

RECLAMATION DISTRICT NO. 2035

AUDITED FINANCIAL STATEMENTS

June 30, 2021 and 2020

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RECLAMATION DISTRICT NO. 2035
AUDITED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Reclamation District No. 2035 (the District), which comprise the statements of net position as of June 30, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Reclamation District No. 2035

Opinion

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, 2021 and 2020 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.

Other Matters

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, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2022, 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 12, 2022

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2021

Management offers this narrative overview and analysis of the financial activities of Reclamation District 2035 (District) for the fiscal year ending June 30, 2021. 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 in improving or deteriorating. (See Table A)

Table A
Condensed Statement of Net Position

	<u>6/30/2020</u>	<u>6/30/2021</u>
Current and Other Assets	\$ 735,690	\$ 1,041,941
Capital Assets	39,625,306	39,278,556
Total Assets	40,360,996	40,320,497
Current Liabilities	478,961	409,897
Other Liabilities	91,106	91,106
Total Liabilities	478,961	501,003
Net Investment in Capital Assets	39,625,306	39,161,926
Restricted	231,400	231,400
Unrestricted	25,329	426,168
Total Net Position	\$ 39,882,035	\$ 39,819,494

Several key points are important when reading the Districts Financial Audit:

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, restricted 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 reserves was \$256,729 last year.

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

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

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

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 \$39,625,306 to \$39,278,556 during the fiscal year ending June 30, 2021. Total depreciation for the year was \$503,747. The District purchased a new backhoe, made some much-needed pump repairs, and retired/sold a backhoe. Detail of the capital asset transactions can be found on page 12 under Note C of the Audited Financial Statements.

2021 Budget Highlights

The total budget for the General Fund (Maintenance & Operations) for the year ended June 30, 2021, showed excess revenues over expenditures of \$89,252 compared to the actual amount of \$180,832. The difference is largely due to the reimbursement from DWR for the (DMP) and the (FMAP). The district's expenses were reduced in several areas thanks to the assistance of these two programs.

This increase allows the district to build its reserve fund and it will also allow the district to replace/repair aging infrastructure in the future.

The total budget for Water Delivery Fund for the year ended June 30, 2021, showed excess revenues over expenditures of \$99,022 compared to the actual amount of \$227,936. 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 \$181,400.

With the drought situation in California, fiscal year 21/22 farming is uncertain but with the current water rate structure the District has in place, it is hopeful it can continue hold onto the reserves and 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 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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 738,433	\$ 372,371
Accounts receivable	179,209	87,088
Assessments receivable	71	36
Grants receivable	77,447	240,485
Due from other governments	1,738	1,738
Prepaid expenses	45,043	33,972
TOTAL CURRENT ASSETS	<u>1,041,941</u>	<u>735,690</u>
CAPITAL ASSETS		
Not being depreciated	90,670	90,670
Being depreciated	39,187,886	39,534,636
TOTAL CAPITAL ASSETS, NET	<u>39,278,556</u>	<u>39,625,306</u>
TOTAL ASSETS	<u>40,320,497</u>	<u>40,360,996</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and other liabilities	347,078	444,539
Unearned revenue	33,963	34,422
Accrued compensated absences	3,332	
Current portion of lease payable	25,524	
TOTAL CURRENT LIABILITIES	<u>409,897</u>	<u>478,961</u>
LONG-TERM LIABILITIES		
Lease payable	91,106	
TOTAL LONG-TERM LIABILITIES	<u>91,106</u>	
TOTAL LIABILITIES	<u>501,003</u>	<u>478,961</u>
NET POSITION		
Net investment in capital assets	39,161,926	39,625,306
Unrestricted	657,568	256,729
TOTAL NET POSITION	<u>\$ 39,819,494</u>	<u>\$ 39,882,035</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water delivery charges	\$ 1,100,368	\$ 945,237
Other charges	366,678	371,772
TOTAL OPERATING REVENUES	<u>1,467,046</u>	<u>1,317,009</u>
OPERATING EXPENSES		
Water delivery		
Personnel expenses	156,270	146,714
Professional services expense	40,369	76,019
Maintenance expense	248,285	270,106
Utilities expense	682,188	672,648
Depreciation	471,334	474,302
Other expense	113,382	105,913
Total Water Delivery Expenses	<u>1,711,828</u>	<u>1,745,702</u>
Flood protection		
Personnel expenses	156,271	146,714
Professional services expense	72,884	67,433
Maintenance expense	68,745	69,111
Utilities expense	10,340	6,089
Depreciation	32,413	25,190
Other expense	61,189	65,797
Total Flood Protection Expenses	<u>401,842</u>	<u>380,334</u>
TOTAL OPERATING EXPENSES	<u>2,113,670</u>	<u>2,126,036</u>
NET LOSS FROM OPERATIONS	(646,624)	(809,027)
NON-OPERATING REVENUE (EXPENSES)		
Special assessments	457,154	457,154
Federal and state grants	111,970	154,266
Investment income	6,755	12,252
Other non-operating revenue	5,206	12,000
Contributions from other agencies		53,036
Gain on disposal of capital assets	5,850	
Interest expense	(2,560)	(3,496)
Other non-operating expense	(292)	(3,638)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>584,083</u>	<u>681,574</u>
CHANGE IN NET POSITION	(62,541)	(127,453)
Net position, beginning of year	<u>39,882,035</u>	<u>40,009,488</u>
NET POSITION AT END OF YEAR	<u>\$ 39,819,494</u>	<u>\$ 39,882,035</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and special assessments	\$ 1,831,585	\$ 1,867,016
Cash paid to suppliers for goods and services	(1,405,914)	(2,114,802)
Cash paid to employees for services	(309,209)	(206,984)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>116,462</u>	<u>(454,770)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal and state grant funding received	275,008	535,433
Other nonoperating revenue	4,914	8,362
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>279,922</u>	<u>543,795</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Amounts paid for capital assets	(55,829)	(157,300)
Proceeds from sale of capital assets	38,000	
Capital grants received		26,770
Amounts paid to other agencies		(187,271)
Principal payments on lease	(16,688)	(3,996)
Interest payments on lease	(2,560)	(3,496)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(37,077)</u>	<u>(325,293)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	6,755	12,252
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>6,755</u>	<u>12,252</u>
INCREASE (DECREASE) IN CASH	366,062	(224,016)
Cash and cash equivalents at beginning of year	<u>372,371</u>	<u>596,387</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 738,433</u>	<u>\$ 372,371</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	\$ (646,624)	\$ (809,027)
Special assessments	457,154	457,154
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	503,747	499,492
Changes in operating assets and liabilities:		
Accounts receivables	(92,121)	74,887
Assessments receivables	(35)	(36)
Prepaid expenses	(11,071)	300
Accounts payable and other liabilities	(97,461)	(695,542)
Unearned revenue	(459)	18,002
Accrued compensated absences	3,332	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 116,462</u>	<u>\$ (454,770)</u>

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

RECLAMATION DISTRICT NO. 2035

STATEMENTS OF NET POSITION
FIDUCIARY FUNDS

For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and equivalents	\$ 38,951	\$ 38,547
TOTAL ASSETS	<u>\$ 38,951</u>	<u>\$ 38,547</u>
LIABILITIES		
Accounts payable	\$ 21,355	\$ 21,355
Agency funds held for others	17,596	17,192
TOTAL LIABILITIES	<u>\$ 38,951</u>	<u>\$ 38,547</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, 2021 and 2020

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.

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.

The District maintains one agency fund, the *Cache Creek Settling Basin Fund*. The amounts reported for the Cache Creek Settling Basin Fund 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.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021 and 2020

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

Fiduciary Funds account for assets held by the District as an agent on behalf of others. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency 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, 2021 and 2020.

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, 2021 and 2020

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 January 2017, the GASB issued Statement No. 92, *Omnibus 2020*. The objective of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issuers that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to leases, intra-entity transfers, reporting assets accumulated for postemployment benefits, measurement of liabilities related to asset retirement obligations, applicability of certain requirements of Statement No. 84 *Fiduciary Activities* to postemployment benefit arrangements, public entity risk pools, nonrecurring fair value measurements of assets or liabilities and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND INVESTMENTS

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

	<u>2021</u>	<u>2020</u>
Primary Government		
Cash and investments		
Cash with County pooled treasury	\$ 738,433	\$ 372,371
Agency Fund		
Cash and investments		
Cash with County pooled treasury	<u>38,951</u>	<u>38,547</u>
Total cash and investments	<u>\$ 777,384</u>	<u>\$ 410,918</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, 2021 and 2020

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, 2021 and 2020, the District’s investment in the County pool has an average maturity of 408 days and 416 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, 2021 and 2020

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, 2021 and 2020 was as follows:

	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	<u>90,670</u>			<u>90,670</u>
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	<u>43,083,479</u>	<u>189,147</u>	<u>(138,587)</u>	<u>43,134,039</u>
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	<u>(3,548,843)</u>	<u>(503,747)</u>	<u>106,437</u>	<u>(3,946,153)</u>
Total capital assets being depreciated, net	<u>39,534,636</u>	<u>(314,600)</u>	<u>(32,150)</u>	<u>39,187,886</u>
CAPITAL ASSETS, NET	<u>\$ 39,625,306</u>	<u>\$ (314,600)</u>	<u>\$ (32,150)</u>	<u>\$ 39,278,556</u>

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021 and 2020

NOTE C – CAPITAL ASSETS (Continued)

	Balance at July 1, 2019	Additions	Write-offs/ Disposals	Balance at June 30, 2020
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	2,313,289	\$ 157,300		2,470,589
Total capital assets being depreciated	42,926,179	157,300		43,083,479
Less: accumulated depreciation:				
Structures and improvements	(1,021,123)	(420,139)		(1,441,262)
Equipment	(2,028,228)	(79,353)		(2,107,581)
Total accumulated depreciation	(3,049,351)	(499,492)		(3,548,843)
Total capital assets being depreciated, net	39,876,828	(342,192)		39,534,636
CAPITAL ASSETS, NET	<u>\$ 39,967,498</u>	<u>\$ (342,192)</u>	<u>\$ -</u>	<u>\$ 39,625,306</u>

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. Depreciation expense of \$25,190 and \$474,302 was charged to Flood Protection and Water Delivery, respectively, for the fiscal year ended June 30, 2020.

NOTE D – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021:

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

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

The District had no long-term liabilities at June 30, 2020.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021 and 2020

NOTE D – LONG-TERM LIABILITIES (CONTINUED)

As of June 30, 2021, future minimum lease payments under the capital lease obligation are as follows:

Fiscal Year Ending June 30:	
2022	\$ 28,721
2023	28,721
2024	28,721
2025	28,721
2026	<u>9,574</u>
Total payments	124,458
Less: amounts representing interest	<u>(7,828)</u>
Net present value of future minimum lease payments	<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. There following are the designations for June 30:

	<u>2021</u>	<u>2020</u>
Capital expenditure sinking fund	\$ 131,400	\$ 131,400
Contingency Reserve		
Water delivery	50,000	50,000
Flood protection	<u>50,000</u>	<u>50,000</u>
	<u>\$ 231,400</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, 2021 and 2020 were \$14,550 and \$13,503, respectively.

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%.

RECLAMATION DISTRICT NO. 2035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021 and 2020

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.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition and operations is uncertain.

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 \$524,329 and \$494,193 of revenue from CPG during the years ended June 30, 2021 and 2020, respectively, representing 25.5% and 25.1% of the District's revenue excluding capital grants. Amounts receivable at June 30, 2021 and 2020 totaled \$4,776. Payments to CPG for services totaled \$392,456 and \$345,900 during the years ended June 30, 2021 and 2020, respectively. Amounts payable to CPG as of June 30, 2021 and 2020 total \$192,818 and \$263,312, 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 years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 12, 2022.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 may exist that have not been identified.

To the Board of Trustees
Reclamation District 2035

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Richardson & Company, LLP

May 12, 2022

RECLAMATION DISTRICT NO. 2035
SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2021

PRIOR YEAR – MATERIAL WEAKNESS IN INTERNAL CONTROL

Finding 2020-001: Recording of Revenue

Condition: The District did not have internal controls over grant accounting in place to prevent or detect misstatements on a timely basis.

Recommendation: We recommended that the District develop a grant tracking process and reconcile all grant activity with the State's records to ensure complete and accurate financial reporting.

Status: The District's current accounting procedures include preparing a quarterly and annual reconciliation of all open and active grants. The District's current accounting system includes a grant tracking module which is used for tracking purposes.

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