

**RECLAMATION DISTRICT NO. 2035**

**AUDITED FINANCIAL STATEMENTS**

June 30, 2017

RECLAMATION DISTRICT NO. 2035

AUDITED FINANCIAL STATEMENTS

June 30, 2017

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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 statement of net position as of June 30, 2017, and the related statements of revenues, expenses, changes in net position, and cash flows for the year 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 audit. We conducted our audit 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.

To the Board of Directors  
Reclamation District No. 2035

## **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, 2017 and the results of its operations and cash flows for the year 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**

### *Correction of Errors*

As discussed in Note L, correction of errors and the recording of the intake project were made during the current year. Accordingly, adjustments have been made to net position as of July 1, 2016 to correct these errors.

### *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 February 9, 2018, 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.

*Richardson & Company, LLP*

February 9, 2018

RECLAMATION DISTRICT NO. 2035

STATEMENT OF NET POSITION

June 30, 2017

ASSETS

CURRENT ASSETS

|                        |                  |
|------------------------|------------------|
| Cash and equivalents   | \$ 543,777       |
| Accounts receivable    | 151,509          |
| Assessments receivable | 467,720          |
| Grants receivable      | 4,926,986        |
| Prepaid expenses       | 29,968           |
| TOTAL CURRENT ASSETS   | <u>6,119,960</u> |

CAPITAL ASSETS

|                           |                   |
|---------------------------|-------------------|
| Not being depreciated     | 39,765,938        |
| Being depreciated         | 782,036           |
| TOTAL CAPITAL ASSETS, NET | <u>40,547,974</u> |

TOTAL ASSETS 46,667,934

LIABILITIES

CURRENT LIABILITIES

|  |                  |
|--|------------------|
| Accounts payable and other liabilities | 1,316,017        |
| Due to other governments               | 4,658,562        |
| Accrued compensated absences           | 2,846            |
| Current portion of lease payable       | 23,183           |
| TOTAL CURRENT LIABILITIES              | <u>6,000,608</u> |

LONG-TERM LIABILITIES

|                             |               |
|-----------------------------|---------------|
| Lease payable               | 27,825        |
| TOTAL LONG-TERM LIABILITIES | <u>27,825</u> |

TOTAL LIABILITIES 6,028,433

NET POSITION

|                                  |            |
|----------------------------------|------------|
| Net investment in capital assets | 40,496,966 |
| Unrestricted                     | 142,535    |

TOTAL NET POSITION \$ 40,639,501

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

RECLAMATION DISTRICT NO. 2035

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

For the year ended June 30, 2017

|   |                      |
|---|----------------------|
| OPERATING REVENUES                                      |                      |
| Water delivery charges                                  | \$ 933,195           |
| Other charges   | 156,202              |
| TOTAL OPERATING REVENUES                                | <u>1,089,397</u>     |
| OPERATING EXPENSES                                      |                      |
| Water delivery  |                      |
| Personnel expenses                                      | 89,372               |
| Professional services expense                           | 128,495              |
| Maintenance expense                                     | 204,419              |
| Utilities expense                                       | 396,231              |
| Depreciation  | 194,337              |
| Other expense   | 102,443              |
| Total Water Delivery Expenses                           | <u>1,115,297</u>     |
| Flood protection  |                      |
| Personnel expenses                                      | 89,344               |
| Professional services expense                           | 275,086              |
| Maintenance expense                                     | 203,190              |
| Utilities expense                                       | 23,923               |
| Depreciation  | 15,811               |
| Other expense   | 35,971               |
| Total Flood Protection Expenses                         | <u>643,325</u>       |
| TOTAL OPERATING EXPENSES                                | <u>1,758,622</u>     |
| NET LOSS FROM OPERATIONS                                | (669,225)            |
| NON-OPERATING REVENUE (EXPENSES)                        |                      |
| Special assessments                                     | 323,532              |
| Federal and state grants                                | 187,717              |
| Investment income                                       | 11,104               |
| Other non-operating revenue                             | 141,327              |
| Contributions to other agencies                         | (5,046,950)          |
| Loss on disposal of capital assets                      | (22,253)             |
| Interest expense  | (1,833)              |
| TOTAL NON-OPERATING REVENUES (EXPENSES)                 | <u>(4,407,356)</u>   |
| INCOME BEFORE CAPITAL CONTRIBUTIONS                     | (5,076,581)          |
| CAPITAL REVENUES  |                      |
| Capital grants  | <u>10,203,839</u>    |
| CHANGE IN NET POSITION                                  | 5,127,258            |
| Net position, beginning of year, as previously reported | 48,845,006           |
| Restatement   | (13,332,763)         |
| Net position, end of year, as restated                  | <u>35,512,243</u>    |
| NET POSITION AT END OF YEAR                             | <u>\$ 40,639,501</u> |

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

RECLAMATION DISTRICT NO. 2035

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

|  |                          |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES                         |                          |
| Cash received from customers                                 | \$ 1,045,702             |
| Cash paid to suppliers for goods and services                | (2,020,459)              |
| Cash paid to employees for services                          | (130,822)                |
| NET CASH USED BY OPERATING ACTIVITIES                        | <u>(1,105,579)</u>       |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES              |                          |
| Other nonoperating (expense) revenue                         | 141,327                  |
| NET CASH PROVIDED BY<br>NONCAPITAL FINANCING ACTIVITIES      | <u>141,327</u>           |
| CASH FLOWS FROM CAPITAL AND RELATED<br>FINANCING ACTIVITIES  |                          |
| Amounts paid for capital assets                              | (5,051,711)              |
| Capital grants received                                      | 9,156,436                |
| Amounts paid to other agencies                               | (4,968,746)              |
| Principal payments on lease                                  | (22,483)                 |
| Interest payments on lease                                   | (1,833)                  |
| NET CASH USED BY CAPITAL AND<br>RELATED FINANCING ACTIVITIES | <u>(888,337)</u>         |
| CASH FLOWS FROM INVESTING ACTIVITIES                         |                          |
| Investment income  | 11,104                   |
| NET CASH PROVIDED BY INVESTING ACTIVITIES                    | <u>11,104</u>            |
| DECREASE IN CASH   | (1,841,485)              |
| Cash and cash equivalents at beginning of year               | <u>2,385,262</u>         |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                     | <u><u>\$ 543,777</u></u> |

(Continued)

RECLAMATION DISTRICT NO. 2035

STATEMENT OF CASH FLOWS (Continued)

For the year ended June 30, 2017

RECONCILIATION OF NET LOSS FROM OPERATIONS  
TO NET CASH USED BY OPERATING ACTIVITIES:

|  |              |
|--|--------------|
| Net loss from operations   | \$ (669,225) |
| Special assessments  | 323,532      |
| Adjustments to reconcile net income from operations<br>to net cash provided by operating activities: |              |
| Depreciation and amortization  | 210,148      |
| Changes in operating assets and liabilities:   |              |
| Accounts receivables   | (7,815)      |
| Assessments receivables  | (245,908)    |
| Prepaid expenses   | (5,288)      |
| Accounts payable and other liabilities   | (597,971)    |
| Unearned revenue   | (113,504)    |
| Accrued compensated absences   | 452          |

NET CASH USED BY OPERATING ACTIVITIES \$ (1,105,579)

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

RECLAMATION DISTRICT NO. 2035

STATEMENT OF NET POSITION  
FIDUCIARY FUNDS

For the year ended June 30, 2017

ASSETS

|                      |                         |
|----------------------|-------------------------|
| Cash and equivalents | <u>\$ 36,355</u>        |
| TOTAL ASSETS         | <u><u>\$ 36,355</u></u> |

LIABILITIES

|                              |                         |
|------------------------------|-------------------------|
| Accounts payable             | \$ 21,355               |
| Agency funds held for others | <u>15,000</u>           |
| TOTAL LIABILITIES            | <u><u>\$ 36,355</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, 2017

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, 2017

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, 2017.

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.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

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

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.

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 November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's), which is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The timing and pattern of recognition of the liability and corresponding deferred outflow of resources recorded is defined in this Statement. This Statement is effective for periods beginning after June 15, 2018.

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, 2018.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurements and application, pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2017.

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

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE B – CASH AND INVESTMENTS

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

|                                  |                   |
|----------------------------------|-------------------|
| Primary Government               |                   |
| Cash and investments             |                   |
| Cash with County pooled treasury | \$ 543,777        |
| Agency Fund                      |                   |
| Cash with County pooled treasury | <u>36,355</u>     |
| Total cash and investments       | <u>\$ 580,132</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.

| <u>Authorized Investment Type</u>   | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| 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.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE B – CASH AND INVESTMENTS (Continued)

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. The District's investment in the County pool has an average maturity of 335 days as of June 30, 2017.

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.

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).

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

|  | Restated<br>Balance at<br>July 1, 2016 | Additions           | Write-offs/<br>Disposals | Balance at<br>June 30, 2017 |
|--|--|---------------------|--------------------------|-----------------------------|
| Capital assets, not being depreciated:         |  |                     |                          |                             |
| Land   | \$ 90,670                              |                     |                          | \$ 90,670                   |
| Construction in progress                       | 34,518,379                             | \$ 5,156,889        |                          | 39,675,268                  |
| Total capital assets,<br>not being depreciated | <u>34,609,049</u>                      | <u>5,156,889</u>    |                          | <u>39,765,938</u>           |
| Capital assets, being depreciated:             |  |                     |                          |                             |
| Structures and improvements                    | 574,936                                | 59,069              | \$ (33,563)              | 600,442                     |
| Equipment                                      | 2,123,100                              | 34,904              | (45,733)                 | 2,112,271                   |
| Total capital assets<br>being depreciated      | <u>2,698,036</u>                       | <u>93,973</u>       | <u>(79,296)</u>          | <u>2,712,713</u>            |
| Less: accumulated depreciation:                |  |                     |                          |                             |
| Structures and improvements                    | (172,702)                              | (19,453)            | 11,310                   | (180,845)                   |
| Equipment                                      | (1,604,870)                            | (190,695)           | 45,733                   | (1,749,832)                 |
| Total accumulated depreciation                 | <u>(1,777,572)</u>                     | <u>(210,148)</u>    | <u>57,043</u>            | <u>(1,930,677)</u>          |
| Total capital assets<br>being depreciated, net | <u>920,464</u>                         | <u>(116,175)</u>    | <u>(22,253)</u>          | <u>782,036</u>              |
| CAPITAL ASSETS, NET                            | <u>\$ 35,529,513</u>                   | <u>\$ 5,040,714</u> | <u>\$ (22,253)</u>       | <u>\$ 40,547,974</u>        |

Depreciation expense of \$15,811 and \$194,337 was charged to Flood Protection and Water Delivery, respectively, for the fiscal year ended June 30, 2017.

NOTE D – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

|                             | Restated<br>July 1, 2016 | Additions     | Reductions         | June 30, 2017    | Due Within<br>One Year |
|-----------------------------|--------------------------|---------------|--------------------|------------------|------------------------|
| Lease payable               | \$ 73,491                |               | \$ (22,483)        | \$ 51,008        | \$ 23,183              |
| Compensated absences        | 2,394                    | \$ 452        |                    | 2,846            | 2,846                  |
| Total Long-Term Liabilities | <u>\$ 75,885</u>         | <u>\$ 452</u> | <u>\$ (22,483)</u> | <u>\$ 53,854</u> | <u>\$ 26,029</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 \$45,745 at June 30, 2017.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE D – LONG-TERM LIABILITIES

As of June 30, 2017, future minimum lease payments under the capital lease obligation are as follows:

|  |                  |
|--|------------------|
| Fiscal Year Ending June 30:                        |                  |
| 2018   | \$ 24,316        |
| 2019   | 24,316           |
| 2020   | <u>4,010</u>     |
| Total payments                                     | 52,642           |
| Less: amounts representing interest                | <u>(1,634)</u>   |
| Net present value of future minimum lease payments | <u>\$ 51,008</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. No amounts have been drawn on this line. 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 is 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. Designations included the following as of June 30, 2017:

|                               |                   |
|-------------------------------|-------------------|
| Sinking Fund                  | \$ 394,200        |
| Operating Reserve             | <u>250,000</u>    |
| Total Designated Net Position | <u>\$ 644,200</u> |

The designations are for the following:

The Sinking Fund represents amounts set aside for maintenance of the intake pump.

The Operating Reserve represents amounts set aside for future unexpected expenditures.

The District does not have sufficient unrestricted net position to support this level of designations.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

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 construction in process. The costs associated with the Agency's share of the facility incurred during the year ended June 30, 2017 are reflected in the financial statements as contributions to other agencies, which totaled \$5,046,950. 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, 2017 totaled \$4,658,562, 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, 2017 totaled \$10,203,839, of which \$4,935,204 was receivable as of June 30, 2017.

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 year ended June 30, 2017 were \$4,562.

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%.

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.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

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 \$367,905 of revenue from CPG during the year ended June 30, 2017, representing 21% of the District's revenue excluding capital grants. Amounts receivable at June 30, 2017 total \$457,653. Payments to CPG for services totaled \$106,491 during the year ended June 30, 2017. Amounts payable to CPG as of June 30, 2017 total \$589,678.

RECLAMATION DISTRICT 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE L – RESTATEMENTS

During the June 30, 2017 audit, certain items were discovered that warrant adjustments as of June 30, 2016. In addition, the General Fund was included as part of the Water Delivery Enterprise Fund in the June 30, 2017 financial statements instead of being reported as a separate fund. As a result of these prior period adjustments, the net position and fund balance reported on the statement of activities and statement of revenues and expenditures as of July 1, 2016 have been restated as follows:

|   | Governmental<br>Activities | Business-type<br>Activities/<br>Enterprise<br>Fund | General<br>Fund   |
|---|----------------------------|--|-------------------|
|   | <u>          </u>          | <u>          </u>                                  | <u>          </u> |
| Net position and fund balance as of July 1, 2016,<br>as previously reported   | \$ (45,670)                | \$ 48,845,006                                      | \$ (148,088)      |
| Restatements:   |                            |  |                   |
| Combine General Fund into Enterprise Fund   | 45,670                     | (45,670)   | 148,088           |
| Adjustments to fiscal year 2015/16 assessments  |                            | (94,945)   |                   |
| Adjustment for prepaid insurance  |                            | 24,680   |                   |
| Adjustment for fiscal year 2015/16 power<br>reimbursement revenue   |                            | 43,617   |                   |
| Record land contributed in a prior year for<br>intake facility  |                            | 90,670   |                   |
| Record capital lease and related asset entered<br>into in 2014  |                            | 9,927  |                   |
| Adjustments to intake and related grant, including<br>advance payments made by Woodland-Davis<br>Clean Water Agency and removing their share<br>of the intake from capital assets |                            | (13,361,042)                                       |                   |
| Total Restatements  | <u>45,670</u>              | <u>(13,332,763)</u>                                | <u>148,088</u>    |
| Net position as fund balance as of<br>July 1, 2016, as restated   | <u>\$ -</u>                | <u>\$ 35,512,243</u>                               | <u>\$ -</u>       |



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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 year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 9, 2018.

**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.

To the Finance Committee  
Reclamation District 2035

### **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.

*Richardson & Company, LLP*

February 9, 2018