

**Crescenta Valley Water District**

**Management Report**

**June 30, 2016**



**Fedak & Brown LLP**

Certified Public Accountants

**Crescenta Valley Water District**

**Management Report**

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Board of Directors  
Crescenta Valley Water District  
La Crescenta, California

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

We have audited the basic financial statements of the Crescenta Valley 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*

**Fedak & Brown LLP**  
Cypress, California  
December 6, 2016

**APPENDIX**

**Crescenta Valley Water District**

**Audit/Finance Committee Letter**

**June 30, 2016**



Charles Z. Fedak, CPA, MBA  
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Board of Directors  
Crescenta Valley Water District  
La Crescenta, California

We have audited the basic financial statements of the Crescenta Valley Water District (District) for the year ended June 30, 2016 and 2015 and have issued our report thereon dated December 6, 2016. 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 12, 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 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 are:

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 8 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 9 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 eleven total adjustments to the original trial balance presented to us to begin our audit. Of the eleven adjustments; three were prepared by the District, and four were prepared by the auditor. Four adjustments are related to the second-year implementation of *Governmental Accounting Standards Board* Statement Nos. 68 & 71. 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 December 6, 2016.



**Conclusion**

We appreciate the cooperation extended us by Ron Mitchell, Administrative Services Manager and Lynne Sovich, Accountant, 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

December 6, 2016

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

Account	Description	Debit	Credit
<b>Adjusting Journal Entries</b>			
<b>Adjusting Journal Entries JE # 1</b>			
GASB 68 Entry #1 - To reclassify 2015 contributions to net pension liability at June 30, 2016.			
01-00-2470-000	Net Pension Liability	175,630.00	
02-00-2470-000	Net Pension Liability	117,086.00	
01-00-1600-000	Deferred Pension Outflows		175,630.00
02-00-1600-000	Deferred Pension Outflows		117,086.00
<b>Total</b>		<b><u>292,716.00</u></b>	<b><u>292,716.00</u></b>
<b>Adjusting Journal Entries JE # 2</b>			
GASB 68 Entry #2 - To reclassify 2016 contributions to deferred outflows of resources at June 30, 2016.			
01-00-1600-000	Deferred Pension Outflows	185,202.00	
02-00-1600-000	Deferred Pension Outflows	123,468.00	
01-01-5052-000	GASB 68 Adjustment - Water		185,202.00
02-01-5052-000	GASB 68 Adjustment - Wastewater		123,468.00
<b>Total</b>		<b><u>308,670.00</u></b>	<b><u>308,670.00</u></b>
<b>Adjusting Journal Entries JE # 3</b>			
GASB 68 Entry #3 - To record changes in pension liability during FY15/16 at June 30, 2016.			
01-00-1600-000	Deferred Pension Outflows	15,257.40	
01-00-2490-000	Deferred Pension Inflows	389,888.40	
01-01-5052-000	GASB 68 Adjustment - Water	201,643.80	
02-00-1600-000	Deferred Pension Outflows	10,171.60	
02-00-2490-000	Deferred Pension Inflows	259,925.60	
02-01-5052-000	GASB 68 Adjustment - Wastewater	134,429.20	
01-00-2470-000	Net Pension Liability		233,706.60
01-00-2490-000	Deferred Pension Inflows		144,351.00
01-00-2490-000	Deferred Pension Inflows		65,731.80
01-00-2490-000	Deferred Pension Inflows		163,000.20
02-00-2470-000	Net Pension Liability		155,804.40
02-00-2490-000	Deferred Pension Inflows		96,234.00
02-00-2490-000	Deferred Pension Inflows		43,821.20
02-00-2490-000	Deferred Pension Inflows		108,666.80
<b>Total</b>		<b><u>1,011,316.00</u></b>	<b><u>1,011,316.00</u></b>
<b>Adjusting Journal Entries JE # 4</b>			
GASB 68 Entry #4 - To record changes in pension liability during FY15/16 at June 30, 2016.			
01-00-2490-000	Deferred Pension Inflows	122,718.60	
01-00-2490-000	Deferred Pension Inflows	20,202.00	
02-00-2490-000	Deferred Pension Inflows	81,812.40	
02-00-2490-000	Deferred Pension Inflows	13,468.00	
01-00-1600-000	Deferred Pension Outflows		4,015.20
01-01-5052-000	GASB 68 Adjustment - Water		138,905.40
02-00-1600-000	Deferred Pension Outflows		2,676.80
02-01-5052-000	GASB 68 Adjustment - Wastewater		92,603.60
<b>Total</b>		<b><u>238,201.00</u></b>	<b><u>238,201.00</u></b>
<b>Adjusting Journal Entries JE # 5</b>			
CPE#1 - To adjust Water CIP for closed project C-915 at June 30, 2015.			
01-00-1335-000	Computers	20,220.98	
01-00-1400-111	C-915 Billing Upgrade		20,220.98
<b>Total</b>		<b><u>20,220.98</u></b>	<b><u>20,220.98</u></b>

Continued on next page.

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

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 6</b>			
CPE#2 - To adjust interest payable per Debt Service COP 2007 (1 month x \$179,518.79) at June 30, 2016.			
01-01-5910-000	Interest Expense - Notes	30,737.00	
01-00-2310-000	Accrued Interest Expense		30,737.00
<b>Total</b>		<b><u>30,737.00</u></b>	<b><u>30,737.00</u></b>
<b>Adjusting Journal Entries JE # 7</b>			
CPE#3 - To adjust premiums and fairmarket value to actual per Investment Summary analysis at year end.			
01-00-4265-000	Fair Value Adjustment	62,065.86	
01-00-1055-000	Fair Value Adjustment - Invest		62,065.86
<b>Total</b>		<b><u>62,065.86</u></b>	<b><u>62,065.86</u></b>
<b>Adjusting Journal Entries JE # 8</b>			
AJE - To record / establish Rockhaven Well Loan Payable to Glendale Water and Power at June 30, 2016.			
01-00-1400-131	E-940 Rockhaven Well #16	1,091,590.00	
01-00-2450-000	Glendale Water & Power Infrastructure Loan		1,091,590.00
<b>Total</b>		<b><u>1,091,590.00</u></b>	<b><u>1,091,590.00</u></b>
<b>Adjusting Journal Entries JE # 9</b>			
AJE - To record transfer of completed CIP Rockhaven Well to depreciable assets and place into service at June 30, 2016.			
01-00-1309-000	Wells and Tunnels	2,614,960.92	
01-00-1400-131	E-940 Rockhaven Well #16		2,614,960.92
<b>Total</b>		<b><u>2,614,960.92</u></b>	<b><u>2,614,960.92</u></b>
<b>Adjusting Journal Entries JE # 10</b>			
AJE - To record / establish Local Agency (GWP) Grant Receivable at June 30, 2016.			
01-00-1115-000	Grant Receivable - GWP (Well 16)	214,346.00	
01-00-4287-000	Capital Contributions - Local Agency		214,346.00
<b>Total</b>		<b><u>214,346.00</u></b>	<b><u>214,346.00</u></b>
<b>Adjusting Journal Entries JE # 11</b>			
AJE - To record changes in GWP Loan Payable and GWP Grant Recievable during FY15/16 at June 30, 2016.			
01-00-2450-000	Glendale Water & Power Infrastructure Loan	17,004.00	
01-02-5400-000	Water Usage Cost Expense - GWP Well 16	49,035.97	
01-02-5431-000	Land Lease Cost Expense - GWP Well 16	15,036.00	
01-00-1115-000	Grant Receivable - GWP (Well 16)		81,075.97
<b>Total</b>		<b><u>81,075.97</u></b>	<b><u>81,075.97</u></b>
<b>Total Adjusting Journal Entries</b>		<b><u>5,965,899.73</u></b>	<b><u>5,965,899.73</u></b>
<b>Total All Journal Entries</b>		<b><u>5,965,899.73</u></b>	<b><u>5,965,899.73</u></b>

**Legend:**

GASB 68 Entry	GASB 68 Adjusting Journal Entry for Year 2 Implementation
CPE	Client Prepared Adjusting Journal Entry
AJE	Audit Adjusting Journal Entry