

Aromas Water District

Management Report

June 30, 2022



Fedak & Brown LLP

Certified Public Accountants

**Aromas Water District
Management Report**

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Board of Directors
Aromas Water District
Aromas, California

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Aromas Water District (District) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

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

Other Comment

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.

* * * * *

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

November 22, 2022

APPENDIX

Aromas Water District

Audit/Finance Committee Letter

June 30, 2022



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Board of Directors
Aromas Water District
Aromas, California

We have audited the financial statements of the Aromas Water District (District) as of and for the year ended June 30, 2022, and have issued our report thereon dated November 22, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 17, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also 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 for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated November 22, 2022.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Compliance with All Ethics Requirements Regarding Independence, continued

In preparing the financial statements based on information provided by the District, an auditor that was not part of the engagement team performed an independent review of the financial statements to reduce the threat of self-review to an acceptable level.

Significant Risks Identified

We have identified the following significant risks:

- Revenue recognition – risk the revenues may be overstated.
- Management override of controls – risk that management may override controls to intentionally misstate the financial statements.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the District's capital assets, net of accumulated depreciation 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 basic financial statements taken as a whole and in relation to the opinion unit.
- Management's estimate of the District's net pension liability is based on actuarial valuations. We evaluated the key factors and actuarial assumptions used to develop the estimate in determining that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the opinion unit.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to:

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

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions identified as a result of our audit procedures were brought to the attention of management:

Identified or Suspected Fraud

We have not identified or have not obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Net pension liability – on an annual basis, net pension liability and related balances are calculated in accordance with Governmental Accounting Standards Board (GASB).
- Special assessment receivable – the District receives special assessments from property owners which are used for certain debt service payments and related expenses. Assessments receivable are reduced by the amount received.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report; however, there were no circumstances that affect the form and content of our auditor's report.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 22, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

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

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

November 22, 2022

Aromas Water District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2022

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
To adjust debt balance.			
1291	Accounts Rec - Orchard Acres	10,000.00	
2391	Long-term Debt - Orchard Acres		10,000.00
Total		<u>10,000.00</u>	<u>10,000.00</u>
Adjusting Journal Entries JE # 2			
To adjust net pensions liability.			
2400	GASB 68 Pension Liability	224,046.00	
477	Retirement	119,047.00	
1700	Deferred Outflow of Resources		12,206.00
2900	Deferred Inflows- Actuarial		330,887.00
Total		<u>343,093.00</u>	<u>343,093.00</u>
Adjusting Journal Entries JE # 3			
To adjust AR for amount received on behalf of PVWMA.			
1200.1	Accounts Receivable--UBMax	8,841.76	
303	Water Revenue		8,841.76
Total		<u>8,841.76</u>	<u>8,841.76</u>
Adjusting Journal Entries JE # 4			
To accrue interest receivable from LAIF.			
FB1210	Accrued Interest	1,568.31	
3091	Interest Income		1,568.31
Total		<u>1,568.31</u>	<u>1,568.31</u>
Adjusting Journal Entries JE # 5			
To adjust assessment receivable.			
3090	Oakridge / OAWA Assessments	55,085.26	
1291	Accounts Rec - Orchard Acres		3,162.62
1292	Accounts Rec - USDA Loan		51,922.64
Total		<u>55,085.26</u>	<u>55,085.26</u>
Adjusting Journal Entries JE # 6			
To adjust cash for check reversed by bank and expensed.			
1000	UB Checking	9,251.38	
431	System Repair & Maint		9,251.38
Total		<u>9,251.38</u>	<u>9,251.38</u>
Adjusting Journal Entries JE # 7			
To adjust accounts payable.			
1910	Construction in Progress	20,529.90	
2000	Accounts Payable		20,529.90
Total		<u>20,529.90</u>	<u>20,529.90</u>

Aromas Water District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2022

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 8			
To adjust prepaid expense for health insurance.			
1300	Prepaid Insurance	5,651.16	
410	Health Ins		5,651.16
Total		<u>5,651.16</u>	<u>5,651.16</u>
Adjusting Journal Entries JE # 9			
To adjust inventory.			
431	System Repair & Maint	11,822.03	
128	Inventory		11,822.03
Total		<u>11,822.03</u>	<u>11,822.03</u>
	Total Adjusting Journal Entries	<u>465,842.80</u>	<u>465,842.80</u>
Reclassifying Journal Entries JE # 201			
To reclassify payroll paid by bank.			
2110	Accrued Wages Payable	10,751.78	
1000	UB Checking		6,294.94
1000	UB Checking		3,011.39
1000	UB Checking		1,445.45
Total		<u>10,751.78</u>	<u>10,751.78</u>