

**Westborough Water District**

**Management Report**

**June 30, 2015**



**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, 2015, 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, 2015.

## **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, 2014.

\* \* \* \* \*

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  
November 17, 2015

**APPENDIX**

**Westborough Water District**

**Audit/Finance Committee Letter**

**June 30, 2015**



Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
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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, 2015 and 2014 and have issued our report thereon dated November 17, 2015. 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 10, 2015, 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 2015 and 2014 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 estimate(s) 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 ten audit adjustments and/or reclassification entries made to the original trial balance presented to us to begin our audit. Five of the ten audit adjustments related to the implementation of GASB 68. 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 November 17, 2015.



**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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

**Fedak & Brown, LLP**

Cypress, California

November 17, 2015

**Westborough Water District  
Schedule of Adjusting Journal Entries  
June 30, 2015**

**Adjusting Journal Entries JE # 1**

AJE - To reclass customer overpayments (credit balances) from accounts receivable to accounts payable at June 30, 2015

	13710	ACCTS.REC.-WATER	14,310.70	
	22905	Deferred Rev.		14,310.70
<b>Total</b>			<b>14,310.70</b>	<b>14,310.70</b>

**Adjusting Journal Entries JE # 3**

AJE - To correct depreciation at June 30, 2015.

	57100	DEPRECIATION	25.00	
	56890	MISCELLANEOUS		25.00
<b>Total</b>			<b>25.00</b>	<b>25.00</b>

**Adjusting Journal Entries JE # 4**

AJE - To accrue vendor payment to MK Pipelines, Inc. for services performed in June 2015.

	11181	WATER FACILITY	66,890.00	
	23000	OTHER CURRENT LIABILITIES		66,890.00
<b>Total</b>			<b>66,890.00</b>	<b>66,890.00</b>

**Adjusting Journal Entries JE # 5**

AJE - To remove capital assets which do not meet the District's capitalization threshold of \$500 at June 30, 2015.

	11411	ALL. WATER FACILITY	11,347.65	
	11412	ALL. BUILDING	4,784.69	
	11413	ALL. JOINT USE FACILITIES	818.26	
	11414	ALL. METERS	3,886.46	
	11415	ALL. OFFICE FURN.& EQUIP.	12,305.95	
	11416	ALL. MAINTENANCE FACILITY	4,715.52	
	12210	ALL. SEWER FACILITY	4,007.95	
	57100	DEPRECIATION	241.45	
	57100	DEPRECIATION	346.04	
	57100	DEPRECIATION	634.05	
	57100	DEPRECIATION	1,333.20	
	57100	DEPRECIATION	5,772.60	
	57101	DEPRECIATION - SEWER	3,360.40	
	11181	WATER FACILITY		11,347.65
	11182	BUILDING		4,784.69
	11183	JOINT USE FACILITIES		818.26
	11184	WATER METERS		3,886.46
	11185	OFFICE FURN. & EQUIPMENT		12,305.95
	11186	MAINTENANCE FACILITY		4,715.52
	11411	ALL. WATER FACILITY		5,772.60
	11412	ALL. BUILDING		1,333.20
	11413	ALL. JOINT USE FACILITIES		241.45
	11414	ALL. METERS		634.05
	11415	ALL. OFFICE FURN.& EQUIP.		346.04
	12100	SEWER FACILITY		4,007.95
	12210	ALL. SEWER FACILITY		3,360.40
<b>Total</b>			<b>53,554.22</b>	<b>53,554.22</b>

**Westborough Water District  
Schedule of Adjusting Journal Entries  
June 30, 2015**

**Adjusting Journal Entries JE # 6**

GASB 68 Entry #1 - To prior period adjust net position for net pension liability and 2014 employer contributions.

	17000	Deferred Pension Outflows	49,031.00	
	31100	UNAPPROPRIATED FUND BAL.	457,363.00	
	25000	PENSION LIAB.		506,394.00
<b>Total</b>			<b>506,394.00</b>	<b>506,394.00</b>

**Adjusting Journal Entries JE # 7**

GASB 68 Entry #2 - To reclassify 2014 employer contributions to net pension liability at June 30, 2015.

	25000	PENSION LIAB.	49,031.00	
	17000	Deferred Pension Outflows		49,031.00
<b>Total</b>			<b>49,031.00</b>	<b>49,031.00</b>

**Adjusting Journal Entries JE # 8**

GASB 68 Entry #3 - To reclassify 2015 employer contributions to deferred pension outflows at June 30, 2015.

	17000	Deferred Pension Outflows	60,470.12	
	51115	CALPERS-FIELD		20,559.84
	56115	CALPERS-ADMIN		39,910.28
<b>Total</b>			<b>60,470.12</b>	<b>60,470.12</b>

**Adjusting Journal Entries JE # 9**

GASB 68 Entry #4 - To record FY13/14 pension expense, deferred pension inflows and adjust net pension liability at June 30, 2015.

	25000	PENSION LIAB.	86,748.00	
	51115	CALPERS-FIELD	27,025.24	
	51115	CALPERS-FIELD	52,166.20	
	56115	CALPERS-ADMIN	52,460.76	
	56115	CALPERS-ADMIN	101,263.80	
	27000	Deferred Pension Inflows		10,647.00
	27000	Deferred Pension Inflows		155,680.00
	51115	CALPERS-FIELD		12,733.34
	51115	CALPERS-FIELD		39,401.24
	56115	CALPERS-ADMIN		24,717.66
	56115	CALPERS-ADMIN		76,484.76
<b>Total</b>			<b>319,664.00</b>	<b>319,664.00</b>

**Adjusting Journal Entries JE # 10**

GASB 68 Entry #5 - To record FY13/14 amortization of deferred pension inflows at June 30, 2015.

	27000	Deferred Pension Inflows	2,802.00	
	27000	Deferred Pension Inflows	31,136.00	
	51115	CALPERS-FIELD		11,538.92
	56115	CALPERS-ADMIN		22,399.08
<b>Total</b>			<b>33,938.00</b>	<b>33,938.00</b>