

**CITRUS HEIGHTS WATER DISTRICT**

**MANAGEMENT REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2006**

**CITRUS HEIGHTS WATER DISTRICT**

Management Report  
For the Year Ended December 31, 2006

Table of Contents

	<u>Page</u>
Introduction.....	1
Required Communication .....	2-4
<b><u>Status of Prior Year Recommendations</u></b>	
Journal Entries.....	5



BARTIG, BASLER & RAY, LLP

A GALLINA LLP COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Citrus Heights Water District  
Citrus Heights, California

In planning and performing our audit of the basic financial statements of the Citrus Heights Water District for the fiscal year ended December 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Our consideration of the internal control over financial reporting would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants. 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. However, we noted the matter identified below involving the internal control over financial reporting that we considered to be a significant deficiency as defined above and is described in our report on the District's internal control in our report dated April 4, 2007:

#### 2006-1: Controls Over Financial Reporting

The memorandum that accompanies this letter summarizes our comments and suggestions concerning other matters. We previously reported on the District's internal control in our report dated April 4, 2007. This letter does not affect our report dated April 4, 2007 on the financial statements of the Citrus Heights Water District.

This report is intended for the use of management, the Board of Directors, and the officials of federal and state grantor agencies. We thank the District's staff for its cooperation during our audit.

BARTIG, BASLER & RAY, LLP  
A Gallina LLP Company

Roseville, California  
April 4, 2007

# **CITRUS HEIGHTS WATER DISTRICT**

Management Report  
Required Communication  
For the Year Ended December 31, 2006

## **The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 8, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

## **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

# CITRUS HEIGHTS WATER DISTRICT

## Management Report Required Communication For the Year Ended December 31, 2006

- Accrual and disclosure of compensated absences
- Capital asset lives and depreciation expense

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Auditors**

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 application of an accounting principle to the governmental unit's 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.

### **Issues Discussed Prior to Retention of Independent Auditors**

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 auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

# **CITRUS HEIGHTS WATER DISTRICT**

Management Report  
Required Communication  
For the Year Ended December 31, 2006

## **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

**CITRUS HEIGHTS WATER DISTRICT**

Status of Prior Year Recommendations  
As of December 31, 2006

Recommendation	Status/Comment
<b>JOURNAL ENTRIES</b>	
We recommended that all non-recurring, non-standard journal entries prepared by the Office Administrator be reviewed and authorized by management prior to posting.	Implemented