68 year two implementation adjusting journal entry
AJE	Audit adjusting journal entry
PAJE	Proposed adjusting journal entry (NOT POSTED)