

**Joshua Basin Water District**

**Management Report**

**June 30, 2018**



**Fedak & Brown LLP**  
Certified Public Accountants

# Joshua Basin Water District

## Management Report

### Table of Contents

<u>Item</u>	<u>Page No.</u>
General Introduction	1
Summary of Current Year Comments and Recommendations	1
Status of Comments and Recommendations Made in the Previous Year	2
<b>Appendix:</b>	
Audit/Finance Committee Letter	1-3
Schedule of Adjusting Journal Entries	4



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### **CONFIDENTIAL**

Board of Directors  
Joshua Basin Water District  
Joshua Tree, California

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

In planning and performing our audit of the financial statements of Joshua Basin Water District (District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered 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 opinions 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 period described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness. Given these limitations during our audit we did not identify any deficiencies in internal control to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 start of the audit. 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**

The District has 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.

## **Summary of Comments and Recommendations Made in the Previous Year**

### ***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 start of the audit. 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**

The District has 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.

\* \* \* \* \*

This communication is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to be, and should not be, used by anyone other than these specified parties.

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 5, 2018

**APPENDIX**

**Joshua Basin Water District**

**Audit/Finance Committee Letter**

**June 30, 2018**



Charles Z. Fedak, CPA, MBA  
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Board of Directors  
Joshua Basin Water District  
Joshua Tree, California

We have audited the basic financial statements of the Joshua Basin Water District (District) for the year ended June 30, 2018 and have issued our report thereon dated December 5, 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 22, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with your oversight 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 you or management of its responsibilities.

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 as previously communicated to management. Professional standards also require that we communicate to you the following information related to our audit.

### **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 2018 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.

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

Accounting estimates are an integral part of the basic 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 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 were:

Management's estimate of the fair value of cash and cash equivalents 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 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.

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 cash equivalents 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 9 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of the District's defined benefit pension plan in Note 12 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

The disclosures in the basic financial statements 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, except those that are considered trivial, and communicate them to the appropriate level of management. (See Page 4)

### **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 December 5, 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 the application of an accounting principle 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.

### **Restriction on Use**

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.

### **Conclusion**

We appreciate the cooperation extended us by Susan Greer, Assistant General Manager/Controller, and Anne Roman, Accountant, 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 5, 2018



**Joshua Basin Water District  
 Schedule of Adjusting Journal Entries  
 June 30, 2018**

**Adjusting Journal Entries JE No. 1**

To reclassify 2017 contributions to NPL at June 30, 2018.

200-22360	NET PENSION LIABILITY	\$ 137,342.00	
100-13600	DEFERRED OUTFLOWS OF RESOURCES		137,342.00

**Adjusting Journal Entries JE No. 2**

To reclassify 2018 contributions to Deferred Outflows of Resources at June 30, 2018.

100-13600	DEFERRED OUTFLOWS OF RESOURCES	159,828.00	
551-01230	RETIREMENT: PERS Classic 2% @55		159,828.00

**Adjusting Journal Entries JE No. 3**

To record changes in pension liability during FY16/17 at June 30, 2018.

100-13600	DEFERRED OUTFLOWS OF RESOURCES	175,129.00	
200-23050	DEFERRED INFLOWS OF RESOURCES	47,134.00	
551-01230	RETIREMENT: PERS Classic 2% @55	92,062.00	
100-13600	DEFERRED OUTFLOWS OF RESOURCES		47,134.00
200-22360	NET PENSION LIABILITY		248,290.00
200-23050	DEFERRED INFLOWS OF RESOURCES		18,901.00

**Adjusting Journal Entries JE No. 4**

To record changes in the deferred outflows and deferred inflows (amortization) during FY17/18 at June 30, 2018.

200-23050	DEFERRED INFLOWS OF RESOURCES	4,974.00	
551-01230	RETIREMENT: PERS Classic 2% @55	116,511.00	
100-13600	DEFERRED OUTFLOWS OF RESOURCES		58,205.00
100-13600	DEFERRED OUTFLOWS OF RESOURCES		60,850.00
200-23050	DEFERRED INFLOWS OF RESOURCES		2,430.00

**Adjusting Journal Entries JE No. 5**

To reverse accrued payroll taxes as of June 30, 2017.

200-22300	ACCRUED PAYROLL TAX PAYABLE	7,061.94	
551-01230	RETIREMENT: PERS Classic 2% @55		2,796.34
551-01231	RETIREMENT: PERS Tier 2 2% @62		2,027.48
551-01305	PAYROLL TAXES		2,238.12

**Adjusting Journal Entries JE No. 6**

To reverse entry made on a disposed asset to its proper account as of June 30, 2018.

100-15400	OFFICE FURNITURE/EQUIPMENT	6,795.12	
100-15401	OFFICE FURN/EQUIP-ACCUM DEPREC		6,795.12

**Adjusting Journal Entries JE No. 7**

To adjust prepaid expense accounts to its proper balances as of June 30, 2018.

100-12325	PREPAID COMP SUPPORT & LICENSE	1,315.29	
504-07401	PROPERTY INSURANCE	287.91	
100-12320	PREPAID PROPERTY INSURANCE		287.91
553-04015	COMPUTER SOFTWARE & SUPPORT	\$	1,315.29