

**SCOTT VALLEY AND SHASTA VALLEY
WATERMASTER DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2020**

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SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Annual Financial Report
For the Year Ended June 30, 2020

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INTRODUCTORY SECTION

- **List of Officials**

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SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT

List of Officials

For the Year Ended June 30, 2020

Board of Directors

Tony Bishop	Director
Justin McMahon	Director
Bruce Fiock	Director
Rick Lemos	Director
John Spencer	Director
FJ Hayden	Director
Michael Stapleton	Director

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Basic Financial Statements**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Scott Valley and Shasta Valley Watermaster District
Fort Jones, California

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund of Scott Valley and Shasta Valley Watermaster District, California (District), as of and for the year ended June 30, 2020, 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 opinions 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. 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 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 opinions.

To the Board of Directors
Scott Valley and Shasta Valley Watermaster District
Fort Jones, California

Basis for Qualified Opinion

As discussed in Note 1G to the financial statements, management has not maintained detailed records of capital assets, accumulated depreciation or current year depreciation. Capital assets are recorded in the accompanying financial statements at \$12,378 and depreciation expense for the year was estimated as \$1,941. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated. The amount by which this departure would affect the assets, net position, and expenses of the proprietary fund of the District is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the proprietary fund of the District as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 this missing information.

Other Information

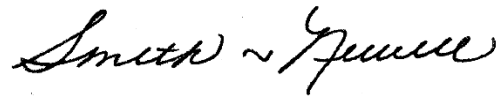
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Directors
Scott Valley and Shasta Valley Watermaster District
Fort Jones, California

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2023, 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 solely 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.



Smith & Newell CPAs
Yuba City, California
May 19, 2023

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Basic Financial Statements

- **Fund Financial Statements**

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SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Statement of Net Position
June 30, 2020

	Operating
ASSETS	
Current Assets:	
Cash and deposits	\$ 113,795
Receivables:	
Accounts	30,884
Total Current Assets	144,679
Noncurrent Assets:	
Depreciable capital assets (net)	12,378
Total Noncurrent Assets	12,378
Total Assets	157,057
LIABILITIES	
Current Liabilities:	
Accounts payable	17,863
Salaries and benefits payable	3,497
Total Current Liabilities	21,360
Total Liabilities	21,360
NET POSITION	
Investment in capital assets	12,378
Unrestricted	123,319
Total Net Position	\$ 135,697

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

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Statement of Revenues, Expenses
And Changes in Net Position
For the Year Ended June 30, 2020

	Operating
OPERATING REVENUES	
Assessments	\$ 189,516
Total Operating Revenues	189,516
OPERATING EXPENSES	
Bank charges	129
Computer and internet charges	2,262
Data use agreement	7,500
Depreciation	1,941
Dues and subscriptions	196
Field and equipment supplies	2,465
Insurance	9,347
Miscellaneous	200
Office supplies	1,614
Post office box	104
Postage and delivery	679
Printing and reproduction	323
Professional fees	38,998
Rent	1,800
Repairs and maintenance	7,408
Retirement	6,950
Salaries	101,095
Taxes-payroll	8,538
Telephone	2,762
Travel	15,864
Total Operating Expenses	210,175
Operating Income (Loss)	(20,659)
NON-OPERATING REVENUES (EXPENSES)	
Miscellaneous revenues	6,772
Total Non-Operating Revenues (Expenses)	6,772
Change in Net Position	(13,887)
Total Net Position - Beginning	149,584
Total Net Position - Ending	\$ 135,697

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

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Statement of Cash Flows
June 30, 2020

	Operating
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 186,591
Payments to suppliers	(90,764)
Payments to employees	(98,567)
	<u>(2,740)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other receipts	6,772
	<u>6,772</u>
Net Cash Provided (Used) by Noncapital Financing Activities	6,772
Net Increase (Decrease) in Cash and Cash Equivalents	4,032
Balances - Beginning	109,763
Balances - Ending	\$ 113,795
	<u>113,795</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	(20,659)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,941
Decrease (increase) in:	
Accounts receivable	(2,925)
Increase (decrease) in:	
Accounts payable	16,375
Salaries and benefits payable	2,528
	<u>2,528</u>
Net Cash Provided (Used) by Operating Activities	\$ (2,740)
	<u>(2,740)</u>

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

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Basic Financial Statements

- **Notes to Basic Financial Statements**

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SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Scott Valley and Shasta Valley Watermaster District was established on December 22, 2011, under a judgment entered in Siskiyou County Superior Court by Judge Laura Masunaga transferring watermaster services from the Department of Water Resources to the District. The main purpose of the watermaster program is to ensure water is allocated according to established water rights as determined by court adjudications or agreements by an unbiased, qualified person, thereby reducing water rights court litigation, civil lawsuits, and law enforcement workload. It also helps prevent the waste or unreasonable use of water.

Component Units

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

B. Basis of Presentation

Fund financial statements of the District are organized into one fund, which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. The fund of the District is organized into the proprietary category and is treated as a major fund.

The District reports the following major proprietary fund:

- The Operating fund is an enterprise fund used to account for watermaster activities.

C. Basis of Accounting and Measurement Focus

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include revenues from grants, entitlements, and donations. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting and Measurement Focus (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

Cash and deposits consist of cash in a bank checking account. Cash deposits are reported at carrying amount which reasonably estimates fair value.

For purposes of the accompanying statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Receivables

Receivables consist mainly of assessments. Management believes its receivables are fully collectible, and accordingly, no allowance for doubtful accounts is required.

F. Inventory

Inventory items are recorded as an expense at the time individual items are purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

G. Capital Assets

Capital assets are to be recorded at historical cost or estimated historical cost if actual cost is not available. Contributed property, plant, and equipment are to be valued at their acquisition value on the date of donation. Major outlays for capital assets and improvements are to be capitalized as projects are constructed.

Capital assets used in operations are to be depreciated or amortized using the straight-line method over the assets' estimated useful lives. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	5-20 years
Structures and Improvements	10-20 years

Maintenance and repairs are to be charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are to be capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are to be removed from the respective accounts and any resulting gain or loss is to be included in the results of operations.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets (Continued)

The District has not maintained detailed historical cost records for capital assets, accumulated depreciation or current year depreciation expense.

H. Assessments

The District levies special assessments on the property owners and direct assessments to the water districts within the District boundaries. The assessment on the landowners is levied based on the landowner's water rights within the District. These special assessments are collected along with property taxes by the County of Siskiyou and remitted to the District. The direct assessment to the water districts is billed and collected by the District.

Assessments are due in two installments (secured roll) on November 1 and February 1 and become delinquent if unpaid after December 10 and April 10, respectively.

I. Compensated Absences and Other Postemployment Benefits (OPEB)

The District does not provide compensated absences or other postemployment benefits.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 and so will not be recognized as an outflow of resources (expense) until then. At June 30, 2020, the District did not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2020, the District did not have any deferred inflows of resources.

K. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Implementation of Governmental Accounting Standards Board (GASB) Statements

The following Governmental Accounting Standards Board (GASB) Statement has been implemented, if applicable, in the current financial statements.

Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This Statement extends the effective dates of certain accounting and financial reporting provisions in the Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The requirements of this Statement apply to the financial statements of all state and local governments. The GASB Statements affected by this statement include Statement No. 84 - Fiduciary Activities, Statement No. 87 – Leases, Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period, Statement No. 90 - Majority Equity Interests, Statement No. 91 – Conduit Debt Obligations, Statement No. 92 – Omnibus 2020, and Statement No. 93 – Replacement of Interbank Offered Rates.

M. Future Accounting Pronouncements

The following GASB Statements will be implemented in future financial statements:

Statement No. 84 “Fiduciary Activities”	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)
Statement No. 87 “Leases”	The requirements of this statement are effective for periods beginning after December 15, 2021. (FY 21/22)
Statement No. 89 “Accounting for Interest Cost incurred before the End of a Construction Period”	The requirements of this statement are effective for period beginning after December 15, 2020. (FY 21/22)
Statement No. 90 “Majority Equity Interests”	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)
Statement No. 91 “Conduit Debt Obligations”	The requirements of this statement are effective for periods beginning after December 15, 2021. (FY 22/23)
Statement No. 92 “Omnibus 2020”	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
Statement No. 93 “Replacement of Interbank Offered Rates”	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
Statement No. 94 “Public-Private and Public-Public Partnerships and Availability Payment Arrangements”	The requirements of this statement are effective for periods beginning after June 15, 2022. (FY 22/23)
Statement No. 96 “Subscription-Based Information Technology Arrangements”	The requirements of this statement are effective for periods beginning after June 15, 2022. (FY 22/23)

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2: CASH AND DEPOSITS

A. Financial Statement Presentation

As of June 30, 2020, the District's cash and deposits consisted of the following:

Cash and Deposits:	
Cash on hand	\$ 100
Deposits (less outstanding checks)	<u>113,695</u>
Total Cash and Deposits	<u>\$ 113,795</u>

B. Cash

At year end, the carrying amount of the District's cash deposits (including the amount in a checking account) was \$113,695 and the bank balance was \$107,907. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District's investment policy requires that deposits in banks must meet the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of public funds. As of June 30, 2020, the entire amount of the District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, was as follows:

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2020</u>
Capital Assets, Subject to Depreciation:				
Equipment	\$ 16,260	\$ -	\$ -	\$ 16,260
Total Capital Assets, Subject to Depreciation	<u>16,260</u>	<u>-</u>	<u>-</u>	<u>16,260</u>
Less Accumulated Depreciation For:				
Equipment	(1,941)	(1,941)	-	(3,882)
Total Accumulated Depreciation	<u>(1,941)</u>	<u>(1,941)</u>	<u>-</u>	<u>(3,882)</u>
Total Capital Assets, Subject to Depreciation, Net	<u>14,319</u>	<u>(1,941)</u>	<u>-</u>	<u>12,378</u>
Total Capital Assets, Net	<u>\$ 14,319</u>	<u>(\$ 1,941)</u>	<u>\$ -</u>	<u>\$ 12,378</u>

Depreciation expense of \$1,941 was charged to operations.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 4: NET POSITION

The proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 5: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases coverage from a private insurance company. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 6: OTHER INFORMATION

A. Subsequent Events

Management has evaluated events subsequent to June 30, 2020 through May 19, 2023, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

OTHER REPORT AND SCHEDULES

- **Other Report**
- **Schedule of Findings and Recommendations**
- **Schedule of Prior Year Findings and Recommendations**
- **Management's Corrective Action Plan**

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

To the Board of Directors
Scott Valley and Shasta Valley Watermaster District
Fort Jones, 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 proprietary fund of Scott Valley and Shasta Valley Watermaster District, California (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 19, 2023.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a material weakness. (2020-001)

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies. (2020-002, 2020-003 and 2020-004)

To the Board of Directors
Scott Valley and Shasta Valley Watermaster District
Fort Jones, California

Compliance and Other Matters

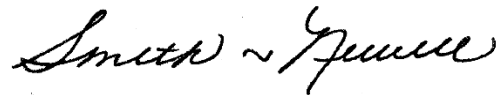
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying management's corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Smith & Newell CPAs
Yuba City, California
May 19, 2023

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2020

2020-001 Capital Assets (Material Weakness)

Criteria

General accepted accounting principles require that capital assets cost and related accumulated depreciation be recorded in the District's accounting system.

Condition

We noted that the District has not maintained a detailed listing of capital assets owned by the District and has not calculated accumulated depreciation or current year depreciation expense.

Cause

The District has not developed a capital asset listing or depreciation schedule.

Effect

Failure to maintain adequate records of all capital assets, including property, plant and equipment, may result in a misstatement of the financial statements of the District and a modification of the Independent Auditor's Report.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

This is a repeat of prior year finding 2019-001.

Recommendation

We recommend that the District develop a detailed listing of capital assets, which includes the acquisition date and historical cost. We also recommend that the District maintain a depreciation schedule including accumulated depreciation and current year depreciation expense.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2020

2020-002 Reconciliation of Cash in the Bank to the District's General Ledger (Significant Deficiency)

Criteria

Internal control over cash requires that the District's general ledger be reconciled to the cash held in the bank each month.

Condition

We noted that the June 30, 2020 bank reconciliation showed approximately \$6,353 of deposits that were received in December 2018 and February through April 2019 that had not cleared the bank. We also noted that approximately \$1,230 of checks were dated in July 2020 that had cleared the bank during June 2020. We also noted approximately \$1,670 of outstanding checks that had been outstanding as far back as 2013.

Cause

The reconciliation was not completed correctly.

Effect

There were deposits that were recorded that had not cleared the bank. The checks that were dated in July were recorded as July expenses when in fact the checks were for June 2020 checks and expenses.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

We reviewed the June 2020 reconciliation for tests of controls and accuracy.

Repeat Finding

This is a repeat of prior year finding 2019-002.

Recommendation

We recommend that the deposits that were recorded in 2018 and 2019 be analyzed to determine if they are correct. We recommend that checks be recorded when they are issued and that the old outstanding checks be presented to the Board for removal from the general ledger.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2020

2020-003 Deficiencies in Control Structure Design (Significant Deficiency)

Criteria

Good internal control requires that adequate controls be incorporated in the internal control structure.

Condition

There is an absence of appropriate segregation of duties consistent with control objective as well as an absence of appropriate review and approval of transactions and accounting entries.

Cause

The District has limited office staff.

Effect

The District's internal control procedures allow one person to receive cash receipts and make bank deposits.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

This is a repeat of prior year finding 2019-003.

Recommendation

We recommend that a continued effort be made to incorporate good internal control policies into the District's operating procedures.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2020

2020-004 Reconciliation of Payroll Accounts (Significant Deficiency)

Criteria

The District is required to record gross wages as an expense and the tax that is withheld from the employee's checks as a liability. Subsequently, when the liability is paid, the liability is to be reduced.

Condition

We noted that the payroll tax withheld from the employee's paychecks was recorded as a liability, however, the payment of the tax was recorded as a payroll tax expense instead of reducing the recorded liability. The result was that the general ledger had a recorded liability at June 30, 2020 of approximately \$27,000 and payroll tax expense was overstated by approximately \$24,000.

Cause

The District was not reconciling the payroll liability account to the payroll tax remitted each month.

Effect

Liabilities on the balance sheet were overstated approximately \$24,000 and expenses were overstated approximately \$24,000. The risk of errors in the payroll amounts remitted is increased when the liability account is not reconciled each month.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

We examined the controls over payroll liabilities and the accuracy of the balance on the balance sheet at June 30, 2020.

Repeat Finding

This is a repeat of prior year finding 2019-004.

Recommendation

We recommend that the payroll liability accounts be reconciled each month.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Schedule of Prior Year Findings and Recommendations
For the Year Ended June 30, 2020

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendations</u>
2019-001	<p>Capital Assets</p> <p>Recommendation</p> <p>We recommend that the District develop a detailed listing of capital assets, which includes the acquisition date and historical cost. We also recommend that the District maintain a depreciation schedule including accumulated depreciation and current year depreciation expense.</p> <p>Status</p> <p>Not Implemented</p>
2019-002	<p>Reconciliation of Cash in the Bank to the District's General Ledger</p> <p>Recommendation</p> <p>We recommend that the cash balance on the general ledger be reconciled to the cash balance held in the bank and that all differences be resolved. We recommend that the old outstanding checks be presented to the Board for removal from the general ledger.</p> <p>Status</p> <p>Not Implemented</p>
2019-003	<p>Deficiencies in Control Structure Design</p> <p>Recommendation</p> <p>We recommend that a continued effort be made to incorporate good internal control policies into the District's operating procedures.</p> <p>Status</p> <p>Not Implemented</p>
2019-004	<p>Reconciliation of Payroll Accounts</p> <p>Recommendation</p> <p>We recommend that the payroll liability accounts be reconciled each month.</p> <p>Status</p> <p>Not Implemented</p>

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Management's Corrective Action Plan
For the Year Ended June 30, 2020

Finding 2020-001 Capital Assets (Material Weakness)

We recommend that the District develop a detailed listing of capital assets, which includes the acquisition date and historical cost. We also recommend that the District maintain a depreciation schedule including accumulated depreciation and current year depreciation expense.

Management's Response: The Audit Report indicates the District has \$16,260 of capital assets, with a depreciation valued at \$3,882. We respectfully request any other information you have on these items, which will help us account for them correctly. Every time the District adds equipment we will update the Capital Assets list. For depreciation, we will look at the life value of the piece of equipment. We will use straight line depreciation, as that makes the most sense for a special district with no taxes. The Board will develop a straight line depreciation policy so that any capital purchases are valued accordingly.

Responsible Individual: Bookkeeper/Acting Business Manager

Corrective Action Plan: The Board of Directors will adopt an updated Capitalization Policy stating that any capital assets purchased by the District will be depreciated on a straight-line basis by the number of years.

Anticipated Completion Date: June 30, 2023

Finding 2020-002 Reconciliation of Cash in the Bank to the District's General Ledger (Significant Deficiency)

We recommend that the deposits that were recorded in 2018 and 2019 be analyzed to determine if they are correct. We recommend that checks be recorded when they are issued and that the old outstanding checks be presented to the Board for removal from the general ledger.

Management's Response: We understand that the District's financials have not been reconciled correctly. We understand that internal control over cash requires that the District's general ledger be reconciled to the cash in bank each month.

Responsible Individual: Bookkeeper/Board Treasurer/Acting Business Manager

Corrective Action Plan: The District has hired a Bookkeeper to perform financial transactions including bank reconciliations. A thorough review of deposits recorded in 2018 and 2019 resulted in identifying data entry errors and the bank statement's deposits have been located and confirmed.

Anticipated Completion Date: January 1, 2023

SCOTT VALLEY AND SHASTA VALLEY WATERMASTER DISTRICT
Management's Corrective Action Plan
For the Year Ended June 30, 2020

Finding 2020-003 Deficiencies in Control Structure Design (Significant Deficiency)

We recommend that a continued effort be made to incorporate good internal control policies into the District's operating procedures.

Management's Response: The Board recognizes that the District has a small number of staff, which makes it challenging to separate duties between personnel. The District will develop a Financial Internal Controls Procedures Policy as shows: 1) Employees send timesheets to their supervisor or Board Chairman and Treasurer if the Board is the employee's supervisor, with a copy to the bookkeeper. Supervisors approve and sends e-mail to employee and bookkeeper for processing of payroll. 2) Staff picks up mail, sorts paperwork, and then gives relevant paperwork to appropriate staff. Invoices under \$1,000 will be approved for payment by the Acting Business Manager. Invoices \$1,000 and over will require the Treasurer's approval for payment. Bookkeeper receives all checks and approved invoices for processing.

Responsible Individual: Acting Business Manager/Treasurer/Bookkeeper

Corrective Action Plan: The Board will approve the Financial Internal Controls Procedures Policy.

Anticipated Completion Date: June 30, 2023

Finding 2020-004 Reconciliation of Payroll Accounts (Significant Deficiency)

We recommend that the payroll liability accounts be reconciled each month.

Management's Response: The Board of Directors acknowledges that payroll liabilities have not been recorded and reconciled properly each month. The Audit Report shows \$3,497 of outstanding salaries and benefits payable (p. 4). The District has hired a bookkeeper familiar with payroll liability processing in QuickBooks.

Responsible Individual: Bookkeeper

Corrective Action Plan: The District has hired a bookkeeper familiar with payroll liability processing in QuickBooks. Liability payments are no longer processed outside of QuickBooks.

Anticipated Completion Date: July 1, 2022

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