



550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

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, 2017, and have issued our report thereon dated February 9, 2018. 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, after adjustments were made during the audit.

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 construction in process 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, 2017 totaled \$4,658,562, which is reflected as a liability in the financial statements. Federal and state grant revenues not yet collected as of June 30, 2017 totaled \$4,935,204.
- As discussed in Note L of the financial statements, during the June 30, 2017 audit, certain items were discovered that warrant adjustments as of June 30, 2016. In addition, the special assessment revenue and flood protection expenses that were reflected as the General Fund were combined within the District's water delivery enterprise fund and reported as one 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. These restatement consisted of recording certain revenue and expenses in the proper period, recording the contributed land that occurred several years ago, recording the capital lease entered into in 2014 and removing Woodland Davis Clean Water Agency's share of the intake facility from the District's construction in progress and reflected advances received from the Agency as a liability.
- 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. There were no uncorrected misstatements of the financial statements. We noted seventeen adjustments during our audit, which management has corrected, as follows:

- Accrue fiscal year 2016/17 expenses paid after year-end in the proper period.
- Remove assets determined to no longer be on hand during the inventory.
- Remove 2nd installment of 2017 water sales from accounts receivable and deferred revenue.
- Accrue FEMA grant revenue earned as of June 30, 2017 but not yet received.
- Record gross amount of revenue and expenses related to flood repairs and related grant revenue.
- Corrections to the recording of intake facility expenditures and reimbursements.
- Record the net investment in capital assets.
- Record prepaid insurance as of June 30, 2017.
- Correct prepaid insurance that should have been recorded as of June 30, 2016.
- Corrections to tenant accounts receivable and refunds payable as of June 30, 2017.
- Accrue power reimbursement for June service.
- Reclassify power reimbursements as revenue.
- Correct for June 2016 power revenue that should have been recorded as of June 30, 2016.

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 February 9, 2018.

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.

Richardson & Company, LLP

February 9, 2018