

**ORLAND-ARTOIS WATER DISTRICT**

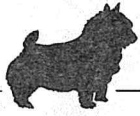
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**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
for the year ended December 31, 2019**

**ROBERT W. JOHNSON**  
**Certified Public Accountant**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Orland-Artois Water District  
Orland, California

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

We have audited the accompanying financial statements of Orland-Artois Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, 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.

### **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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orland-Artois Water District as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

### **Other-Matters**

#### *Required Supplementary Information*

Management has omitted the 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 the missing information.

#### *Other Information*

The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Orland-Artois Water District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

*Robert W. Johnson, An Accountancy Corporation*

Citrus Heights, California  
March 25, 2020

## LIABILITIES AND NET POSITION

### Current liabilities:

Current portion of long-term debt (Note 5)	\$ 578,188
Customer prepayments	109,827
Accounts payable	22,241
Compensated absences	19,503
Annexation deposits	<u>63,525</u>

Total current liabilities 793,284

### Non-current liabilities:

Long-term debt, net of current portion (Note 5) 15,526,386

Total liabilities 16,319,670

### Net position:

Net investment in capital assets	\$8,444,801
Restricted	-
Unrestricted	<u>(5,689,221)</u>
	<u>2,755,580</u>

\$19,075,250

ORLAND-ARTOIS WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2019

ASSETS

Current assets:

Cash and investments (Note 3)	\$ 2,927,183
Accounts receivable	102,938
Prepaid expenses	<u>83,878</u>

Total current assets 3,113,999

Non-current assets:

Capital assets (Notes 4 and 5)	\$25,463,147	
Less, accumulated depreciation	<u>9,501,896</u>	<u>15,961,251</u>
		<u>\$19,075,250</u>

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
for the year ended December 31, 2019

Operating revenues:		
Water sales		\$ 2,317,879
Operations charge		1,100,197
Sites charge		207,998
Assessments		581,132
Other		<u>1,000</u>
Total operating revenues		4,208,206
Operating expenses:		
Source of supply	\$ 2,123,153	
Transmission and distribution	676,185	
Administrative	274,176	
Depreciation	<u>346,260</u>	
Total operating expenses		<u>3,419,774</u>
Operating income		788,432
Non-operating income (expense):		
Interest income	43,059	
Rental income	720	
SGMA expenses	( 21,022)	
Sites Reservoir Project reimbursements (Note 9)	<u>211,796</u>	
		<u>234,553</u>
Income before Bureau construction relief		1,022,985
Bureau construction relief		<u>1,389,383</u>
Change in net position		2,412,368
Total net position:		
Beginning		<u>343,212</u>
Ending		<u>\$ 2,755,580</u>

See notes to financial statements



ORLAND-ARTOIS WATER DISTRICT  
STATEMENT OF CASH FLOWS  
for the year ended December 31, 2019

Cash flows from operating activities:		
Receipts from customers		\$ 4,182,192
Payments to suppliers		(2,595,604)
Payments to employees		<u>( 273,400)</u>
Net cash provided by operating activities		1,313,188
Cash flows from noncapital financing activities:		
Rental income		720
Cash flows from capital and related financing activities:		
Capital expenditures	\$ -	
Principal reduction on capital debt	( 578,188)	
SGMA expenses	( 21,022)	
Site Reservoir Project reimbursements	<u>211,796</u>	
		( 387,414)
Cash flows from investing activities:		
Interest income		<u>43,059</u>
Net increase in cash and cash equivalents		969,553
Cash and cash equivalents:		
Beginning of year		<u>1,957,630</u>
End of year		<u>\$ 2,927,183</u>

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT  
 STATEMENT OF CASH FLOWS, continued  
 for the year ended December 31, 2019

Reconciliation of operating income (loss) to  
 net cash provided by operating activities:

Operating income (loss)	\$ 788,432
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Adjustments to reconcile operating income (loss)  
 to net cash provided by operating activities:

Depreciation expense	\$ 346,260
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Changes in operating assets and liabilities:

Receivables	( 26,017)
Prepays	13,541
Accounts payable	16,100
Compensated absences	1,520
Customer prepayments	109,827
Annexation deposits	<u>63,525</u>

Total adjustments	<u>524,756</u>
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Net cash provided by operating activities	<u>\$1,313,188</u>
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Supplemental disclosure of non-cash activities:

In 2019, the District recorded debt relief of \$1,389,383 from the Bureau of Reclamation – Central Valley Project. The debt relief reduction resulted from the change in allocated construction costs, cumulative construction relief and the District’s purchased water rate from the Bureau of Reclamation.

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
for the year ended December 31, 2019

1. Organization:

Orland-Artois Water District (the "District") was formed in 1953 and started water deliveries in 1977. The District currently consists of 29,918 acres located in Glenn County in the Sacramento Valley; the District has 5 diversions off of the Tehama Colusa Canal and delivers water using 110 miles of underground pipeline with about 300 metered deliveries. The District has a contract with the USBR for 53,000 acre-feet of irrigation water annually. The District is governed by a Board of Directors which is elected by the landowners.

2. Summary of Significant Accounting Policies:

The basic financial statements of Orland-Artois Water District have been prepared in conformity with generally accepted accounting principles 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.

Basis of Presentation - Fund Accounting

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 periodic 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.

ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

2. Summary of Significant Accounting Policies, continued:

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 this 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 recorded when earned and expenses are recorded at the time liabilities are incurred. The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities as prescribed by the Division of Local Government Fiscal Affairs of the State of California.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

Depreciation and Amortization

Capital assets are recorded at historical cost. Assets acquired by contribution are recorded at estimated cost or fair market value at the date of acquisition.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets. Cash in bank and deposits in the State of California Local Agency Investment Fund (LAIF) are considered to be cash and cash equivalents.



ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

2. Summary of Significant Accounting Policies, continued:

Compensated Absences

The District's policy allows employees to accumulate earned but unused vacation which will be paid to employees upon separation from service to the District, subject to a vesting policy. The cost of vacation is recorded in the period earned.

Sick pay is not vested.

Net Position

Net position is classified in the following categories:

Net Investment in capital assets – groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted – presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – represents the net position of the District, which are not restricted or invested in capital assets net of related debt.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 may differ from those estimates.

ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

2. Summary of Significant Accounting Policies, continued:

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis to match the operating statements.

Investments

Investments consist of LAIF (State of California pooled investment fund) and money market savings accounts. Investments are stated at fair value. Such investments are within the State statutes and the District's investment policy.

3. Cash and Investments:

At December 31, 2019, the carrying amount of the District's deposits was \$901,435 and the balance in financial institutions was \$928,012. Of the balance in the financial institutions, \$250,000 was covered by federal depository insurance and \$678,012 was collateralized as required by State Law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other agencies, but not in the name of the District.

	Balance December 31, <u>2019</u>
Petty cash/till float	\$ 402
Checking	24,169
Money market (3)	<u>876,864</u>
	<u>\$ 901,435</u>

ORLAND-ARTOIS WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 for the year ended December 31, 2019

3. Cash and Investments, continued:

Investments:

California statutes authorize the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 – Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor’s or P-1 by Moody’s Commercial Paper Record, bankers’ acceptances, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer’s Local Agency Investment Fund (LAIF). The investment in LAIF is reported at fair value.

	<u>Carrying Amount</u>	<u>Maturity - 12 Months or Less</u>
Balance, December 31, 2019		
Local Agency Investment Fund	\$ <u>2,025,748</u>	\$ <u>2,025,748</u>

Pursuant to Government Accounting Standards Board Statement 3, the investment in LAIF is not classified in categories of credit risk. The District’s funds in LAIF are invested in a diversified portfolio (of underlying investments e.g. U.S. Treasury obligations) such that it considers the risk of material loss to be minimal. The funds held in LAIF can be withdrawn on demand.

ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

4. Capital Assets:

Changes in capital assets for the year ended December 31, 2019 are as follows:

	<u>Balance</u> <u>1/1/19</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/19</u>
Distribution system	\$23,705,915	\$ -	\$ -	\$23,705,915
District distribution	358,769	-	-	358,769
Building improvements	136,101	-	-	136,101
Machinery	58,710	-	-	58,710
Furniture	29,782	-	-	29,782
Wells	1,062,368	-	-	1,062,368
Vehicles	104,027	-	-	104,027
Office equipment	<u>7,475</u>	<u>-</u>	<u>-</u>	<u>7,475</u>
	<u>\$25,463,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$25,463,147</u>

5. Long-term Debt:

Long-term debt activities for the year ended December 31, 2019 are as follows:

	<u>Balance</u> <u>1/1/19</u>	<u>Decrease</u>	<u>Increase</u>	<u>Balance</u> <u>12/31/19</u>	<u>Current</u> <u>Portion</u>
Bureau – Distribution	\$ 8,094,641	\$ 578,191	\$ -	\$ 7,516,450	\$ 578,188
Bureau – Service Contract	<u>9,977,507</u>	<u>1,389,383</u>	<u>-</u>	<u>8,588,124</u>	<u>not determined</u>
	<u>\$18,072,148</u>	<u>\$ 1,967,574</u>	<u>\$ -</u>	<u>\$16,104,574</u>	<u>\$ 578,188</u>



ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

5. Long-term Debt, continued:

Contract 9d Loan with the United States Bureau of Reclamation

On February 26, 1976, the District entered into a contract with the United States Government for the construction of a distribution system. The original loan amount was \$23,127,537. Payments on the loan began in February 1993 and are due in two equal installments of \$289,094 per year. The last payment is scheduled for August 2032. The loan bears no interest. The District charges a repayment assessment to landowners that are using the system, equal to the debt service payment. In accordance with Article 17 of the Contract, title to the distribution system shall be, and remain in, the name of the United States until otherwise provided for by Congress, notwithstanding the fact of full repayment of the obligation. The intangible right to use Central Valley Project water supply system is included with capital assets in accordance with Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Contract 9e Water Service Contract – Central Valley Project Water Supply System

The Reclamation Act of 1939 provided for the construction of multiple purpose irrigation projects and the construction costs would be shared among the various beneficiaries that provided irrigation. The construction cost allocated to the Orland-Artois Water District totaled \$21,434,868. The costs allocated change by year based on the services provided to the District. Irrigators are responsible for repaying their allocated share of the project's construction costs as limited by a determination of their ability to pay. As of September 30, 2013, the U.S. Bureau of Reclamation determined, based on an ability to pay study for the District's eligibility for full relief from payment of the construction costs be continued. Payments of the cost of construction in the amount of \$8,588,124 at December 31, 2019 are to be made through future deliveries of water through 2030. No interest is being charged on this liability.

ORLAND-ARTOIS WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 for the year ended December 31, 2019

5. Long-term Debt, continued:

These loans mature as follows:

December 31,	
2020	\$ 578,188
2021	578,188
2022	578,188
2023	578,188
2024	578,188
2025-2029	2,890,940
2030-2032	<u>10,322,694</u>
	<u>\$16,104,574</u>

6. Pension Plan:

On December 19, 1984, the District established a deferred compensation plan. The plan is a single-employer Simplified Employee Pension (SEP) plan with the assets held in trust by New York Life. The Plan is administered by the management of the District and the provisions of the plan can be changed and amended by the Board of Directors of the District. All full-time salaried employees are eligible to participate in the plan after completing three years of service with the District.

The District pays 100% of the contribution, based on an annual percentage of 7% of the employee's wage. Participant's accounts are credited with the employer contributions. The amount the District contributes each year on behalf of the participating employee is established by the Board of Directors. Investment earnings and losses as well as administrative expenses are also charged to the participant accounts. Allocations are based on participant's earnings and losses of chosen investments or account balances. Employees are vested in the plan upon entrance into the plan. The amount of the contribution for 2019 was \$19,032.

ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

7. Water Revenue Recognition:

For the 2019 water year, the District purchased water under contract from Reclamation and settlement contractors for its water users. The water was purchased from settlement contractors and its use was defined under settlement contractor's rules. These rules allow that the water cannot be used after October 31<sup>st</sup> and the water was used in June, July and August of 2019. The remainder of the water the District delivered was project water from its water service contract and it paid for it only if used.

For water year 2019 the District base irrigation water was \$75 per acre-foot.

8. 2020 Water Supply Outlook:

In 2019 with late rains and the number of acres in transition to orchards, the District only delivered 34,756-acre feet of water. The winter of 2019 and 2020 have been dry. In February 2020, the District received a 50% initial allocation for the 2020 water year. With the District's multiple year contracts with Settlement Contractors, the District will have enough water for its landowner's irrigation needs.

For 2020 the District has agreements with three (3) settlement contractors for water, one for 2,600 acre-feet, another 4,500-6,000 acre-feet and another for 3,500-acre feet of water. These contracts have the contingency to provide water in critical years if the District buys the water every year. The total critical year supply is 7,100 acre-feet. These agreements insure landowners are in a good position for the next critical year at reasonable costs.

The District also has two (2) deep wells which can produce 2,000 to 3,000 acre-feet of water if needed. Both wells tested for water quality and Warren Act Contracts are in place in case they are needed. The Warren Act Contract covers several landowner wells.



ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

9. Sites Reservoir Project:

The Sites Reservoir Project continues to move forward although the District is no longer a participant. The District submitted its letter of withdrawal from the Sites Project Authority on August 22, 2018 to be effective on November 22, 2018. The District continued to participate on the Reservoir committee to the end of Phase 1, March 22, 2019.

In 2019 all funds raised with the Sites Charge were added to the LAIF General Reserves. In 2019 the District received two reimbursements from the Sites Project; one for \$178,541 for reservoir construction and another for \$33,254 for the District's share of unused funds at the end of Phase 1. These funds were also added to LAIF General Reserves. Because the total of the two reimbursements, \$211,795 was more than the Sites Charge projected income of \$207,998 for 2019, the Board of Directors decided not to collect the Sites Charge in 2020. FY 2020 would have been the final year for the Sites Charge. At the December 2019 Board meeting, the Directors approved a budget for 2020 which did not include the Sites Charge.



ORLAND-ARTOIS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
for the year ended December 31, 2019

10. WIIN Act Loan Conversion:

The WIIN Act of 2016 has a section which address early pay outs for CVP Construction loans for Water Services Contractors. The Act allows for the converted contracts to set the current allocation of water to a permanent status and offers a discount for early pay off. Once pay outs are executed, the “paid out” District will no longer be under the Reclamation Reform Act (RRA) if the District has no other interest free obligations with Reclamation. This means the ownership and acreage restrictions will no longer apply.

The District is actively working to convert its CVP Construction loan with Reclamation. In order to be relieved RRA, the District will have to buy out its distribution system 9d loan too. These loans are both interest free. The 9d loan for the distribution system is about \$8,000,000 at this time and is being paid with an assessment of \$19.94 per assessed acre by the district landowners. The CVP construction is also about \$8,000,000 and is paid in the price of the District’s Water Service Contract water. This cost in 2019 was \$34.73 per acre-foot of water delivered.

The District has engaged a municipal advisor to guide the District through the process of obtaining a loan or executing a bond sale. District staff and counsel are currently negotiating a water service contract amendment which will allow the loan conversions to be executed. The final date to convert the CVP construction loan and to receive WIIN ACT Benefits is December 16, 2021.

11. Subsequent Events:

Management has evaluated subsequent events through March 25, 2020, the date these December 31, 2019 financial statements were available to be issued.

**SUPPLEMENTAL INFORMATION**

ORLAND-ARTOIS WATER DISTRICT  
PRINCIPAL OFFICIALS  
for the year ended December 31, 2019

BOARD OF DIRECTORS

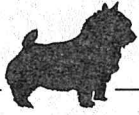
Mike Vereschagin	President
Ernest Pieper	Vice President
John Erickson	
James Jones	
Charles Schonauer	

OPERATIONS

Emil Cavagnolo	General Manager
Chris Drouillard	Water Superintendent
Justin Rolfs	Field Tech
Karen Osborn	Office Secretary
Andrea Jones	Administrative Assistant

REPORT ON INTERNAL CONTROLS  
AND COMPLIANCE





**Robert W. Johnson**  
*an accountancy corporation*

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**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***

Independent Auditor's Report

To the Board of Directors  
Orland-Artois Water District  
Orland, 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 and the State Controller's Minimum Audit Requirements for California Special Districts, the financial statements of Orland-Artois Water District as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Orland-Artois Water 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 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 was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Orland-Artois Water 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*.

We noted certain other minor matters that we reported to management of the Orland-Artois Water District in a separate letter dated March 25, 2020.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robert W. Johnson, An Accountancy Corporation*

Citrus Heights, California  
March 25, 2020