

North Coast County Water District

Management Report

June 30, 2009

North Coast County Water District

Management Report

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CONFIDENTIAL

Board of Directors
North Coast County Water District
Pacifica, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of North Coast County Water District (District) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 control deficiency 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 control deficiency, or combination of control deficiencies 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 significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration on internal control was for the limited period 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; however, we did identify a few control deficiencies.

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.

Status of Comments and Recommendations Made in the Previous Year

Timely Reconciliation of Accounts

Accounting tasks such as monthly or quarterly account reconciliations play a key role in substantiating the accuracy of accounting data and information included in the financial statements. Therefore, in order to provide more accurate and timely accounting information, we strongly recommend that the District establish more effective monthly and/or quarterly review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly and/or quarterly reconciliations of all balance-sheet accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments on a timely basis. This comment is provided to address the audit adjustments and reclassification entries attached.

Management's Response

We concur with the auditor's recommendation and we will make the necessary changes in our account reconciliation process accordingly.

Current Year Assessment

Management has reduced the number of audit adjusting entries needed to complete the audit in the current year.

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

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.

* * * * *

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.

October 2, 2009
Cypress, California

Chapman & Partners
An Accounting Corporation

APPENDIX

North Coast County Water District

Audit/Finance Committee Letter

June 30, 2009



Charles Z. Fedak, CPA, MBA
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Board of Directors
North Coast County Water District
Pacifica, California

We have audited the basic financial statements of the North Coast County Water District (District) for the year ended June 30, 2009, and have issued our report thereon dated September 21, 2009. 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 February 9, 2009, 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 our Audit Entrance Conference on July 21, 2009.

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 2009 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 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.

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 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.

The disclosure of capital assets, net in Note 3 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 no audit adjustments proposed by the auditor to the original trial balance presented to us to begin our audit. However, attached to this report are client prepared adjustments and/or reclassification entries for financial reporting purposes.

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 2, 2009.

Conclusion

We appreciate the cooperation extended us by Kevin O’Connell, General Manager, Cari Lemke, Assistant General Manager – Administration and Connie Hsu, Accountant, 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.

October 2, 2009
Cypress, California

Cheryl Hobbins, CPA
An Accounting Corporation

NORTH COAST COUNTY WATER DISTRICT
June 30, 2009
Schedule of Audit Adjusting Journal Entries

Entry #	Status	Account	Description	Debit	Credit	
AJE 1	Posted	2230-0000	Accrued Expenses	960.05		
		1117-183B	Regulator Upgrades		960.05	
		2230-0000	Accrued Expenses		9,109.95	
		5130-1100	Water Purch.SF			9,109.95
		5130-1100	Water Purch.SF		8.01	
		2230-0000	Accrued Expenses			8.01
		1311-0000	Cash - Retiree COLA Trust		58.86	
		4970-0000	Miscellaneous Income			58.86
		4910-0000	Revenue from Leases of Prop.		19.15	
		2225-0000	Deferred Revenue			19.15
		1118-1300	Machinery & Equipment		1,007.00	
		2115-0000	Loan Payable			1,007.00
		5637-1300	Billing Software Support		2,781.50	
		1401-0000	Prepaid Expenses			2,781.50
		5710-0000	Depreciation-Amortization		34.75	
		1141-0000	Allow.-Deprec.Util.Plant			34.75
		2115-0000	Loan Payable		103,160.43	
		2116-0000	Loan Payable - Current Portion			103,160.43
		4110-0000	Residential Water Sales		18,416.74	
		4150-0000	Resale to other utilities(SB)			18,416.74
		CPE - To adjust Trial Balance to actual at year-end.				
AJE 2	Posted	1401-0000	Prepaid Expenses		5,897.40	
		2116-0000	Loan Payable - Current Portion	5,298.81		
		5910-0000	Interest Expense	598.59		
		1401-0000	Prepaid Expenses		3,615.38	
		2116-0000	Loan Payable - Current Portion	3,104.60		
		5910-0000	Interest Expense	510.78		
		CPE - To adjust LTD balances for fiscal year 2010 lease payments (due 7/1/09) made in June 2009.				
AJE 3	Posted	1905-103B	Rosita/SP & Pedro Pt.	364,574.11		
		1910-103B	RoyceRepairs & Site Improv.	243,373.30		
		1915-103B	GypsyHill Repairs & SiteImprov	291,890.60		
		1920-103B	Nelson Tk.Repl.& Site Improvem	1,208.01		
		1925-103B	Park Pac.Repairs & SiteImprove	54,093.48		
		1930-103B	SanPedroValley Corp.Yd.Improve	131,343.69		
		1299-0000	Capitalized Interest-Bonds		1,086,483.19	
				RJE - To reclass capitalized interest (WIP) to the various capitalized projects at year end.		
AJE 4	Posted	5710-0000	Depreciation-Amortization	11,483.63		
		1141-0000	Allow.-Deprec.Util.Plant		11,483.63	
				CPE - To record additional depreciation expense at 6/30/09.		
TOTALS				1,243,036.04	1,243,036.04	

Key:	Description
CPE	Client Prepared Entry
RJE	Reclass Journal Entry
AJE	Auditor Journal Entry