

**East Orange County Water District**

**Management Report**

**June 30, 2013**



**Charles Z. Fedak & Company**

Certified Public Accountants

An Accountancy Corporation

**East Orange County Water District**

**Management Report**

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Board of Directors  
East Orange County Water District  
Orange, California

## Dear Members of the Board:

In planning and performing our audit of the financial statements of East Orange County Water District (District) as of and for the year ended June 30, 2013, 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 auditing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and may not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the audit committee, the board of directors and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Our other observations, comments and recommendations, all of which have been discussed with the appropriate members of management, are summarized as follows:

## **Summary of Current Year Observations, 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.

## **Summary of Prior Year Observations, Comments and Recommendations**

**None Noted**

\* \* \* \* \*

This communication is intended solely for the information and use of management, the audit committee, the board of directors and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties. 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.

**Charles Z. Fedak & Company, CPAs – An Accountancy Corporation**  
Cypress, California  
October 31, 2013

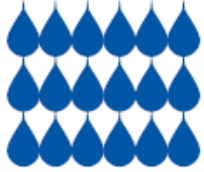
**APPENDIX**

**East Orange County Water District**

**Audit/Finance Committee Letter**

**June 30, 2013**

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Board of Directors  
East Orange County Water District  
Orange, California

We have audited the basic financial statements of the East Orange County Water District (District) for the year ended June 30, 2013 and have issued our report thereon dated October 31, 2013. 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 May 30, 2013, 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 the board and management in our Communication to Those Charged with Governance during the Audit Planning Stage Letter dated June 30, 2013.

### **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 2013 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 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 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.

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 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.

### **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 five (3) audit adjustments/reclassification entries recorded to adjust the original trial balance presented to us to begin our audit. Please see the audit adjustments/reclassification entries 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 October 31, 2013.

**Conclusion**

We appreciate the cooperation extended us by Lisa Ohlund, General Manager, and 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.

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.

**Charles Z. Fedak & Company, CPAs – An Accountancy Corporation**  
Cypress, California  
October 31, 2013



East Orange County Water District June 30, 2013 Audit Adjusting/Reclassifying Entries			
Account	Description	Debit	Credit
<b>Adjusting/Reclassifying Journal Entries JE # 1</b>			
To adjust Wholesale & Retail cash LAIF balances to actual at 06/30/13.			
1236-0002-2	LAIF- LOCAL AGENCY INVEST FUND	116,765.00	
1236-0001-1	LAIF- LOCAL AGENCY INVEST FUND		116,765.00
<b>Total</b>		<b>116,765.00</b>	<b>116,765.00</b>
<b>Adjusting/Reclassifying Journal Entries JE # 2</b>			
To adjust Wholesale & Retail capacity and connection fees to actual at 06/30/13.			
4109-0002-2	WATER SALES-CAPITAL PROJECTS	2,257.92	
4130-0001-1	RETAIL SERVICE CONNECTIONS		2,257.92
<b>Total</b>		<b>2,257.92</b>	<b>2,257.92</b>
<b>Adjusting/Reclassifying Journal Entries JE # 3</b>			
To adjust Wholesale & Retail meter and standby charges to actual at 06/30/13.			
4131-0001-1	READINESS TO SERVE	7,934.86	
4111-0002-2	METER CHARGE		7,934.86
<b>Total</b>		<b>7,934.86</b>	<b>7,934.86</b>

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