

RECLAMATION DISTRICT 2035  
AUDIT PRESENTATION AGENDA

June 30, 2020

Presentation by Richardson & Company, LLP of the Audit, including the following communications required by Generally Accepted Auditing Standards:

Reports issued

- Audited Financial Statements with auditors opinion
- Internal Control and Compliance Reports
- Governance letter
- Management letter with recommendations

Independent Auditor's Report

- Unmodified (clean) opinion

Discussion of financial statements

- Statement of Net Position (page 3)

- \$240,307 still owed to WDCWA for intake project

- Negative unrestricted net position of \$3,284

- Statement of Revenues and Expenses (page 4)

- Increased maintenance expense of \$514,489 due to levee road project, mostly funded by a state grant

- Net loss of \$472,967 — includes \$546,624 of depreciation

- Capital asset activity (page 12)

- Designations of net position for reserves — cash balance does not cover reserves (page 14)

- Intake facility funding winding down (page 15)

- COVID uncertainty disclosure (page 16)

Reports on Internal Control and Compliance (page 17)

- No internal control weaknesses

- District complied with applicable laws, regulations

Governance (Required Communications) letter

- Audit adjustments

- 7 adjustments identified and corrected (listed in letter)

- 9 closing entries provided by District during audit process

- No difficulties in performing the audit and no unusual accounting practices

Management letter

- No material weaknesses in internal control

- Other items noted

- Invoices received should be stamped with date

- Annual review of investment policy by Trustees

- Use of billing module in accounting system for water delivery transactions

**DRAFT**

**RECLAMATION DISTRICT NO. 2035**

**AUDITED FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

RECLAMATION DISTRICT NO. 2035  
AUDITED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

TABLE OF CONTENTS

Independent Auditor's Report.....	1
<u>Basic Financial Statements</u>	
Statements of Net Position .....	3
Statements of Revenues, Expenses and Changes in Net Position .....	4
Statements of Cash Flows .....	5
Statements of Net Position Fiduciary Funds .....	7
Notes to the Financial Statements .....	8
<u>Other Reports</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Reclamation District No. 2035  
Woodland, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Reclamation District No. 2035 (the District), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2019 and 2018 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

## **Other Matters**

### *Required Supplementary Information*

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

\_\_\_\_\_, 2020

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF NET POSITION

June 30, 2019 and 2018

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 596,387	\$ 548,600
Accounts receivable	162,179	208,341
Grants receivable	600,686	314,615
Prepaid expenses	34,272	31,712
<b>TOTAL CURRENT ASSETS</b>	<b>1,393,524</b>	<b>1,103,268</b>
<b>CAPITAL ASSETS</b>		
Not being depreciated	90,670	90,670
Being depreciated	39,876,828	40,228,006
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>39,967,498</b>	<b>40,318,676</b>
<b>TOTAL ASSETS</b>	<b>41,361,022</b>	<b>41,421,944</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and other liabilities	1,140,081	478,995
Unearned revenue	16,420	
Due to other governments	240,307	472,674
Accrued compensated absences		5,266
Current portion of lease payable	3,996	27,828
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,400,804</b>	<b>984,763</b>
<b>LONG-TERM LIABILITIES</b>		
Lease payable		3,996
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>3,996</b>
<b>TOTAL LIABILITIES</b>	<b>1,400,804</b>	<b>988,759</b>
<b>NET POSITION</b>		
Net investment in capital assets	39,963,502	40,286,852
Unrestricted	(3,284)	146,333
<b>TOTAL NET POSITION</b>	<b>\$ 39,960,218</b>	<b>\$ 40,433,185</b>

The notes to the financial statements are an integral part of this statement.

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

For the years ended June 30, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water delivery charges	\$ 887,067	\$ 876,216
Other charges	345,297	317,403
TOTAL OPERATING REVENUES	1,232,364	1,193,619
OPERATING EXPENSES		
Water delivery		
Personnel expenses	126,097	130,361
Professional services expense	53,502	36,191
Maintenance expense	283,679	281,433
Utilities expense	633,320	590,524
Depreciation	524,556	553,688
Other expense	128,614	144,060
Total Water Delivery Expenses	1,749,768	1,736,257
Flood protection		
Personnel expenses	126,046	130,359
Professional services expense	118,231	232,265
Maintenance expense	604,399	89,910
Utilities expense	10,595	12,999
Depreciation	22,068	20,929
Other expense	59,743	52,708
Total Flood Protection Expenses	941,082	539,170
TOTAL OPERATING EXPENSES	2,690,850	2,275,427
NET LOSS FROM OPERATIONS	(1,458,486)	(1,081,808)
NON-OPERATING REVENUE (EXPENSES)		
Special assessments	449,126	330,952
Federal and state grants	533,132	124,061
Investment income	7,908	4,808
Other non-operating revenue	26,486	15,532
Contributions (to) from other agencies	(15,457)	324,453
Interest expense	(482)	(1,750)
Other non-operating expense	(15,194)	(5,392)
TOTAL NON-OPERATING REVENUES (EXPENSES)	985,519	792,664
LOSS BEFORE CAPITAL CONTRIBUTIONS	(472,967)	(289,144)
CAPITAL REVENUES		
Capital grants		82,828
CHANGE IN NET POSITION	(472,967)	(206,316)
Net position, beginning of year	40,433,185	40,639,501
NET POSITION AT END OF YEAR	\$ 39,960,218	\$ 40,433,185

The notes to the financial statements are an integral part of this statement.

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and special assessments	\$ 1,744,072	\$ 1,935,459
Cash paid to suppliers for goods and services	(1,308,962)	(2,350,842)
Cash paid to employees for services	(182,004)	(186,314)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>253,106</b>	<b>(601,697)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal and state grant funding received	227,445	45,287
Other nonoperating revenue	11,292	10,140
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>238,737</b>	<b>55,427</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Amounts paid for capital assets	(195,446)	(90,967)
Capital grants received	19,616	4,773,973
Amounts paid to other agencies	(247,824)	(4,115,787)
Principal payments on lease	(27,828)	(19,184)
Interest payments on lease	(482)	(1,750)
<b>NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(451,964)</b>	<b>546,285</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	7,908	4,808
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>7,908</b>	<b>4,808</b>
<b>INCREASE IN CASH</b>	<b>47,787</b>	<b>4,823</b>
Cash and cash equivalents at beginning of year	548,600	543,777
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 596,387</b>	<b>\$ 548,600</b>

(Continued)



RECLAMATION DISTRICT NO. 2035

STATEMENTS OF CASH FLOWS (Continued)

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	\$ (1,458,486)	\$ (1,081,808)
Special assessments	449,126	330,952
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	546,624	574,617
Changes in operating assets and liabilities:		
Accounts receivables	46,162	(56,832)
Assessments receivables		467,720
Prepaid expenses	(2,560)	(1,744)
Accounts payable and other liabilities	661,086	(837,022)
Unearned revenue	16,420	
Accrued compensated absences	(5,266)	2,420
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 253,106</u>	<u>\$ (601,697)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Donated infrastructure		\$ 254,352

The notes to the financial statements are an integral part of this statement.

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF NET POSITION  
FIDUCIARY FUNDS

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and equivalents	<u>\$ 37,752</u>	<u>\$ 36,916</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 37,752</u></u>	<u><u>\$ 36,916</u></u>
<b>LIABILITIES</b>		
Accounts payable	<u>\$ 21,355</u>	<u>\$ 21,355</u>
Agency funds held for others	<u>16,397</u>	<u>15,561</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 37,752</u></u>	<u><u>\$ 36,916</u></u>

The notes to the financial statements are an integral part of this statement.

RECLAMATION DISTRICT NO. 2035  
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

**NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Reclamation District 2035 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was created on April 18, 1919. The District is situated in Yolo County, California. The first purpose of the District is to provide flood protection and drainage, and secondly, to deliver irrigation water. The District operates under the laws of the Water Code of the State of California, Division 15, Section 50000 through 53900. The District is governed by a three-member Board of Trustees.

Basis of Presentation: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that period determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants and general revenues.

The District maintains one agency fund, the *Cache Creek Settling Basin Fund*. The amounts reported for the Cache Creek Settling Basin Fund represent the balances of a four-way agreement between the District, PG&E Properties, the City of Woodland, and Yolo Shortline Railroad. The parties committed a total of up to \$15,000 each to fund a study of improvements to mitigate impacts resulting from the enlargement in 1992 of the Cache Creek Settling Basin.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Fiduciary Funds account for assets held by the District as an agent on behalf of others. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments: For the purposes of the Statement of Cash Flows, the District's cash and cash equivalents include cash on hand or on deposit, and demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables: Receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts, if applicable, and estimated refunds due. Business-type activities report utilities and grant reimbursements as their major receivables. No allowance was deemed necessary at June 30, 2019 and 2018.

Special Assessments: Special assessment revenues are recognized by the District in the fiscal year they are assessed. The tax is billed in September /October and is due in 30 days. It becomes delinquent after 90 days and liens could be placed for nonpayment.

Capital Assets: Capital assets are valued at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets are currently defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided over the useful lives of assets using the straight-line method. Estimated useful lives of depreciable assets range from 5 to 30 years.

Compensated Absences: The District policy allows employees to accumulate earned but unused annual leave, which will be paid to employees upon separation from the District's service. The cost of annual leave is recognized in the period earned.

Net Position: The net position amount is the difference between assets and liabilities. Net investment in capital assets are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors.

# RECLAMATION DISTRICT 2035

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

### NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements: In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying and disclosing fiduciary activities of state and local governments. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements of the government. Four fiduciary funds should be reported under this statement: Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds. This Statement is effective for periods beginning after December 15, 2019.

The District is currently analyzing the impact of the required implementation of these new statements.

### NOTE B – CASH AND INVESTMENTS

Cash and cash equivalents consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Primary Government		
Cash and investments		
Cash with County pooled treasury	\$ 596,387	548,600
Agency Fund		
Cash with County pooled treasury	<u>37,752</u>	<u>36,916</u>
Total cash and investments	<u>\$ 634,139</u>	<u>\$ 585,516</u>

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

## RECLAMATION DISTRICT 2035

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

## NOTE B – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	No limit	No limit
U.S. Treasury Obligations	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	No limit
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	No limit
Repurchase Agreements	1 year	No limit	No limit
Reverse Repurchase Agreements	92 days	20% of base value	No limit
Medium-Term Notes	5 years	30%	No limit
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	No limit
County Pooled Investment Funds	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
JPA Pools (other investment pools)	N/A	No limit	No limit

The District complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

**Investment in the County of Yolo Investment Pool:** The District's cash is held in the County of Yolo Treasury. The County maintains an investment pool and allocates interest quarterly to the various funds based upon quarterly average daily cash balances. Investments held in the County's investment pool are available on demand and are stated at fair value. The fair value of the County's investment pool is determined by the fair value of the underlying investments, which represent level 2 inputs under the fair value hierarchy. Information regarding fair value measurements of the County pool may be found in the notes to the County of Yolo financial statements at <http://countyofyolo.org/general-government/general-government-departments/financial-services/publications>.

**Interest rate risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At June 30, 2019 and 2018, the District's investment in the County pool has an average maturity of 449 days and 499 days, respectively.

**Credit Risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's external investment pool is not rated.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE B – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested by any one issuer to the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect deposits or investments in securities with governmental investment pools (such as the County of Yolo investment pool).

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2019 and 2018 was as follows:

	Balance at July 1, 2018	Additions	Write-offs/ Disposals	Transfers/ Adjustments	Balance at June 30, 2019
Capital assets, not being depreciated:					
Land	\$ 90,670				\$ 90,670
Total capital assets, not being depreciated	90,670				90,670
Capital assets, being depreciated:					
Structures and improvements	40,612,890				40,612,890
Equipment	2,117,843	\$ 195,446			2,313,289
Total capital assets being depreciated	42,730,733	195,446			42,926,179
Less: accumulated depreciation:					
Structures and improvements	(600,984)	(420,139)			(1,021,123)
Equipment	(1,901,743)	(126,485)			(2,028,228)
Total accumulated depreciation	(2,502,727)	(546,624)			(3,049,351)
Total capital assets being depreciated, net	40,228,006	(351,178)			39,876,828
CAPITAL ASSETS, NET	\$ 40,318,676	\$ (351,178)	\$ -	\$ -	\$ 39,967,498

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE C – CAPITAL ASSETS (Continued)

	Balance at July 1, 2017	Additions	Deletions	Transfers	Balance at June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 90,670				\$ 90,670
Construction in progress	39,675,268	\$ 82,828		\$ (39,758,096)	
Total capital assets, not being depreciated	39,765,938	82,828		(39,758,096)	90,670
Capital assets, being depreciated:					
Structures and improvements	600,442			40,012,448	40,612,890
Equipment	2,112,271	8,139	\$ (2,567)		2,117,843
Total capital assets being depreciated	2,712,713	8,139	(2,567)	40,012,448	42,730,733
Less: accumulated depreciation:					
Structures and improvements	(180,845)	(420,139)			(600,984)
Equipment	(1,749,832)	(154,478)	2,567		(1,901,743)
Total accumulated depreciation	(1,930,677)	(574,617)	2,567		(2,502,727)
Total capital assets being depreciated, net	782,036	(566,478)		40,012,448	40,228,006
CAPITAL ASSETS, NET	\$ 40,547,974	\$ (483,650)	\$ -	\$ 254,352	\$ 40,318,676

Depreciation expense of \$22,068 and \$524,556 was charged to Flood Protection and Water Delivery, respectively, for the fiscal year ended June 30, 2019. Depreciation expense of \$20,929 and \$553,688 was charged to Flood Protection and Water Delivery, respectively, for the fiscal year ended June 30, 2018.

As mentioned in Note G, there was a reallocation of prior year costs of \$254,352 to the District's share of the Intake Project from Woodland Davis Clean Water Agency during the year ended June 30, 2018.

NOTE D – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended June 30, 2019 and 2018:

	July 1, 2018	Additions	Reductions	June 30, 2019	Due Within One Year
Lease payable	\$ 31,824		\$ (27,828)	\$ 3,996	\$ 3,996
Compensated absences	5,266		(5,266)		
Total Long-Term Liabilities	\$ 37,090	\$ -	\$ (33,094)	\$ 3,996	\$ 3,996



# RECLAMATION DISTRICT 2035

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

### NOTE D – LONG-TERM LIABILITIES (Continued)

	Restated July 1, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
Lease payable	\$ 51,008		\$ (19,184)	\$ 31,824	\$ 27,828
Compensated absences	2,846	\$ 2,420		5,266	5,266
Total Long-Term Liabilities	<u>\$ 53,854</u>	<u>\$ 2,420</u>	<u>\$ (19,184)</u>	<u>\$ 37,090</u>	<u>\$ 33,094</u>

The District leased equipment under a capital lease which has monthly payments of \$2,026.36 through August 30, 2019, including interest at 2.90%. Capital assets acquired under the capital lease consist of a backhoe with a cost of \$113,018 and accumulated depreciation of \$78,036 and \$61,891 at June 30, 2019 and 2018, respectively.

As of June 30, 2019, future minimum lease payments under the capital lease obligation are as follows:

Fiscal Year Ending June 30:	
2020	\$ 4,010
Total payments	4,010
Less: amounts representing interest	(14)
Net present value of future minimum lease payments	<u>\$ 3,996</u>

### NOTE E – LINE OF CREDIT AND GRANT ANTICIPATION NOTE

In August 2017, the District entered into a revolving line of credit agreement with Rabobank, NA in the maximum amount of \$1,000,000. This agreement was entered into as part of a short-term financing program for cash flow purposes related to the Levee Road – Repair Project. Interest to be paid on the line is at a variable rate of LIBOR plus 3%. The line is payable from the proceeds of anticipated federal and state grants. The principal and all outstanding balances are due no later than December 31, 2019. The District drew down \$571,848 of this amount in July 2019. The outstanding principal balance along with interest of \$3,031 was repaid in August 2019. In conjunction with this line of credit agreement, the District entered into an agreement with Rabobank whereby the District will sell to the Bank a Grant Anticipation Note equal to the lesser of \$1,000,000 or 95% of the amount funded under the line of credit. The maturity date of this note was July 19, 2019 and the note bears interest at LIBOR plus 3%.

### NOTE F – NET POSITION

**Designations:** Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. There were no designations as of June 30, 2019 and June 30, 2018.

## RECLAMATION DISTRICT 2035

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

#### NOTE G – INTAKE FACILITY AND RELATED FUNDING

The District has undertaken the construction of a joint intake facility on the Sacramento River to provide water to both the District and to Woodland Davis Clean Water Agency (the Agency). The project consisted of common facilities as well as separate facilities dedicated to the District and the Agency for transporting water to their respective service areas. The project was funded with grants from the US Bureau of Reclamation, California Department of Water Resources, Wildlife Conservation Board, the Proposition 1 Grant program and Woodland Davis Clean Water Agency. The District and Agency each retain ownership of their respective separate facilities. The common facilities are owned approximately 80% by the District and 20% by the Agency. Accordingly, the District has recorded the cost of the facilities it retains ownership of as structures as of June 30, 2019 and 2018.

During the year ended June 30, 2017, \$254,352 of costs were allocated to the Agency due to uncertainty of the District finding additional funding sources. Subsequently, the District was able to secure funding and the \$254,352 in costs were allocated back to the District during the year ended June 30, 2018. The allocation of prior year costs is shown as a credit balance in contribution to other agencies in the financial statements.

The costs associated with the Agency's share of the facility incurred during the years ended June 30, 2019 and 2018 are reflected in the financial statements as contributions to/from other agencies, which included an expense of \$15,457 and a credit of \$254,342, respectively. The Agency advanced funds for the project prior to the receipt of federal and state grant funds. The amount of advances owed to the Agency in excess of its share of the project costs as of June 30, 2019 and 2018 totaled \$240,307 and \$472,674, respectively, which is reported in the financial statements as due to other governments. Federal and state grant revenues earned on the project during the year ended June 30, 2018 totaled \$82,828, of which \$68,344 was receivable as of June 30, 2018, respectively.

#### NOTE H – PENSION PLANS

The District's employees are covered under defined contribution retirement plans that cover all eligible full-time employees of the District with at least six months of credited service. The nature of a defined contribution retirement plan is not to guarantee a specific retirement benefit, but to define an annual contribution to the plan for each employee. All contributions to the plan vest immediately. Total District contributions to the plan during the years ended June 30, 2019 and 2018 were \$4,832 and \$6,757, respectively.

The District pays into its own plan as well as the Conaway plan for employees of Conaway Preservation Group that perform services for the District. Employees under the Conaway plan are eligible after six months of service and matching contributions are made of 200% on the first 5% contributed by the employee up to a maximum of 10%. Employees under the District's plan are eligible after twelve months of service and have worked 1,000 hours and matching contributions are made of 100% of the first 10% contributed by the employee up to a maximum of 10%.

## RECLAMATION DISTRICT 2035

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

#### NOTE I – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for risk of loss relating to property, automobile, commercial umbrella and public officials; liability exposures. The coverage limits are \$3,000,000 aggregate and \$1,000,000 per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### NOTE J – COMMITMENTS AND CONTINGENCIES

The District has a long-term obligation to the United States Department of Energy, Western Area Power Administration, for .11254% of the output of the Central Valley Project, California. This contract, also known as the Western Base Resource, obligates the District to make payments on a “take-or-pay” basis through December 31, 2024.

The District has participated in federal and state assisted grant and cooperative agreement programs. These programs are subject to program compliance audits by the grantors. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a party to claims and legal proceedings arising in the ordinary course of business. After taking into consideration information furnished by legal counsel to the District as to the current status of various claims and proceedings to which the District is a party, management is of the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on the financial position or results of operations of the District.

#### NOTE K – RELATED PARTY TRANSACTIONS

The District's management also works for one of the District's customers, Conaway Preservation Group (CPG). The District recognized \$479,460 and \$309,120 of revenue from CPG during the years ended June 30, 2019 and 2018, respectively, representing 21.1% and 18.6% of the District's revenue excluding capital grants. Amounts receivable at June 30, 2019 and 2018 total \$61,865 and \$60,708, respectively. Payments to CPG for services totaled \$272,277 and \$122,014 during the years ended June 30, 2019 and 2018, respectively. Amounts payable to CPG as of June 30, 2019 and 2018 total \$78,248 and \$60,986, respectively.

#### NOTE L – SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition and operations is uncertain. The possible effects include a reduction in the District's water delivery charges and special assessments if landowners are unable to pay the assessed amounts, which are the District's largest revenue sources.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Reclamation District No. 2035  
Woodland, California

We have audited, in accordance with the 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, the financial statements of the Reclamation District No. 2035 (the District) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's 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 District'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 purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

\_\_\_\_\_, 2019



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## MANAGEMENT LETTER

To the Board of Trustees  
Reclamation District 2035  
Woodland, California

In planning and performing our audit of the financial statements of the Reclamation District 2035 (the District) as of and for the year ended June 30, 2019, 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 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 the District's 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 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. 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.

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

### Defacing Invoices

We noted invoices received by email are not being consistently stamped when received. We recommend that all invoices be stamped with the received date when they arrive to avoid duplicate payment.

### Review of Investment Policy

To comply with the Government Code and the District's policy manual, we recommend that the Board of Trustees review and approve the District's Investment Policy annually.

### Revenue and Receivables

We recommend that the subsidiary listings of revenue and receivables be established within the accounting system and reconciled to the general ledger at the end of the fiscal year.

\* \* \* \* \*

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the examination. This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

\_\_\_\_\_, 2020

**DRAFT**



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## GOVERNANCE LETTER

To the Board of Trustees  
Reclamation District 2035  
Woodland, California

We have audited the financial statements of the Reclamation District 2035 (the District) for the year ended June 30, 2019, and have issued our report thereon dated \_\_\_\_\_, 2020. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*

As stated in our engagement letter dated June 29, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no material weaknesses in internal control as a result of our audit.



We performed the audit according to the planned scope previously communicated to you in our engagement letter dated June 29, 2017.

#### 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 A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transaction entered into by the District during the year 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.

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 estimates affecting the financial statements were: depreciable lives and method used to depreciate capital assets. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the following:

- Note G of the financial statements discusses the joint intake facility on the Sacramento River to provide water to both the District and to Woodland Davis Clean Water Agency. The amounts reflected in the financial statements as structures represent only the District's share of the joint facility and its separate facilities. Although the District is accounting for the costs of the entire project, the Agency's share of the joint facility and its separate facility is reflected as expenses in the District's financial statements. The Agency provided advances to the District to pay for project costs until reimbursement could be billed and received from the US Bureau of Reclamation and the State. The amount of these advance payments that are owed to the Agency as of June 30, 2019 totaled \$240,307, which is reflected as a liability in the financial statements.
- Transactions with related parties are discussed in Note K of the financial statements, representing transactions and amounts outstanding with Conaway Preservation Group.

The financial statement disclosures are neutral, consistent, and clear.

#### 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, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Adjustments made during the audit process totaled seven and included the following. In addition to these entries, there were nine closing entries provided by the District during the audit process.

- True-up lease payable and record current portion of lease payable.
- True-up net investment in capital assets.
- Record current year intake project activity

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated \_\_\_\_\_, 2020.

#### 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 application of an accounting principle to the District'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.

#### Other Items

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.

This information is intended solely for the use of the Board of Trustees and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

\_\_\_\_\_, 2020