

**Joshua Basin Water District**

**Management Report**

**June 30, 2015**



**Fedak & Brown LLP**  
Certified Public Accountants

# Joshua Basin Water District

## Management Report

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### **CONFIDENTIAL**

Board of Directors  
Joshua Basin Water District  
Joshua Tree, California

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

We have audited, 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; and the State Controller's Minimum Audit Requirements for California Special Agency's, the basic financial statements of the Joshua Basin Water District (District) as of and for the year ended June 30, 2015, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 or, significant deficiencies. 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**

**None Noted**

## **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 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 to close-out the District's year-end trial balance.

\* \* \* \* \*

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 30, 2015

**APPENDIX**

**Joshua Basin Water District**

**Audit/Finance Committee Letter**

**June 30, 2015**



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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, 2015 and have issued our report thereon dated November 30, 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 14, 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.

### **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.

As described in Note 5, 6 and 12 to the financial statements, the District changed accounting policies related to Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, and No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68, as of June 30, 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

We noted no transactions entered into by the District during fiscal year 2015 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 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 is (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 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 disclosure(s) affecting the basic financial statements is (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, continued**

The disclosure of capital assets, net in Note 7 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 5, 6 and 12 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

### **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 5)

### **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 30, 2015.

### **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.

### **Conclusion**

We appreciate the cooperation extended us by Susan Greer, Anne Roman and the District staff 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.



**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.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
November 30, 2015

**Joshua Basin Water District  
 Schedule of GASB 68 Adjustments  
 June 30, 2015**

The District has recorded the following adjustments with regard to the adoption of Governmental Accounting Standards Board No 68 and 71.

**GASB 68 Entry No. 1** - To record prior period adjustment for change in accounting principle of GASB 68 as of June 30, 2014

100-13600	DEFERRED OUTFLOWS - PENSIONS	38,155.00	
300-31300	RETAINED EARNINGS (3)	355,907.00	
200-22360	NET PENSION LIABILITY		394,062.00
<b>Total</b>		<b><u>394,062.00</u></b>	<b><u>394,062.00</u></b>

**GASB 68 No. 2** - To reclassify 2014 contributions to NPL at June 30, 2015.

200-22360	NET PENSION LIABILITY	38,155.00	
100-13600	DEFERRED OUTFLOWS - PENSIONS		38,155.00
<b>Total</b>		<b><u>38,155.00</u></b>	<b><u>38,155.00</u></b>

**GASB 68 Entry No. 3** - To reclassify 2015 contributions to Deferred Outflows of Resources at June 30, 2015.

100-13600	DEFERRED OUTFLOWS - PENSIONS	146,314.00	
551-01230	RETIREMENT: PERS Classic 2%@55		131,864.00
551-01231	RETIREMENT: PERS Tier 2 2%@62		14,450.00
<b>Total</b>		<b><u>146,314.00</u></b>	<b><u>146,314.00</u></b>

**GASB 68 Entry No. 4** - To record changes in pension liability during FY13/14 at June 30, 2015.

200-22360	NET PENSION LIABILITY	67,504.00	
551-01230	RETIREMENT: PERS Classic 2%@55	119,377.00	
551-01230	RETIREMENT: PERS Classic 2%@55	223,531.00	
551-01231	RETIREMENT: PERS Tier 2 2%@62	18.00	
551-01231	RETIREMENT: PERS Tier 2 2%@62	5,776.00	
100-13600	DEFERRED OUTFLOWS - PENSIONS		8,752.00
200-23050	DEFERRED INFLOWS - PENSIONS		121,145.00
551-01230	RETIREMENT: PERS Classic 2%@55		90,166.00
551-01230	RETIREMENT: PERS Classic 2%@55		189,047.00
551-01231	RETIREMENT: PERS Tier 2 2%@62		14.00
551-01231	RETIREMENT: PERS Tier 2 2%@62		7,082.00
<b>Total</b>		<b><u>416,206.00</u></b>	<b><u>416,206.00</u></b>

**GASB 68 Entry No. 5** - To record changes in the deferred outflows and deferred inflows (amortization) during FY13/14 at June 30, 2015.

100-13600	DEFERRED OUTFLOWS - PENSIONS	2,303.00	
200-23050	DEFERRED INFLOWS - PENSIONS	24,229.00	
551-01231	RETIREMENT: PERS Tier 2 2%@62	341.00	
551-01230	RETIREMENT: PERS Classic 2%@55		26,873.00
<b>Total</b>		<b><u>26,873.00</u></b>	<b><u>26,873.00</u></b>

**GASB 68 Entry No. 6** - To adjust deferred outflows and inflows to agree with page 10 of the actuarial report.

100-13600	DEFERRED OUTFLOWS - PENSIONS	7,414.00	
200-23050	DEFERRED INFLOWS - PENSIONS		7,414.00
<b>Total</b>		<b><u>7,414.00</u></b>	<b><u>7,414.00</u></b>