

RECLAMATION DISTRICT NO. 2035

AUDITED FINANCIAL STATEMENTS

June 30, 2022 and 2021

RECLAMATION DISTRICT NO. 2035
AUDITED FINANCIAL STATEMENTS
June 30, 2022 and 2021

TABLE OF CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
<u>Basic Financial Statements</u>	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Statements of Fiduciary Net Position.....	11
Statements of Changes in Fiduciary Net Position	12
Notes to the Financial Statements	13
<u>Other Reports</u>	
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 <i>Government Auditing Standards</i>	21



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Reclamation District No. 2035
Woodland, California

Opinions

We have audited the accompanying financial statements of Reclamation District No. 2035 (the District) as of and for the year ended June 30, 2022 and 2021, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2022 and 2021 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Reclamation District No. 2035

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

May 23, 2023

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2022

Management offers this narrative overview and analysis of the financial activities of Reclamation District 2035 (District) for the fiscal year ending June 30, 2022. This information is intended to provide a better understanding of the District's financial operations and performance. Please read in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The financial statements are designed to provide a broad overview of the District's finances. The statement of net assets represents information on all the District's assets and liabilities. With the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

(See Table A)

Table A
Condensed Statements of Net Position

	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Current and Other Assets	\$ 1,324,213	\$ 1,041,941	\$ 735,690
Capital Assets	38,907,580	39,278,556	39,625,306
Total Assets	40,231,793	40,320,497	40,360,996
Current Liabilities	502,365	409,897	478,961
Other Liabilities	64,810	91,106	-
Total Liabilities	567,175	501,003	478,961
Net Investment in Capital Assets	38,816,474	39,161,926	39,625,306
Unrestricted	848,144	657,568	257,729
Total Net Position	\$ 39,664,618	\$ 39,819,494	\$ 39,882,035

Several key points are important when reading the District's Financial Audit:

2021 to 2022 Comparison

At the end of the fiscal year, the District's cash balance had a slight increase over the previous year. This is mainly due to the grant reimbursements from the Deferred Maintenance Program (DMP) and Flood Maintenance Assistance Program (FMAP). This allowed the District to increase and maintain the reserves designated by the Board to \$100,000 in both the General Fund and Water Delivery Fund as well as the reserve designated for the intake of \$262,800.

At the end of the fiscal year the net position decreased slightly to \$39,664,618 as compared with \$39,819,494 in 2021. This is mostly due to depreciation. The net position amount is comprised of investment in capital assets and unrestricted net position. In 2022 the total amount of \$848,144 is considered unrestricted and available to meet the District's ongoing obligations. However, as mentioned above, \$462,800 is designated as reserves by the Board of Directors. The total amount of unrestricted net position was \$657,568 in 2021, which included \$231,400 designated as reserves by the Board of Directors.

2020 to 2021 Comparison

At the end of the fiscal year, the District's cash balance had a 98% increase over the previous year. This is mainly due to the water rate adjustment, grant reimbursements for the Flood Fight from 2017 and reimbursements from the Deferred Maintenance Program (DMP) and Flood Maintenance Assistance Program (FMAP). This allowed the District to maintain the reserves designated by the Board of \$50,000 in both the General Fund and Water Delivery Fund. The District was also able to retain the reserve designated for the intake of \$131,400.

At the end of the fiscal year the net position decreased slightly to \$39,819,494 as compared with \$39,882,035 in the prior year. This is mostly due to an additional year of depreciation, partially offset by a capital lease purchase of a piece of new equipment. The net position amount is comprised of investment in capital assets and unrestricted net position. Of the total amount, \$657,568 is considered unrestricted and available to meet the District's ongoing obligations. However, as mentioned above, \$231,400 is designated as reserves by the Board of Directors. The total amount of unrestricted net position was \$256,729 last year.

The statements of revenues, expenses and changes in net position represents information showing how the net position changed during the most recent fiscal year. **(See Table B)**

Table B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Operating Revenues-Water Delivery	\$ 1,591,042	\$ 1,467,046	\$ 1,317,009
Operating Expenses	<u>1,921,459</u>	<u>1,711,828</u>	<u>1,745,702</u>
Operating Income (Loss)	(330,417)	(244,782)	(428,693)
Non-Operating Revenue (M&O)	452,344	457,154	457,154
Other Non-Operating Revenue	97,125	129,781	231,554
Non-Operating Expenses	<u>373,928</u>	<u>404,694</u>	<u>387,468</u>
Change in Net Position	(154,876)	(62,541)	(127,453)
Total Net Position-Beginning	<u>39,819,494</u>	<u>39,882,035</u>	<u>40,009,488</u>
Total Net Position - Ending	\$ 39,664,618	\$ 39,819,494	\$ 39,882,035

2021 to 2022 Comparison

Operating revenues, increased in 2022 by \$123,996, which is due to an increase of power reimbursements from WDCWA.

Other Non-operating revenues decreased by \$32,656 due to completion of the grant reimbursements from DWR on the Deferred Maintenance Program. The district is still owed \$15,000 for retention on the Flood Fight grant.

Operating expenses increased in 2022 mostly due to the higher power costs, while the non-operating expenses decreased slightly over the prior years.

2020 to 2021 Comparison

Operating revenues, increased in 2021 by \$150,037, which is due to an increase of flooding fields for winter water and a 10% increase in leased farming.

Non-operating revenues decreased by \$101,773 due to completion of the grant reimbursements from the 2017 Flood Fight and the Joint Intake Project. The district is still owed \$15,000 for retention on the Flood Fight grant.

Operating expenses decreased slightly in 2021 while the non-operating expenses increased slightly.

Capital Asset Summary

Total District capital assets decreased from \$39,278,556 to \$38,907,580 during the fiscal year ending June 30, 2022. Total depreciation for the year was \$519,467. The District purchased a new pickup, made some much-needed pump repairs, and retired/sold a pickup. Detail of the capital asset transactions can be found on page 17 under Note C of the Audited Financial Statements.

2022 Budget Highlights

The total budget for the General Fund (Maintenance & Operations) for the year ended June 30, 2022, showed excess revenues over expenditures of \$77,438 compared to the actual amount of \$142,873. The difference is largely due to the reimbursement from DWR for the (FMAP). The District's expenses were reduced in several areas thanks to the assistance of this program along with continued review of overall expenses.

The total budget for Water Delivery Fund for the year ended June 30, 2022, showed excess revenues over expenditures of \$93,550 compared to the actual amount of \$160,006. Even with the increase in utility costs, and less farmed land than anticipated, the District was able to trim down expenses and maintain the reserve set aside of \$362,800.

These increases allowed the District to build its reserve fund and it will also allow the district to replace/ repair aging infrastructure in the future.

The ongoing drought situation in California brings an increased level of uncertainty to farming in fiscal year 2022/23, but with the current water rate structure the District has implemented along with another FMAP grant, the District projects it can maintain the current reserve level and also make some necessary improvements to equipment/pumps during the year.

Request for Information

This financial report is designed to provide a general overview of Reclamation District 2035 finances and to show accountability for the money received. If you have questions concerning this report of need additional financial information, contact Reclamation District 2035, 1296 E. Gibson Road, Ste A-361, Woodland, CA 95776

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF NET POSITION

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 814,809	\$ 738,433
Accounts receivable	375,463	179,209
Assessments receivable	71	71
Grants receivable	59,643	77,447
Due from other governments	1,738	1,738
Prepaid expenses	72,489	45,043
TOTAL CURRENT ASSETS	<u>1,324,213</u>	<u>1,041,941</u>
CAPITAL ASSETS		
Not being depreciated	90,670	90,670
Being depreciated	38,816,910	39,187,886
TOTAL CAPITAL ASSETS, NET	<u>38,907,580</u>	<u>39,278,556</u>
TOTAL ASSETS	<u>40,231,793</u>	<u>40,320,497</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and other liabilities	447,436	347,078
Unearned revenue	23,453	33,963
Accrued compensated absences	5,180	3,332
Current portion of lease payable	26,296	25,524
TOTAL CURRENT LIABILITIES	<u>502,365</u>	<u>409,897</u>
LONG-TERM LIABILITIES		
Finance lease payable	64,810	91,106
TOTAL LONG-TERM LIABILITIES	<u>64,810</u>	<u>91,106</u>
TOTAL LIABILITIES	<u>567,175</u>	<u>501,003</u>
NET POSITION		
Net investment in capital assets	38,816,474	39,161,926
Unrestricted	848,144	657,568
TOTAL NET POSITION	<u>\$ 39,664,618</u>	<u>\$ 39,819,494</u>

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

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the years ended June 30, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water delivery charges	\$ 1,016,204	\$ 1,100,368
Other charges	574,838	366,678
TOTAL OPERATING REVENUES	1,591,042	1,467,046
OPERATING EXPENSES		
Water delivery		
Personnel expenses	166,545	156,270
Professional services expense	39,743	40,369
Maintenance expense	208,641	248,285
Utilities expense	873,163	682,188
Depreciation	484,202	471,334
Other expense	149,165	113,382
Total Water Delivery Expenses	1,921,459	1,711,828
Flood protection		
Personnel expenses	166,545	156,271
Professional services expense	54,560	72,884
Maintenance expense	44,747	68,745
Utilities expense	9,987	10,340
Depreciation	35,265	32,413
Other expense	56,280	61,189
Total Flood Protection Expenses	367,384	401,842
TOTAL OPERATING EXPENSES	2,288,843	2,113,670
NET LOSS FROM OPERATIONS	(697,801)	(646,624)
NON-OPERATING REVENUE (EXPENSES)		
Special assessments	452,344	457,154
Federal and state grants	86,845	111,970
Investment income	5,530	6,755
Other non-operating revenue	350	5,206
Gain on disposal of capital assets	4,400	5,850
Interest expense	(3,436)	(2,560)
Other non-operating expense	(3,108)	(292)
TOTAL NON-OPERATING REVENUES (EXPENSES)	542,925	584,083
CHANGE IN NET POSITION	(154,876)	(62,541)
Net position at beginning of year	39,819,494	39,882,035
NET POSITION AT END OF YEAR	\$39,664,618	\$39,819,494

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

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and special assessments	\$ 1,836,622	\$ 1,831,585
Cash paid to suppliers for goods and services	(1,373,290)	(1,405,914)
Cash paid to employees for services	<u>(321,326)</u>	<u>(309,209)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	142,006	116,462
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal and state grant funding received	104,649	275,008
Other nonoperating revenue	<u>(2,758)</u>	<u>4,914</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	101,891	279,922
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Amounts paid for capital assets	(148,491)	(55,829)
Proceeds from sale of capital assets	4,400	38,000
Principal payments on lease	(25,524)	(16,688)
Interest payments on lease	<u>(3,436)</u>	<u>(2,560)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(173,051)	(37,077)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>5,530</u>	<u>6,755</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,530</u>	<u>6,755</u>
INCREASE IN CASH	76,376	366,062
Cash and cash equivalents at beginning of year	<u>738,433</u>	<u>372,371</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 814,809</u></u>	<u><u>\$ 738,433</u></u>
SUPPLEMENTAL NONCASH ACTIVITIES		
Purchase of equipment by capital lease	\$ -	\$ 133,318

(Continued)

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF CASH FLOWS (Continued)

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF NET LOSS FROM OPERATIONS TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net loss from operations	\$ (697,801)	\$ (646,624)
Special assessments	452,344	457,154
Adjustments to reconcile net income from operations		
to net cash provided by operating activities:		
Depreciation and amortization	519,467	503,747
Changes in operating assets and liabilities:		
Accounts receivables	(196,254)	(92,121)
Assessments receivables		(35)
Prepaid expenses	(27,446)	(11,071)
Accounts payable and other liabilities	100,358	(97,461)
Unearned revenue	(10,510)	(459)
Accrued compensated absences	1,848	3,332
	<u>1,848</u>	<u>3,332</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 142,006</u>	<u>\$ 116,462</u>

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

RECLAMATION DISTRICT NO. 2035
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2022 and 2021

	Custodial Fund	
	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and equivalents	<u>\$ 39,196</u>	<u>\$ 38,951</u>
TOTAL ASSETS	<u>39,196</u>	<u>38,951</u>
LIABILITIES		
Accounts payable	<u>21,355</u>	<u>21,355</u>
TOTAL LIABILITIES	<u>21,355</u>	<u>21,355</u>
NET POSITION		
Restricted for the Cache Creek Settling Basin	<u><u>\$ 17,841</u></u>	<u><u>\$ 17,596</u></u>

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

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the years ended June 30, 2022 and 2021

	Custodial Fund	
	2022	2021
ADDITIONS		
Investment earnings	\$ 245	\$ 404
NET INCREASE IN FIDUCIARY NET POSITION	245	404
Net position at beginning of year	17,596	17,192
NET POSITION AT END OF YEAR	<u>\$ 17,841</u>	<u>\$ 17,596</u>

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

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Reclamation District 2035 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was created on April 18, 1919. The District is situated in Yolo County, California. The first purpose of the District is to provide flood protection and drainage, and secondly, to deliver irrigation water. The District operates under the laws of the Water Code of the State of California, Division 15, Section 50000 through 53900. The District is governed by a three-member Board of Trustees.

Basis of Presentation: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that period determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

The District maintains one custodial fund, the Cache Creek Settling Basin Fund. This fund is used to account for assets held by the District as an agent for the Cache Creek Settling Basin Fund. The amounts represent the balances of a four-way agreement between the District, PG&E Properties, the City of Woodland, and Yolo Shortline Railroad. The parties committed a total of up to \$15,000 each to fund a study of improvements to mitigate impacts resulting from the enlargement in 1992 of the Cache Creek Settling Basin.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants and general revenues.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

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

Custodial funds account for assets held by the District as an agent on behalf of others. Custodial funds are accounted for using the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments: For the purposes of the Statement of Cash Flows, the District's cash and cash equivalents include cash on hand or on deposit, and demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables: Receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts, if applicable, and estimated refunds due. Business-type activities report tenant charges receivable and grant reimbursements as their major receivables. No allowance was deemed necessary at June 30, 2022 and 2021.

Special Assessments: Special assessment revenues are recognized by the District in the fiscal year they are assessed. The tax is billed in September /October and is due in 30 days. It becomes delinquent after 90 days and liens could be placed for nonpayment.

Capital Assets: Capital assets are valued at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets are currently defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided over the useful lives of assets using the straight-line method. Estimated useful lives of depreciable assets range from 5 to 30 years.

Compensated Absences: The District policy allows employees to accumulate earned but unused annual leave, which will be paid to employees upon separation from the District's service. The cost of annual leave is recognized in the period earned.

Net Position: The net position amount is the difference between assets and liabilities. Net investment in capital assets are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements: In June 2022, the GASB issued Statement No. 101, Compensated Absences. This statement requires that liabilities for compensated absences be recognized for leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or paid in cash or settled through noncash means and leave that has been used but not paid in cash or settled through noncash means. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in the liability for compensated absences. This Statement requires that a liability for certain types of compensated absences, including parental leave, military leave and jury duty leave, not be recognized until the leave commences. Certain salary related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. Governments are allowed to disclose the net change in the liability if identified as such in the footnotes to the financial statements. The provisions of this Statement are effective for years beginning after December 15, 2023.

NOTE B – CASH AND INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Primary Government		
Cash and investments		
Cash with County pooled treasury	\$ 814,809	\$ 738,433
Agency Fund		
Cash and investments		
Cash with County pooled treasury	<u>39,196</u>	<u>38,951</u>
Total cash and investments	<u>\$ 854,005</u>	<u>\$ 777,384</u>

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE B – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	No limit	No limit
U.S. Treasury Obligations	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	No limit
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	No limit
Repurchase Agreements	1 year	No limit	No limit
Reverse Repurchase Agreements	92 days	20% of base value	No limit
Medium-Term Notes	5 years	30%	No limit
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	No limit
County Pooled Investment Funds	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
JPA Pools (other investment pools)	N/A	No limit	No limit

The District complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investment in the County of Yolo Investment Pool: The District's cash is held in the County of Yolo Treasury. The County maintains an investment pool and allocates interest quarterly to the various funds based upon quarterly average daily cash balances. Investments held in the County's investment pool are available on demand and are stated at fair value. The fair value of the County's investment pool is determined by the fair value of the underlying investments, which represent level 2 inputs under the fair value hierarchy. Information regarding fair value measurements of the County pool may be found in the notes to the County of Yolo financial statements at <http://countyofyolo.org/general-government/general-government-departments/financial-services/publications>.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At June 30, 2022 and 2021, the District's investment in the County pool has an average maturity of 513 days and 408 days, respectively.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's external investment pool is not rated.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE B – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested by any one issuer to the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect deposits or investments in securities with governmental investment pools (such as the County of Yolo investment pool).

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2022 and 2021 was as follows:

	Balance at July 1, 2021	Additions	Write-offs/ Disposals	Balance at June 30, 2022
Capital assets, not being depreciated:				
Land	\$ 90,670			\$ 90,670
Total capital assets, not being depreciated	90,670			90,670
Capital assets, being depreciated:				
Structures and improvements	40,612,890			40,612,890
Equipment	2,521,149	\$ 148,491	\$ (15,500)	2,654,140
Total capital assets being depreciated	43,134,039	148,491	(15,500)	43,267,030
Less: accumulated depreciation:				
Structures and improvements	(1,861,401)	(420,139)		(2,281,540)
Equipment	(2,084,752)	(99,328)	15,500	(2,168,580)
Total accumulated depreciation	(3,946,153)	(519,467)	15,500	(4,450,120)
Total capital assets being depreciated, net	39,187,886	(370,976)		38,816,910
CAPITAL ASSETS, NET	\$ 39,278,556	\$ (370,976)	\$ -	\$ 38,907,580

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE C – CAPITAL ASSETS (Continued)

	Balance at July 1, 2020	Additions	Write-offs/ Disposals	Balance at June 30, 2021
Capital assets, not being depreciated:				
Land	\$ 90,670			\$ 90,670
Total capital assets, not being depreciated	90,670			90,670
Capital assets, being depreciated:				
Structures and improvements	40,612,890			40,612,890
Equipment	2,470,589	\$ 189,147	\$ (138,587)	2,521,149
Total capital assets being depreciated	43,083,479	189,147	(138,587)	43,134,039
Less: accumulated depreciation:				
Structures and improvements	(1,441,262)	(420,139)		(1,861,401)
Equipment	(2,107,581)	(83,608)	106,437	(2,084,752)
Total accumulated depreciation	(3,548,843)	(503,747)	106,437	(3,946,153)
Total capital assets being depreciated, net	39,534,636	(314,600)	(32,150)	39,187,886
CAPITAL ASSETS, NET	\$ 39,625,306	\$ (314,600)	\$ (32,150)	\$ 39,278,556

Depreciation expense of \$35,265 and \$484,202 was charged to Flood Protection and Water Delivery, respectively, for the fiscal year ended June 30, 2022. Depreciation expense of \$32,413 and \$471,334 was charged to Flood Protection and Water Delivery, respectively, for the fiscal year ended June 30, 2021.

NOTE D – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2022:

	July 1, 2021	Additions	Reductions	June 30, 2022	Due Within One Year
Lease payable	\$ 116,630		\$ (25,524)	\$ 91,106	\$ 26,296
Compensated absences	3,332	\$ 1,848		5,180	5,180
Total Long-Term Liabilities	\$ 119,962	\$ 1,848	\$ (25,524)	\$ 96,286	\$ 31,476

	July 1, 2020	Additions	Reductions	June 30, 2021	Due Within One Year
Finance lease payable		\$ 133,318	\$ (16,688)	\$ 116,630	\$ 25,524
Compensated absences		3,332		3,332	3,332
Total Long-Term Liabilities	\$ -	\$ 136,650	\$ (16,688)	\$ 119,962	\$ 28,856

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE D – LONG-TERM LIABILITIES (CONTINUED)

On September 17, 2020, the District leased equipment under a finance lease which has monthly payments of \$2,393 through October 28, 2025, including interest at 2.99%. Capital assets acquired under the finance lease consist of a backhoe with a cost of \$133,318 and accumulated depreciation of \$29,343 and \$10,310 at June 30, 2022 and 2021, respectively.

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

	2022	2021
Fiscal Year Ending June 30:		
2022		\$ 28,721
2023	\$ 28,721	28,721
2024	28,721	28,721
2025	28,721	28,721
2026	9,574	9,574
Total payments	95,737	124,458
Less: amounts representing interest	(4,631)	(7,828)
Net present value of future minimum lease payments	<u>\$ 91,106</u>	<u>\$ 116,630</u>

NOTE E – NET POSITION

Designations: Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. The following are the designations for June 30:

	2022	2021
Capital expenditure sinking fund	\$ 262,800	\$ 131,400
Contingency Reserve		
Water delivery	100,000	50,000
Flood protection	100,000	50,000
	<u>\$ 462,800</u>	<u>\$ 231,400</u>

NOTE F – PENSION PLANS

The District's employees are covered under defined contribution retirement plans that cover all eligible full-time employees of the District with at least six months of credited service. The nature of a defined contribution retirement plan is not to guarantee a specific retirement benefit, but to define an annual contribution to the plan for each employee. All contributions to the plan vest immediately. Total District contributions to the plan during the years ended June 30, 2022 and 2021 were \$17,260 and \$14,550, respectively.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE F – PENSION PLANS (Continued)

The District pays into its own plan as well as the Conaway plan for employees of Conaway Preservation Group that perform services for the District. As of January 1, 2019, the District paid into the Conaway plan only. Employees under the Conaway plan are eligible after six months of service and matching contributions are made of 200% on the first 5% contributed by the employee up to a maximum of 10%. Employees under the District's plan are eligible after twelve months of service and have worked 1,000 hours and matching contributions are made of 100% of the first 10% contributed by the employee up to a maximum of 10%.

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for risk of loss relating to property, automobile, commercial umbrella and public officials liability exposures. The coverage limits are \$3,000,000 aggregate and \$1,000,000 per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE H – COMMITMENTS AND CONTINGENCIES

The District has a long-term obligation to the United States Department of Energy, Western Area Power Administration, for .11254% of the output of the Central Valley Project, California. This contract, also known as the Western Base Resource, obligates the District to make payments on a "take-or-pay" basis through December 31, 2024.

The District has participated in federal and state assisted grant and cooperative agreement programs. These programs are subject to program compliance audits by the grantors. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a party to claims and legal proceedings arising in the ordinary course of business. After taking into consideration information furnished by legal counsel to the District as to the current status of various claims and proceedings to which the District is a party, management is of the opinion that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on the financial position or results of operations of the District.

NOTE I – RELATED PARTY TRANSACTIONS

The District's management also works for one of the District's customers, Conaway Preservation Group (CPG). The District recognized \$534,619 and \$524,329 of revenue from CPG during the years ended June 30, 2022 and 2021, respectively, representing 24.9% and 25.5% of the District's revenue excluding capital grants. Amounts receivable at June 30, 2022 and 2021 totaled \$31,069 and \$4,776, respectively. Payments to CPG for services totaled \$413,278 and \$392,456 during the years ended June 30, 2022 and 2021, respectively. Amounts payable to CPG as of June 30, 2022 and 2021 total \$214,009 and \$192,818, respectively.

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

To the Board of Trustees
Reclamation District No. 2035
Woodland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Reclamation District No. 2035 (the District) as of and for the year ended June 30, 2022 and 2021, 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 23, 2023.

Report on 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on 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

To the Board of Directors
Reclamation District No. 2035

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*.

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.

Richardson & Company, LLP

May 23, 2023