

RECLAMATION DISTRICT 900, CALIFORNIA

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

WITH INDEPENDENT AUDITORS' REPORTS THEREON

Years Ended June 30, 2017 and 2016

RECLAMATION DISTRICT 900, CALIFORNIA

P.O. Box 673

West Sacramento, California 95691

Tel: (916) 371-1483

June 30, 2017 and 2016

BOARD OF TRUSTEES

Elected Officials

Trustees

W.E. Denton, President

P. Palamidessi, Vice-president

D. Ramos, Trustee

P. Hinkel, Trustee

B. Turner, Trustee

DISTRICT MANAGEMENT

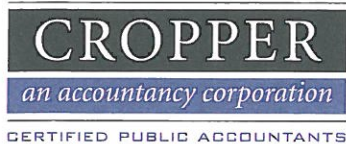
K. Jamesen, District Manager

RECLAMATION DISTRICT 900, CALIFORNIA

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June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Reclamation District 900, California
West Sacramento, California

We have audited the accompanying financial statements of the governmental activities of Reclamation District 900, California, (the District) as of June 30, 2017 and 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions 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 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 from 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 auditors' 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Reclamation District 900, California as of June 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed for special districts by the Office of the California State Controller.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2017, 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.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION
WALNUT CREEK, CALIFORNIA
August 8, 2018

BASIC FINANCIAL STATEMENTS

RECLAMATION DISTRICT 900, CALIFORNIA

Statements of Net Position

June 30, 2017 and 2016

	Governmental Activities	
	2017	2016
ASSETS		
ASSETS:		
Cash and cash equivalents	\$ 3,228,076	\$ 1,890,696
Assessments receivable	41,933	-
Other accounts receivable	260,962	259,230
Grant reimbursement receivable	88,569	-
Interest receivable	-	5,094
Prepaid expenses	10,256	13,524
Capital assets, net	12,184,916	12,330,411
TOTAL ASSETS	\$ 15,814,712	\$ 14,498,955
LIABILITIES AND NET POSITION		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 35,642	\$ 4,926
Compensated absences payable	39,273	28,644
Net OPEB obligation	82,087	48,270
Total liabilities	157,002	81,840
NET POSITION:		
Invested in capital assets, net of \$-0- related debt	12,184,916	12,330,411
Unrestricted	3,472,794	2,086,704
Total net position	15,657,710	14,417,115
TOTAL LIABILITIES AND NET POSITION	\$ 15,814,712	\$ 14,498,955

See independent auditors' report and notes to these financial statements

RECLAMATION DISTRICT 900, CALIFORNIA

Balance Sheets - Governmental Fund

June 30, 2017 and 2016

	Governmental Fund	
	<u>2017</u>	<u>2016</u>
ASSETS		
ASSETS:		
Cash and cash equivalents	\$ 3,228,076	\$ 1,890,696
Accounts receivable	253,962	259,230
Interest receivable	-	5,094
Prepaid expenses	<u>10,256</u>	<u>13,524</u>
 TOTAL ASSETS	 <u>\$ 3,492,294</u>	 <u>\$ 2,168,544</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES -		
Accounts payable and accrued expenses	<u>\$ 35,642</u>	<u>\$ 4,926</u>
 FUND BALANCES:		
Nonspendable	10,256	13,524
Committed	135,419	133,542
Unassigned	<u>3,310,977</u>	<u>2,016,552</u>
Total fund balances	<u>3,456,652</u>	<u>2,163,618</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 3,492,294</u>	 <u>\$ 2,168,544</u>

See independent auditors' report and notes to these financial statements

RECLAMATION DISTRICT 900, CALIFORNIA
 Reconciliation of the Balance Sheets of
 Governmental Fund to the Statements of Net Position - Government-wide
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
TOTAL GOVERNMENTAL FUND BALANCES	\$ 3,456,652	\$ 2,163,618
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES BUT NOT INCLUDED IN THE GOVERNMENTAL FUND:		
Nonfinancial resources -		
Capital assets, net of accumulated depreciation	12,184,916	12,330,411
Grants receivable not collected within 90 days after year end	88,569	-
Other receivables not collected within 90 days after year end	48,933	
The net OPEB obligation is not due and payable in the current period and , therefore, not reported as a liability in the governmental fund	(82,087)	(48,270)
Long-term liabilities, consisting of compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds	<u>(39,273)</u>	<u>(28,644)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 15,657,710</u>	<u>\$ 14,417,115</u>

See independent auditors' report and notes to these financial statements

RECLAMATION DISTRICT 900, CALIFORNIA
 Statements of Revenues, Expenditures, and Changes
 in Fund Balance - Governmental Fund
 Years Ended June 30, 2017 and 2016

	Governmental Fund	
	<u>2017</u>	<u>2016</u>
REVENUES:		
Assessments	\$ 2,227,791	\$ 591,058
Interest	18,782	16,933
Maintenance fee from WSAFCA	642,386	632,126
Reimbursements and other	<u>68,615</u>	<u>78,669</u>
Total revenues	<u>2,957,574</u>	<u>1,318,786</u>
EXPENDITURES:		
Flood Protection:		
Operations	840,648	440,499
Administration	634,419	730,864
Capital outlay and maintenance	<u>189,473</u>	<u>355,663</u>
Total expenditures	<u>1,664,540</u>	<u>1,527,026</u>
 CHANGE IN FUND BALANCES	 1,293,034	 (208,240)
 FUND BALANCES, BEGINNING OF YEAR	 <u>2,163,618</u>	 <u>2,371,858</u>
 FUND BALANCES, END OF YEAR	 <u>\$ 3,456,652</u>	 <u>\$ 2,163,618</u>

See independent auditors' report and notes to these financial statements

RECLAMATION DISTRICT 900, CALIFORNIA
 Reconciliation of Statements of Revenues, Expenditures, and Changes in Fund Balances
 to the Statements of Activities
 Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	\$ 1,293,034	\$ (208,240)
AMOUNTS REPORTED IN GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION IS DIFFERENT BECAUSE:		
Governmental fund report capital outlay as expenditures.		
However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense:		
Additions to capital assets, net of reclassification of deposit on capital projects	216,741	206,206
Current year depreciation expense	(362,236)	(353,787)
The difference between the actuarially derived annual required OPEB cost and the retiree healthcare benefit paid during the year is not an expense of the governmental fund		
	(33,817)	(24,542)
Receivables not received within 90 days subsequent to fiscal year end are not considered financial resources or revenues to the fund		
	137,502	-
Change in the liability for compensated absences is not recorded as expenditures in the governmental funds because they are not expected to be liquidated with current financial resources.		
	(10,629)	1,900
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 1,240,595	\$ (378,463)

See independent auditors' report and notes to these financial statements

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. DESCRIPTION OF THE DISTRICT AND SIGNIFICANT ACCOUNTING POLICIES

The District

Reclamation District 900, California (the “District”) was created by Act of the Legislature in the Statutes of 1911. The District is situated in Yolo County. The District operates under the laws of the Water Code of the State of California, Division 15, Sections 50000 through 53900. The District is governed by a Board of Trustees consisting of five land owners within the District.

Reporting Entity

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service and a special financing relationship.

The District has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District’s financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

Basis of Presentation

The accounting policies of the District conform to generally accepted accounting principles, as applicable to governmental units. As required by GASB Statement No. 34, the basic financial statements of the District are comprised of the following:

- Government-wide financial statements
- Government fund financial statements
- Notes to the basic financial statements

Government-wide financial statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government.

The government-wide statements are prepared using the economic resources measurement focus. Such is the same approach used in the preparation of the fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function.

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Fund financial statements – Fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include a Balance Sheet, which generally includes only current assets and current liabilities, and a Statement of Revenues, Expenditures, and Changes in Fund Balance, which reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. Currently, the District has only one governmental fund, the general fund.

As the District does not operate on a fee-for-service basis, but rather from property assessments, the accompanying financial statements are presented as a governmental fund basis, rather than on a proprietary fund basis.

The General Fund is the general operating and maintenance fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The District has adopted a fund balance policy in accordance with GASB 54 requirements. The following fund balance classifications were adopted:

- **Nonspendable Fund Balance** – for funds that cannot be spent due to their form or funds that legally or contractually must be maintained intact. Prepaid expenses are reflected as nonspendable fund balances in the accompanying financial statements.
- **Restricted Fund Balance** – for funds that are mandated for specific purposes by external parties, constitutional provisions, or enabling legislation. There are no restricted funds as of June 30, 2017 and 2016.
- **Committed Fund Balance** – for funds set aside for specific purposes by the District's highest level of decision-making authority (Board of Trustees) pursuant to formal action taken, such as a majority vote or resolution. These committed funds cannot be used for any other purpose unless the Board of Trustees removes or changes the specific use through the same type of formal action taken to establish the commitment. Board of Trustee action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined with the release of the financial statements. The Board of Trustees has committed \$135,419 in funds to cover future OPEB costs as of June 30, 2016 and has set aside such funds in a separate account in the County Treasury.

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

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- **Assigned Fund Balance** – for funds constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. As of June 30, 2017 and 2016, the Board of Trustees has not assigned any funds.
 - **Unassigned Fund Balance** – The residual positive net resources of the general fund in excess of what can properly be classified in one of the above four categories.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Governmental Fund Net Assets. The Statement of Revenues, Expenditures, and Changes in Fund Net Assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net assets. The Statement of Cash Flows of a proprietary fund provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 and all Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for its proprietary operations.

The District has no proprietary funds as of June 30, 2017 and 2016.

Basis of Accounting

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government fund financial statements use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions are those in which the District receives value without directly giving equal value in return, such as property taxes. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. On governmental fund financial statements,

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

receivables associated with non-exchange transactions that will not be collected within the availability period have been offset with deferred revenue.

Expenses/Expenditures – Under the accrual basis of accounting, expenses are recognized at the time they are incurred. However, the measurement focus of governmental fund accounting is on decreases in the net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements. In addition, in governmental fund statements, additions to fixed assets are charged to expense in the year of acquisition instead of capitalized as fixed assets and depreciated over their estimated useful lives.

Fund Accounting

The accounts of the District are organized on the basis of a general fund, which is considered to be a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's currently has only one governmental fund, the general fund.

Assessments and Subsequent Event

The District calls for an annual assessment for revenue to continue its reclamation functions based on an assessment valuation of the District. An assessment was levied for \$.020 on each \$100 of the Reclamation District 900 assessment valuation roll. Yolo County bills and collects the assessments and credits the general fund account maintained by the County Treasurer, for 50% in December, 45% in April, and 5% in June. Subsequent to June 30, 2016, an election was held and assessments were increased effective July 1, 2016 to \$372.64 per equivalent benefit. The election also gave the board discretionary authority to increase such rate by a small percentage each year, if deemed necessary.

Budgets and Budgetary Accounting

State law does not require the District's governing board to adopt a budget. The District's governing board adopts a budget each year, which is used as a management tool.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District had no deferred outflows of resources to report in the fiscal years ended June 30, 2017 and 2016.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

resources, represents an acquisition of net position that applies to future period(s) and, accordingly, will not be recognized as an inflow of resources (revenue) until such time. The District had no deferred inflows of resources to report in the fiscal years ended June 30, 2017 and 2016.

Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Capital Assets

Capital assets, which include a pump station and various types of equipment, are recorded as assets in the government-wide financial statements. For the fund financial statements, capital outlays are recorded as expenditures of the general fund. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation and recorded as capital contributions in the accompanying financial government-wide financial statements.

The District's capitalization thresholds are \$2,500 for office equipment, \$5,000 for field equipment, \$50,000 for pumps and improvements, and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase the values, change capacities, or extend the useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Asset Class	Years
Machinery and equipment	7
Vehicles	8
Generators	20
Pump Stations	50

Compensated Absences

Accumulated unpaid employee vacation benefits as well as 25% of untaken sick leave benefits are recognized as a liability of the District on the government-wide financial statements. The General Fund generally liquidates compensated absences. The balance at June 30, 2017 and 2016 was \$39,273 and \$28,644, respectively.

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

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform to 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through August 9, 2018, the date upon which the financial statements were available to be issued. Based on such evaluation, no additional adjustments to or disclosures in the financial statements were deemed necessary other than those described in Note 9.

New Accounting Pronouncements

In June of 2015, GASB issued GASBS No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, the following information also is required to be disclosed:

- Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability.
- Significant assumptions and other inputs used to measure the total OPEB liability and information about the sensitivity of the measure of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

All defined benefit OPEB plans are required to present in required supplementary information a schedule covering each of the ten most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year.

For single-employer and cost-sharing OPEB plans, the following information for each of the ten most recent fiscal years is required to be presented as required supplementary information:

- Sources of changes in the net OPEB liability.
- Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

In addition, all OPEB plans, including agent OPEB plans, are required to explain certain factors that significantly affect trends in the amounts reported in the schedules of required supplementary information, such as changes of benefit terms, changes in the size of composition of the population covered by the benefit terms, or the use of different assumptions.

This Statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. However, if an OPEB plan has fewer than 100 plan members (active and inactive), use of a specified alternative measurement method in place of an actuarial valuation is permitted. Actuarial valuations, or calculations using the specified alternative measurement method, of the total OPEB liability are required to be performed at least every two years, with more frequent valuations or calculations encouraged. The District is required to implement the provisions of this Statement for the fiscal year ended June 30, 2017 (effective for periods beginning after June 15, 2016). This Statement may result in a change in current practice and have a material effect on the financial statements of the District.

In June of 2015, GASB issued GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement replaces the requirements of Statements Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and reporting requirements for OPEB plans.

The consistency, comparability, and transparency of the information reported by employers and governmental non-employer contributing entities about OPEB transactions will be improved by requiring the following:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.
- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency
- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.
- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The District is required to implement the provisions of this Statement for the fiscal year ending June 30, 2018 (effective for periods beginning after June 30, 2017). This Statement may result in a change in current practice and have a material effect on the financial statements of the District.

In June of 2017, GASB issued GASBS No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

In November 2016, GASB issued GASBS No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO 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.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities; and the estimated remaining useful life

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 500	\$ 500
Deposits with Financial Institutions	62,016	32,452
Pooled Cash and Investments with County Treasury	<u>3,165,560</u>	<u>1,857,743</u>
Total Cash and Investments	<u>\$ 3,228,076</u>	<u>\$ 1,890,696</u>

The District has not adopted an investment policy. The District relies on the Yolo County Treasury to maintain investments in accordance with the State of California policies.

Yolo County Treasury

As provided for by the California Government Code, the District maintains cash in the Yolo County Pooled Investment Fund (County Treasury). The County Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Investment gains and losses are proportionately shared by the participants as increases or reductions in earnings. The value of the pool shares in the County Treasury; which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's portion in the pool.

The County Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County Treasury are either secured by federal depository insurance or are collateralized.

The County Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. Treasury notes and agency obligations, state registered warrants and municipal notes, local agency bonds, the State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit and repurchase or reverse repurchase agreements.

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

The County Treasurer is overseen by the Treasury Oversight Committee, pursuant to Government Code, and must adhere to an annual investment policy that prohibits investments that have the possibility of returning a zero or negative yield if held to maturity.

Investments Authorized by the District's Investment Policy

The District invests in investment types authorized for the entity by the California Government Code 53601.

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 values to changes in market interest rates. As of June 30, 2017, the weighted average maturity of investments held in the County Treasury was 277 days.

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 risk is measured by the assignment of a rating by the nationally recognized statistical rating organization. As of June 30, 2017 and 2016, the County Treasury is not rated.

The District has no limitation on the amount that can be invested in any one issuer beyond that stipulated in the California Government Code.

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 recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District and the California Government Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision: the California Government Code requires that a financial institution secure deposits made by state and local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

All bank deposits as of June 30, 2017 and 2016 are insured by the Federal Depository Insurance Corporation (FDIC).

Derivative Investments

The District did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the County Treasury was not available.

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Additional disclosure detail required by Government Accounting Standards Board Statement No. 3, No. 31, No. 40, and GASB Technical Bulletin 94-1, regarding cash deposits and investments, are presented in the financial statements of the County of Yolo for the years ended June 30, 2017 and 2016.

3. CAPITAL ASSETS

A summary of current-year changes to capital assets, the total of which is recorded in the government-wide statements, is shown as follows:

	June 30, 2016	Additions	Disposals	June 30, 2017
Pump stations	\$ 13,188,864	\$ -	\$ -	\$ 13,188,864
Vehicles and equipment	955,561	216,741	(49,215)	1,123,087
	14,144,425	216,741	-	14,311,951
Accumulated depreciation	(1,814,014)	(362,236)	49,215	(2,127,035)
Net capital assets	\$ 12,330,411	\$ (145,495)	\$ -	\$ 12,184,916

4. RETIREMENT PLANS

The District provides pension benefits for all of its full-time employees through a defined contribution plan (a money purchase plan) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The District contributes 14% of the employees' salary each year. The District's contributions for each employee (and interest allocated to the employees' account) are fully vested after six years of continuous service. District contributions for, and interest forfeited by, employees who leave employment before six years of service are used to reduce the District's current-period contribution requirement.

The District contributed \$53,770 and \$50,047 for the years ended June 30, 2017 and 2016, respectively, to the money purchase plan. The plan is administered through the Equitable Company.

During the year ended June 30, 2016, the Board of Trustees approved an additional deferred compensation retirement plan under Section 457 of the Internal Revenue Code. As of June 30, 2017, the plan has not been formally established with an administrator.

5. OTHER POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN

Plan Description. The postemployment healthcare benefit plan was formally adopted by resolution during the year ended June 30, 2015, though the District had been paying benefits for three retirees on a pay-as-you-go basis prior to adopting a formal plan. Postemployment medical benefits will be made to all qualifying retirees with benefits consistent with those offered to

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

active employees. There is dependent coverage but no survivor benefit. Retiree benefits are paid to employees who have attained age 60 with twenty years of service.

Funding Policy. As of June 30, 2017, the District has not formally funded the estimated actuarially determined liability in a trust; however, the District has committed and set aside funds at the County for this purpose in the amount of \$135,419.

Postemployment healthcare benefits were previously paid on a pay-as-you go basis. In accordance with GASB Statement No. 45, the District's annual required contribution (ARC) is an actuarially determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual OPEB Cost. In accordance with the requirements of GASB 45, the District will obtain an OPEB actuarial study once every two years. The annual OPEB cost is equal to the ARC.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan (or benefits paid), and the net OPEB obligation/asset (based on the August 2018 actuarial study) are as follows:

Fiscal Year Ended:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation before funding	Cumulative Additional Funding	Net OPEB Obligation
06/30/15	\$ 34,683	31.6%	\$ 34,683	\$ 10,955	\$ 23,728
06/30/16	34,683	29.2%	69,366	21,096	48,270
06/30/17	46,775	27.7%	116,141	34,054	82,087

GASB Statement No. 45 has been applied on a prospective basis. Prior to adoption of a formal post employment healthcare benefit plan during the year ended June 30, 2015, the District recorded OPEB expense on a pay-as-you-go basis. The following reconciles current year expense to amounts on a pay-as-you-go basis for the years ended June 30, 2017 and 2016:

	2017	2016
Normal cost	\$ 34,286	\$ 22,764
UAAL amortization	12,489	11,919
Residual UAAL amortization	-	-
Total annual required contribution	46,775	34,683
Retiree benefits paid, net of retiree cost share	12,958	10,141
Difference	\$ 33,817	\$ 24,542

Funded Status and Funding Progress. The schedule of funding progress and funded status of the plan as of June 30, 2017 and 2016 based on the respective actuarial studies were as follows:

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Actuarial accrued liability (AAL)	\$ 291,478	\$ 278,179
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>291,478</u>	<u>278,179</u>
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$ 439,400	\$ 409,477
UAAL as a percentage of covered payroll	66%	68%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information above, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation date	August 7, 2018
Actuarial cost method	Entry age, Normal cost
Amortization method	Level percentage of payroll
Amortization period	30 years for UAAL
Asset valuation method	Fair value
Investment rate of return (funded)	4.50%
Salary increase	2.75%
Inflation	2.75%

RECLAMATION DISTRICT 900, CALIFORNIA

Notes to Financial Statements
Years Ended June 30, 2017 and 2016

6. CONTINGENCIES

The District has programs for public liability and property damage. There have been no settlements related to these programs that exceed insurance coverage during the 2016/17 fiscal year. The District retains the risk for all loss exposure in excess of insurance coverage. Claims, expenditures, and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated.

7. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2017 and 2016, the District transacted business with companies wherein board members or their family members had ownership interests. Such transactions have been approved by the Board of Trustees as follows:

<u>Related party</u>	<u>2017</u>	<u>2016</u>
Rent (Turner Land Company)	\$ 8,700	\$ 8,700
Fuel (Ramos Oil Company)	27,819	18,915

8. LEASE COMMITMENTS

The District leases office space from a related party at \$725 per month on a month-to-month basis. In May 2017 the District signed an equipment operating lease with minimum lease commitments during the next five years as follows:

<u>Fiscal Year Ending June 30:</u>	
2018	\$ 2,032
2019	2,032
2020	2,032
2021	2,032
2022	1,693

9. SUBSEQUENT EVENT

Subsequent to June 30, 2017, on March 8, 2018 the District amended its OPEB policy regarding the age a retiree becomes eligible to receive benefits from age 62 to age 60. That policy change was reflected in the June 30, 2017 actuarial report, as well as the Net OPEB Obligation in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

RECLAMATION DISTRICT 900, CALIFORNIA
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - General Fund
 Years Ended June 30, 2017 and 2016

	2017			2016			Variance Favorable (Unfavorable)
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	
REVENUES:							
Property assessments	\$ 2,200,000	\$ 2,227,791	\$ 27,791	\$ 577,280	\$ 577,280	\$ 591,058	\$ 13,778
Maintenance fee from WSAFCA	607,000	68,615	(538,385)	595,100	595,100	632,126	37,026
Interest	-	18,782	18,782	-	-	16,933	16,933
Other	29,200	642,386	613,186	28,000	28,000	78,669	50,669
Total revenues	2,836,200	2,957,574	121,374	1,200,380	1,200,380	1,318,786	118,406
EXPENDITURES:							
Flood Protection:							
Operations	1,695,880	840,648	855,232	497,300	429,080	440,499	(11,419)
Administration	615,480	634,419	(18,939)	823,776	814,695	730,864	83,831
Capital outlay and maintenance	523,500	189,473	334,027	1,085,000	440,000	355,663	84,337
Total expenditures	2,834,860	1,664,540	1,170,320	2,406,076	1,683,775	1,527,026	156,749
CHANGE IN FUND BALANCE	1,340	1,293,034	(1,048,946)	(1,205,696)	(483,395)	(208,240)	275,155
FUND BALANCE, BEGINNING OF YEAR	2,163,618	2,163,618	-	2,371,858	2,371,858	2,371,858	-
FUND BALANCE, END OF YEAR	\$ 2,164,958	\$ 3,456,652	\$ (1,048,946)	\$ 1,166,162	\$ 1,888,463	\$ 2,163,618	\$ 275,155

RECLAMATION DISTRICT 900, CALIFORNIA
Schedule of Expenditures - Budget and Actual - General Fund
Years Ended June 30, 2017 and 2016

	2017			2016			
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATIONS:							
Fever	\$ 80,000	\$ 99,516	\$ (19,516)	\$ 80,000	\$ 70,000	\$ 61,320	\$ 8,680
Fuel	35,000	24,064	10,936	37,000	28,000	18,915	9,085
Field salaries	272,480	224,104	48,376	253,800	208,835	192,315	16,510
Overtime and emergency	8,000	-	8,000	8,000	2,415	-	2,415
Uniforms	3,900	3,612	288	3,500	3,000	2,819	181
Tools	10,000	10,337	(337)	4,000	4,000	1,115	2,885
Shop, shop repairs, and shop supplies	7,500	18,798	(11,298)	5,000	4,000	82,323	(78,323)
Equipment repairs	15,000	17,707	(2,707)	17,000	12,000	3,772	8,228
Equipment supplies	25,000	24,225	775	25,000	25,000	23,732	1,268
Structural supplies	8,000	-	8,000	6,000	8,000	-	8,000
Disaster	-	76,349	(76,349)	-	-	-	-
Internal drainage O&M	-	61,969	(61,969)	-	-	-	-
Internal draining RRR	1,000,000	221,886	-	-	-	-	-
Levee O&M	215,000	29,832	-	-	-	-	-
Radio maintenance	6,000	1,764	4,236	1,000	1,840	1,839	1
Road and ditch supplies (incl. spray equipment and supplies)	-	18,619	(18,619)	50,000	55,000	47,327	7,673
Debris and trash removal	10,000	7,866	2,134	7,000	7,000	5,022	1,978
	<u>\$ 1,695,880</u>	<u>\$ 840,648</u>	<u>\$ (108,050)</u>	<u>\$ 497,300</u>	<u>\$ 429,080</u>	<u>\$ 440,499</u>	<u>\$ (11,419)</u>
ADMINISTRATION:							
Administrative salaries and trustee fees	\$ 168,000	181,920	\$ (13,920)	\$ 166,500	\$ 167,350	\$ 178,587	\$ (11,237)
Insurance	44,500	43,171	1,329	42,000	41,000	40,686	314
Professional services	75,000	121,780	(46,780)	60,000	75,000	69,969	5,031
Professional services - assessment prep	15,000	30,412	-	300,000	300,000	207,327	-
Retirement	60,000	53,779	6,230	57,526	51,241	48,270	2,971
Payroll taxes	38,500	35,616	2,884	35,200	33,650	32,468	1,182
Hospitalization and dental	73,780	56,053	17,727	74,500	49,839	52,889	(3,050)
Workers' compensation	48,000	37,899	10,101	37,850	43,015	48,721	(3,706)
Rent	8,700	8,700	-	8,700	8,700	8,700	-
Assessment expense	10,000	3,396	1,104	9,500	8,900	20,319	(11,619)
Assessment collections	12,000	11,912	88	12,000	12,000	-	12,000
Office supplies and equipment	50,000	44,290	5,710	10,000	10,000	11,015	(1,015)
Permits and fees	12,000	-	12,000	10,000	12,000	11,713	287
	<u>\$ 615,480</u>	<u>\$ 634,419</u>	<u>\$ (3,527)</u>	<u>\$ 823,776</u>	<u>\$ 814,695</u>	<u>\$ 730,864</u>	<u>\$ (8,842)</u>
CAPITAL OUTLAY AND MAINTENANCE:							
Structural and mechanical repairs	\$ 75,000	\$ -	\$ 75,000	\$ 60,000	\$ 75,000	\$ -	\$ 75,000
Major equipment purchase	448,500	189,473	259,027	170,000	215,000	215,846	(846)
Main Drain Pump Station	-	-	-	50,000	-	-	-
Southport Drainage	-	-	-	40,000	-	-	-
North Area Drainage	-	-	-	685,000	100,000	92,860	-
River Levee Repair	-	-	-	30,000	-	-	-
Road and ditch repairs and maintenance	-	-	-	50,000	50,000	46,957	3,043
	<u>\$ 523,500</u>	<u>\$ 189,473</u>	<u>\$ 334,027</u>	<u>\$ 1,085,000</u>	<u>\$ 440,000</u>	<u>\$ 355,663</u>	<u>\$ 77,197</u>

**INDEPENDENT AUDITORS' 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 of
Reclamation District 900, California
West Sacramento, 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 governmental activities of Reclamation District 900, California (the District), which comprise District's basic financial statements as listed in the Table of Contents, as of June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated August 8, 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 over financial reporting.

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. 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 over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We noted three matters we consider to be a material weaknesses as described below.

Year-end Accounting Close and Preparation of the Financial Statements

The District relies upon the external auditors to make year-end trial balance adjustments and prepare the financial statements with related report disclosures, in order to reflect the financial statements in accordance with generally accepted accounting principles (GAAP). Such practice is common within the governmental industry; however, relying upon external auditors is an external control, not an internal control, over financial reporting. Audit standards require auditors to characterize such reliance on external parties as a material weakness when there are material audit adjustments and added disclosures.

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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
August 8, 2018