

RECLAMATION DISTRICT NO. 2035

AUDITED FINANCIAL STATEMENTS

June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the major enterprise fund and custodial fund of the Reclamation District No. 2035 (the District) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise fund and custodial fund of the District as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 and *Government 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 and *Government 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 September 21, 2024, 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

September 21, 2024

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2023

Management offers this narrative overview and analysis of the financial activities of Reclamation District 2035 (District) for the fiscal year ending June 30, 2023. 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 follows this section.

Financial Highlights

The financial statements are designed to provide a broad overview of the district's finances. The statement of net position 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>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2021</u>
Current and Other Assets	\$ 1,481,986	\$ 1,324,213	\$ 1,041,941
Capital Assets, Net	38,547,050	38,907,580	39,278,556
Total Assets	40,029,036	40,231,793	40,320,497
Current Liabilities	674,424	502,365	409,897
Other Liabilities	37,716	64,810	91,106
Total Liabilities	567,175	567,175	501,003
Net Investment in Capital Assets	38,482,239	38,812,474	39,161,926
Unrestricted	834,657	848,144	657,568
Total Net Position	\$ 39,316,896	\$ 39,664,618	\$ 39,819,494

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

2022 to 2023 Comparison

At the end of the fiscal year, the district's cash balance had a 20% increase over the previous year. This is mainly due to the grant reimbursements from the Flood Maintenance Assistance Program (FMAP). This allowed the district to increase and maintain the reserves designated by the Board to \$300,000 in both the General Fund and Water Delivery Fund as well as the reserve designated for the intake of \$394,200.

At the end of the fiscal year the net position decreased slightly to \$39,316,896 as compared with \$39,664,618 in 2022. This is mostly due to depreciation. The net position amount is comprised of the net investment in capital assets and unrestricted net position. In 2023 the total amount of \$834,657 is considered unrestricted and available to meet the district's ongoing obligations. However, as mentioned above, \$694,200 is designated as reserves by the Board of Directors. The total amount of unrestricted net position was \$848,144 in 2022, which included \$462,800 designated as reserves by the Board of Directors.

Management's Discussion and Analysis (Continued)

Fiscal Year Ending June 30, 2023

2021 to 2022 Comparison

At the end of the fiscal year 2022, the district's cash balance increased 10% over the previous year. This is mainly due to the 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 \$100,000 in both the General Fund and Water Delivery Fund. The district was also able to retain 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 the prior year. This is mostly due to an additional year of depreciation. The net position amount is comprised of the net investment in capital assets and unrestricted net position. Of the total amount, \$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.

The statements of revenues, expenses and changes in net position represent 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>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2021</u>
Operating Revenues-Water Delivery	\$ 1,643,512	\$ 1,591,042	\$ 1,467,046
Operating Expenses	<u>2,552,181</u>	<u>2,288,843</u>	<u>2,113,670</u>
Operating Income (Loss)	(908,669)	(697,801)	(646,624)
Non-Operating Revenue (M&O)	457,154	452,344	457,154
Other Non-Operating Revenue	112,346	97,125	129,781
Non-Operating Expenses	<u>(8,553)</u>	<u>(6,544)</u>	<u>(2,852)</u>
Change in Net Position	(347,722)	(154,876)	(62,541)
Total Net Position-Beginning	<u>39,664,618</u>	<u>39,819,494</u>	<u>39,882,035</u>
Total Net Position - Ending	<u>\$ 39,316,896</u>	<u>\$ 39,664,618</u>	<u>\$ 39,819,494</u>

2022 to 2023 Comparison

Operating revenues increased in 2023 by \$52,470, which is due to an increase in winter water flooding as well as overall water delivery revenue.

Other Non-operating revenues increased due to higher interest receipts from the investments, sale of a vehicle as well as a refund of the unused portion of a warranty on the vehicle.

Operating expenses increased in 2023 primarily due to the higher power costs and maintenance costs.

Management's Discussion and Analysis (Continued)

Fiscal Year Ending June 30, 2023

2021 to 2022 Comparison

Operating revenues increased in 2022 by \$123,996, which is due to an increase of flooding fields for winter water and a 10% increase in tenant farming.

Non-operating revenues decreased by \$32,656 due to completion of the grant reimbursements from the Flood Management Program.

Operating expenses increased slightly in 2022, mainly due to high power costs.

Capital Asset Summary

Total District capital assets decreased \$360,530 from \$38,907,580 to \$38,547,050 during the fiscal year ending June 30, 2023. Total depreciation for the year was \$536,478. The district retired/sold an old truck, purchased a new work truck, and made some much-needed pump repairs. Capital assets decreased \$370,976 during the fiscal year ending June 30, 2022 due to depreciation of \$519,467, offset by the purchase of a new pickup and pump improvements. Details of the capital asset transactions can be found on page 18 under Note C of the Audited Financial Statements.

2023 Budget Highlights

The total budget for the General Fund (Maintenance & Operations) for the year ended June 30, 2023, showed excess revenues over expenditures of \$81,969 compared to the actual amount of \$10,164. The difference is largely due to a higher level of accrued FMAP expenses. The district's expenses increased resulting from the January 2023 storm damage. We are still awaiting reimbursement from FEMA/OES for some of these expenses.

The total budget for Water Delivery Fund for the year ended June 30, 2023, showed excess revenues over expenditures of \$28,950 compared to the actual amount of \$538. Even with the increase in utility costs the district was able to trim down expenses and maintain the reserve set aside of \$694,200.

The reserves will allow the district to replace/repair aging infrastructure in the future.

Economic Factors and Next Year's Budget and Rates

Fiscal year 2023-2024 budget assumed stable economic conditions would exist. The board approved a 2% increase in the maintenance and operations (M&O) budget and capital expenses to rebuild a pump and well. Budget revenues and expenses approved were \$2,336,761 and \$2,307,000 during fiscal year 2023 – 2024 compared to \$2,092,619 and \$1,981,700 in 2022-2023.

The district has filed for reimbursement from FEMA/OES for flood damages from the January 2023 storms. There is potential for recovery of approximately \$125,000 from these claims.

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 or 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, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 971,080	\$ 814,809
Accounts receivable	296,082	375,463
Assessments receivable	106	71
Grants receivable	133,038	59,643
Due from other governments	1,738	1,738
Prepaid expenses	79,942	72,489
TOTAL CURRENT ASSETS	<u>1,481,986</u>	<u>1,324,213</u>
CAPITAL ASSETS		
Not being depreciated	90,670	90,670
Being depreciated, net	38,456,380	38,816,910
TOTAL CAPITAL ASSETS, NET	<u>38,547,050</u>	<u>38,907,580</u>
TOTAL ASSETS	<u>40,029,036</u>	<u>40,231,793</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and other liabilities	614,664	447,436
Unearned revenue	27,588	23,453
Compensated absences	5,080	5,180
Current portion of lease payable	27,092	26,296
TOTAL CURRENT LIABILITIES	<u>674,424</u>	<u>502,365</u>
LONG-TERM LIABILITIES		
Lease payable	37,716	64,810
TOTAL LONG-TERM LIABILITIES	<u>37,716</u>	<u>64,810</u>
TOTAL LIABILITIES	<u>712,140</u>	<u>567,175</u>
NET POSITION		
Net investment in capital assets	38,482,239	38,816,474
Unrestricted	834,657	848,144
TOTAL NET POSITION	<u>\$ 39,316,896</u>	<u>\$ 39,664,618</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, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water delivery charges	\$ 1,098,323	\$ 1,016,204
Other charges	545,189	574,838
TOTAL OPERATING REVENUES	1,643,512	1,591,042
OPERATING EXPENSES		
Water delivery		
Personnel expenses	194,916	166,545
Professional services expense	44,947	39,743
Maintenance expense	225,841	208,641
Utilities expense	920,351	873,163
Depreciation	498,552	484,202
Other expense	101,636	149,165
Total Water Delivery Expenses	1,986,243	1,921,459
Flood protection		
Personnel expenses	191,613	166,545
Professional services expense	77,878	54,560
Maintenance expense	169,494	44,747
Utilities expense	35,661	9,987
Depreciation	37,926	35,265
Other expense	53,366	56,280
Total Flood Protection Expenses	565,938	367,384
TOTAL OPERATING EXPENSES	2,552,181	2,288,843
NET LOSS FROM OPERATIONS	(908,669)	(697,801)
NON-OPERATING REVENUES (EXPENSES)		
Special assessments	457,154	452,344
Federal and state grants	73,396	86,845
Investment income	13,037	5,530
Other non-operating revenues	19,543	350
Gain on disposal of capital assets	6,370	4,400
Interest expense	(2,424)	(3,436)
Other non-operating expenses	(6,129)	(3,108)
TOTAL NON-OPERATING REVENUES (EXPENSES)	560,947	542,925
CHANGE IN NET POSITION	(347,722)	(154,876)
Net position at beginning of year	39,664,618	39,819,494
NET POSITION AT END OF YEAR	\$ 39,316,896	\$ 39,664,618

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and special assessments	\$ 2,184,147	\$ 1,836,622
Cash paid to suppliers for goods and services	(1,532,754)	(1,373,290)
Cash paid to employees for services	(323,274)	(321,326)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>328,119</u>	<u>142,006</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal and state grant funding received		104,649
Other nonoperating revenue	13,415	(2,758)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>13,415</u>	<u>101,891</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Amounts paid for capital assets	(223,129)	(148,491)
Proceeds from sale of capital assets	53,551	4,400
Principal payments on lease	(26,298)	(25,524)
Interest payments on lease	(2,424)	(3,436)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(198,300)</u>	<u>(173,051)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	13,037	5,530
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>13,037</u>	<u>5,530</u>
INCREASE IN CASH	<u>156,271</u>	<u>76,376</u>
Cash and cash equivalents at beginning of year	<u>814,809</u>	<u>738,433</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 971,080</u></u>	<u><u>\$ 814,809</u></u>

(Continued)

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF CASH FLOWS (Continued)

For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF NET LOSS FROM OPERATIONS TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net loss from operations	\$ (908,669)	\$ (697,801)
Special assessments	457,154	452,344
Adjustments to reconcile net income from operations		
to net cash provided by operating activities:		
Depreciation and amortization	536,478	519,467
Changes in operating assets and liabilities:		
Accounts receivable	79,381	(196,254)
Assessments receivable	(35)	
Prepaid expenses	(7,453)	(27,446)
Accounts payable and other liabilities	167,228	100,358
Unearned revenue	4,135	(10,510)
Compensated absences	(100)	1,848
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 328,119</u>	<u>\$ 142,006</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, 2023 and 2022

		Custodial Fund	
		<u>2023</u>	<u>2022</u>
ASSETS			
Cash and equivalents		\$ 38,864	\$ 39,196
	TOTAL ASSETS	<u>38,864</u>	<u>39,196</u>
LIABILITIES			
Accounts payable		21,355	21,355
	TOTAL LIABILITIES	<u>21,355</u>	<u>21,355</u>
NET POSITION			
Restricted for the Cache Creek Settling Basin		<u>\$ 17,509</u>	<u>\$ 17,841</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, 2023 and 2022

	Custodial Fund	
	2023	2022
ADDITIONS		
Investment earnings (loss)	\$ (332)	\$ 245
NET INCREASE IN FIDUCIARY NET POSITION	<u>(332)</u>	<u>245</u>
Net position at beginning of year	<u>17,841</u>	<u>17,596</u>
NET POSITION AT END OF YEAR	<u><u>\$ 17,509</u></u>	<u><u>\$ 17,841</u></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, 2023 and 2022

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. Enterprise Funds and custodial funds are accounted for on the economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the fund are included on the statement of net position. Net position is segregated into the net investment in capital assets, amounts restricted and amounts unrestricted. Enterprise fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The District's enterprise fund 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, 2023 and 2022

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, including pooled investments with the County.

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, 2023 and 2022.

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.

Unearned Revenue: Unearned revenue represents payments related to the following water year that are paid prior to year-end.

Compensated Absences: The District policy allows employees to accumulate earned but unused vacation, which will be paid to employees upon separation from the District's service. Vacation is accrued at a rate of 3.34 hours per pay period for employees employed for more than 90 days with less than five years of services and five hours per pay period for employees with over five years of service. The cost of vacation is recognized in the period earned.

Net Position: The net position amount is the difference between assets and liabilities. The net investment in capital assets are capital assets, less accumulated depreciation and any outstanding debt and other

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2023 and 2022

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

capital liabilities 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.

Leases and Subscriptions: The lease payable represents the District's obligation to make lease payments arising from a lease. Leases payable are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The lease payments are discounted at the rate inherent in the lease agreement or, if not determinable, at an estimated incremental borrowing rate.

Subscriptions payable represent the District's obligation to make subscription payments arising from subscription contracts. Subscriptions payable are recognized at the subscription commencement date based on the present value of the future subscription payments expected to be made during the subscription term. The subscription payments are discounted at the rate inherent in the lease agreement or, if not determinable, at an estimated incremental borrowing rate. The District does not have any subscriptions subject to accrual at year-end.

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.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes a primary government, or reporting unit that reports a liability for revenue debt, vulnerable to the risk of a substantial impact and to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to occur within 12 months of the date the financial statements are issued. If the criteria in the Statement have been met for a concentration or constraint, the government should disclose information in notes to financial statements in

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2023 and 2022

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

sufficient detail to enable users of financial statements understand the nature of the circumstances disclosed and the government’s vulnerability to the risk of a substantial impact. The provisions of this Statement are effective for years beginning after June 15, 2024.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This Statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability, including 1) certain topics and disclosures in Management’s Discussion and Analysis; 2) requiring the display of inflows and outflows of unusual and infrequent items to be reported separately as the last presented flow(s) of resources prior to the net change in resources flows in the government-wide, governmental fund, and proprietary fund statement of resources flows; 3) changing the definition of proprietary fund nonoperating revenues and expenses to include subsidies received and provided, contributions to permanent and term endowments, revenues and expenses related to financing, resources from the disposal of capital assets and inventory and investment income and expenses and defines operating revenues and expenses as revenue and expenses other than nonoperating revenue and expenses; 4) requires major component units to be presented separately in the reporting entity’s statement of net position and statement of activities if it does not reduce the readability of the statements; and 5) requires budgetary comparison schedules to be reported as Required Supplementary Information (RSI), requires the presentation of variances between original and final budget amounts and final budget and actual amounts in the RSI and requires the explanation of significant variances to be reported in notes to the RSI. The provisions of this Statement are effective for years beginning after June 15, 2025.

NOTE B – CASH AND INVESTMENTS

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

	<u>2023</u>	<u>2022</u>
Primary Government		
Cash and investments		
Investments in County Treasury	\$ 971,080	\$ 814,809
Custodial Fund		
Cash and investments		
Investments in County Treasury	<u>38,864</u>	<u>39,196</u>
Total cash and investments	<u><u>\$ 1,009,944</u></u>	<u><u>\$ 854,005</u></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, 2023 and 2022

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, 2023 and 2022, the District's investment in the County pool has an average maturity of 460 days and 513 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, 2023 and 2022

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 was as follows:

	Balance at July 1, 2022	Additions	Write-offs/ Disposals	Balance at June 30, 2023
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	\$ 93,198		40,706,088
Equipment	2,654,140	129,931	\$ (58,368)	2,725,703
Total capital assets being depreciated	43,267,030	223,129	(58,368)	43,431,791
Less: accumulated depreciation:				
Structures and improvements	(2,281,540)	(420,986)		(2,702,526)
Equipment	(2,168,580)	(115,492)	11,187	(2,272,885)
Total accumulated depreciation	(4,450,120)	(536,478)	11,187	(4,975,411)
Total capital assets being depreciated, net	38,816,910	(313,349)	(47,181)	38,456,380
CAPITAL ASSETS, NET	\$ 38,907,580	\$ (313,349)	\$ (47,181)	\$ 38,547,050

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2023 and 2022

NOTE C – CAPITAL ASSETS (Continued)

	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

Depreciation expense of \$498,552 and \$37,926 was charged to Water Delivery and Flood Protection, respectively, for the fiscal year ended June 30, 2023. Depreciation expense of \$484,202 and \$35,265 was charged to Water Delivery and Flood Protection, respectively, for the fiscal year ended June 30, 2022.

NOTE D – LONG-TERM LIABILITIES

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

	July 1, 2022	Additions	Reductions	June 30, 2023	Due Within One Year
Lease payable	\$ 91,106		\$ (26,298)	\$ 64,808	\$ 27,092
Compensated absences	5,180		(100)	5,080	5,080
Total Long-Term Liabilities	\$ 96,286	\$ -	\$ (26,398)	\$ 69,888	\$ 32,172
	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

On September 17, 2020, the District leased equipment under a lease which has monthly payments of \$2,393 through October 28, 2025 and a final payment of \$101 on 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 \$48,376 and \$29,343 at June 30, 2023 and 2022, respectively.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2023 and 2022

NOTE D – LONG-TERM LIABILITIES (CONTINUED)

As of June 30, future minimum lease payments under the lease liability were as follows:

Fiscal Year Ending June 30:	2023			2022		
	Principal	Interest	Total	Principal	Interest	Total
2023				\$ 26,296	\$ 2,424	\$ 28,720
2024	\$ 27,092	\$ 1,627	\$ 28,719	27,094	1,627	28,721
2025	27,916	805	28,721	27,916	805	28,721
2026	9,800	87	9,887	9,800	87	9,887
Total	<u>\$ 64,808</u>	<u>\$ 2,519</u>	<u>\$ 67,327</u>	<u>\$ 91,106</u>	<u>\$ 4,943</u>	<u>\$ 96,049</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:

	2023	2022
Capital expenditure sinking fund	\$ 394,200	\$ 262,800
Contingency Reserve		
Water delivery	150,000	100,000
Flood protection	150,000	100,000
	<u>\$ 694,200</u>	<u>\$ 462,800</u>

NOTE F – PENSION PLANS

The District participates in the Conaway Preservation Group multiple employer defined contribution retirement plan organized under Section 401(k) of the Internal Revenue Code (IRC) called the Slavic Integrated Administration Multiple Employer Retirement Plan (the Plan), which is administered by Vensure Employer Services. Benefit terms, including contribution requirements, are established and may be amended by the Conaway Executive Committee. The District's Board of Directors has the authority to end the District's participation in the Plan. Full-time employees of the District with at least six months of credited service are eligible to enter the Plan. Employees may contribute to the Plan up to IRC limits. The District makes a safe harbor match up to 200% of employee deferrals that do not exceed 5% of eligible compensation (10% maximum contributions). All employee and employer contributions to the plan vest immediately. District contributions to the Plan during the years ended June 30, 2023 and 2022 were \$18,223 and \$17,260, respectively.

The District had a separate single employer IRC Section 401(k) defined contribution pension plan that was terminated on January 1, 2019.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2023 and 2022

NOTE G – RISK MANAGEMENT

Participation in Insurance Risk Pool: The District is a member of the California Association of Mutual Water Companies (Cal Mutuals) Joint Powers Risk and Insurance Management Authority (JPRMIA). JPRMIA is a public entity risk pool of governments that provides property & casualty, pollution and employee benefits insurance coverage. Loss contingency reserves established by the JPRMIA are funded by contributions from member agencies. The District pays an annual premium to the JPRMIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjustments, legal costs and administrative and other costs to operate the JPRMIA. Private insurers may provide excess coverage over the JPRMIA's coverage limits. Cal Mutuals may be contacted at www.calmutualsjprima.org.

In addition to the insurance coverage below, JPRMIA secures commercial excess insurance of \$5,000,000. The District continues to carry separate commercial workers' compensation insurance. Settled claims have not exceeded the insurance limits in the past three years and there have been no reductions of insurance limits.

The District's coverage limits were as follows as of June 30, 2023:

	Coverage	Deductible
Auto liability and uninsured motorist (including comprehensive, medical payments and collision)	\$5,000 - 1,000,000	None - \$500
Property coverage	6,469,671	1,000
Business income/extra expense	2,000,000	None
Additional property coverage (depending on type)	5,000 - 1,000,000	None - 1,000
Property blanket coverage extension limit	2,000,000	1,000 - 10,000
Mobile equipment (including borrowed, rented or leased)	50,000 - 150,000	1,000
Crime coverage (includes employee theft, forgery, theft, robbery and computer, funds transfer and money order fraud)	250,000	1,000
General liability (includes products, personal/advertising, damage to rented property, medical expense, bodily injury, property damage)	10,000 - 10,000,000	None
Board of Directors and management liability (includes wrongful acts employment practices, employee benefit plans and injunctive relief)	5,000 - 1,000,000	None - 1,000

NOTE H – COMMITMENTS AND CONTINGENCIES

The District has a long-term agreement with the United States Department of Energy, Western Area Power Administration for a percentage of the output of the Central Valley Project, California. The percentage is .11254% through December 31, 2024 and .11029% starting January 1, 2025. This contract, also known as the Western Base Resource, obligates the District to make payments on a "take-or-pay" basis through December 31, 2054.

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

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2023 and 2022

NOTE H – COMMITMENTS AND CONTINGENCIES (Continued)

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 \$688,462 and \$539,405 of revenue from CPG during the years ended June 30, 2023 and 2022, respectively, representing 31.11% and 25.20% of the District's revenue excluding capital grants. Amounts receivable from CPG at June 30, 2023 and 2022 totaled \$99,772 and \$31,069, respectively. Payments to CPG for services totaled \$508,620 and \$413,278 during the years ended June 30, 2023 and 2022, respectively. Amounts payable to CPG as of June 30, 2023 and 2022 totaled \$252,449 and \$214,009, 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 enterprise fund and custodial fund of Reclamation District No. 2035 (the District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 21, 2024.

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 financial statements. However, providing an opinion on compliance with those provisions was not an

To the Board of Directors
Reclamation District No. 2035

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

September 21, 2024