

RECLAMATION DISTRICT NO. 2029

FINANCIAL REPORT

JUNE 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Reclamation District No. 2029

Opinion

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of Reclamation District No. 2029 (the District) as of and for the year ended June 30, 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 governmental activities, each major fund of Reclamation District No. 2029, as of June 30, 2022 and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Reclamation District No. 2029, 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 opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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Auditors' 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 of material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 including 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 judgement, 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

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Schwartz, Giannini, Lantberger & Adamson

Stockton, California
October 17, 2022

RECLAMATION DISTRICT NO. 2029
Statement of Net Position - Modified Cash Basis

JUNE 30, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	
Unrestricted	\$ 24,559
Total assets	<u>\$ 24,559</u>
LIABILITIES	
Registered warrants payable (Note 5)	<u>\$ 390,000</u>
Total liabilities	<u>\$ 390,000</u>
NET ASSETS	
Restricted - special projects	\$ 6,552
Unrestricted	<u>(371,993)</u>
Total net position	<u><u>\$ (365,441)</u></u>

The accompanying notes are an integral part of these financial statements.

RECLAMATION DISTRICT NO. 2029
Statement Of Activities - Modified Cash Basis
For the year ended June 30, 2022

	Cash Disbursements	Operating Receipts, Grants, and Contributions	Net (Disbursements) Receipts and Changes in Net Position
Governmental activities			
Operations	\$ (349,181)	\$ 64,305	\$ (284,876)
Interest expense	(19,905)	-	(19,905)
Net program (disbursements) receipts	\$ (369,086)	\$ 64,305	\$ (304,781)
General receipts:			
Assessments			\$ 292,627
Interest income			115
Other income			63
Total general receipts			\$ 292,805
Change in net position			\$ (11,976)
Net position - beginning of year			(353,465)
Net position - end of year			\$ (365,441)

The accompanying notes are an integral part of these financial statements.

RECLAMATION DISTRICT NO. 2029
Balance Sheet - Governmental Fund - Modified Cash Basis
June 30, 2022

	General Fund	Special Revenue	Total
ASSETS			
Cash and cash equivalents			
Unrestricted	\$ 18,007	\$ 6,552	\$ 24,559
Total assets	\$ 18,007	\$ 6,552	\$ 24,559
FUND BALANCE			
Restricted	\$ -	\$ 6,552	\$ 6,552
Unassigned	18,007	-	18,007
Total fund balance	\$ 18,007	\$ 6,552	\$ 24,559

Amounts reported for governmental activities in the statement of net position are different because:

Principal transactions related to registered warrants are recorded in the statement of governmental fund revenues, expenditures and changes in fund balances and as a change in liabilities in the statement of net position (390,000)

Net position of governmental activities \$ (365,441)

The accompanying notes are an integral part of these financial statements.

RECLAMATION DISTRICT NO. 2029
Statement of Governmental Funds Revenues, Expenditures, and Changes
in Fund Balance - Modified Cash Basis
For the Year Ending June 30, 2022

	General Fund	Special Revenue	Total
REVENUES			
Landowner assessments	\$ 292,627	\$ -	\$ 292,627
State assistance	64,305	-	64,305
Other income	63	-	63
Interest income	115	-	115
Total revenues	<u>\$ 357,110</u>	<u>\$ -</u>	<u>\$ 357,110</u>
EXPENDITURES			
Engineering	\$ 40,154	\$ 3,665	\$ 43,819
Insurance	12,915	-	12,915
Legal and professional	61,205	-	61,205
Dues	4,331	-	4,331
Levee repairs and maintenance	87,422	-	87,422
Managerial	24,000	-	24,000
Utilities	115,489	-	115,489
	<u>\$ 345,516</u>	<u>\$ 3,665</u>	<u>\$ 349,181</u>
Debt Service			
Interest expense	\$ 19,905	\$ -	\$ 19,905
Total expenditures	<u>\$ 365,421</u>	<u>\$ 3,665</u>	<u>\$ 369,086</u>
(Excess) of expenditures over revenues	<u>\$ (8,311)</u>	<u>\$ (3,665)</u>	<u>\$ (11,976)</u>
Other financing sources/uses:			
Payments on warrant line of credit	\$ (375,000)	\$ -	\$ (375,000)
Proceeds from borrowing on warrants payable	390,000	-	390,000
Total other financing sources/uses	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>
Net changes in fund balance	\$ 6,689	\$ (3,665)	\$ 3,024
Modified cash basis fund balance - beginning	<u>11,318</u>	<u>10,217</u>	<u>21,535</u>
Modified cash basis fund balance - ending	<u>\$ 18,007</u>	<u>\$ 6,552</u>	<u>\$ 24,559</u>

The accompanying notes are an integral part of these financial statements.

RECLAMATION DISTRICT NO. 2029

**Reconciliation of the Governmental Funds Revenues, Expenditures, and Changes
in Fund Balance of Governmental Fund to the Statement of Activities - Modified Cash Basis
For the year ended June 30, 2022**

Net change in fund balance - governmental fund	\$	3,024
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Proceeds from issuance of registered warrants are recorded as debt proceeds in the governmental fund and increases in liabilities in the the statement of net position.		(390,000)
The repayment of principal related to registered warrants is recorded as an expenditure in the governmental fund and reduces registered warrants payable in the statement of net position.		<u>375,000</u>
Change in net position of governmental activities	\$	<u>(11,976)</u>

The accompanying notes are an integral part of these financial statements.

RECLAMATION DISTRICT NO. 2029

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of business

Reclamation District No. 2029 (The District) was organized March 21, 1918, pursuant to Section 50,000 to 53,901 of Division 15 of the Water Code of the State of California entitled "Reclamation Districts."

The District was formed primarily for the purpose of reclaiming delta land for farming purposes. The activities of the District include construction of levees and canals, the installation of pumps and drainage lines, and the general maintenance, repair and operations of such facilities.

The District management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. The District concluded that there are no potential component units which should be included in the reporting entity.

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net position – modified cash basis and the statement of activities – modified cash basis) report information on all of the cash receipts and disbursements activity of the primary government.

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.

Fund financial statements

The fund financial statements provide information about the District's funds. The District has one type of fund (governmental), which is comprised of two major funds as follows.

General fund – This fund is established to account for resources devoted to financing the general services that the District performs. State assistance and other sources of revenue used to finance the fundamental operations of the District are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Special revenue fund – This fund is established to account for the proceeds of specific revenue sources other than special assessments or expendable trusts. Generally, resources accounted for in this fund originate from state and federal programs.

RECLAMATION DISTRICT NO. 2029

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, fund balance for governmental funds is reported in classification that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – amounts constrained regarding use from restriction externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the District's highest level of decision making authority.

Assigned – amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Trustees, District manager or their designee.

Unassigned – amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides general fund can only report a negative unassigned balance amount.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the District's policy to use committed resources first, then assigned, and then unassigned as they are needed.

Budgetary accounting

The District does not utilize formal budgetary procedures and is not required to adopt such procedures by law. Accordingly, budgetary comparison information is not required or presented.

Interfund transfers

Interfund transfers represent the flow of assets from one fund to another where repayment is not expected. Such transfers are reported as transfers in and out.

RECLAMATION DISTRICT NO. 2029

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

State aid - subventions

State aid is revenue to the Reclamation District from the Department of Water Resources under the Delta Levee Maintenance Subventions Program. Revenues are received one year in arrears. Revenues recognized in fiscal year 2022 relate to expenditures from fiscal year 2021. The claims are finalized and filed in October and the monies are received from the state a few months later. Since the monies are not collectable for at least 60 days from the balance sheet date, they are not considered revenues or accounts receivable for the year in which the expenditures were actually spent.

Measurement focus, basis of accounting, and financial statement presentation

The District accounts for governmental funds using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This method recognizes revenues when received and expenditures when paid, except for registered warrants payable arising from cash transactions.

Use of estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Related party information

The Board of Trustees is made up of landowners in the District. The Board is elected by all of the landowners within the district represented by the Board.

Income Tax Status

Reclamation District No. 2029 is a governmental entity and not subject to federal and state income taxes.

Demand warrants

The District is authorized under the California State Water Code to issue demand Warrants.

NOTE 2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 17, 2022, the date the financial statements were available to be issued.

RECLAMATION DISTRICT NO. 2029

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LANDOWNER COLLECTIONS

The District's primary source of operating revenue is the assessment of operating fees, which are collected from the District's property owners. The revenue is collected by the County Treasurer's office on behalf of the District.

In May 2010 the District entered into an Assessment Agreement with the City of Stockton for an easement of land. The annual assessment is \$100,000 beginning with the fiscal year ending June 30, 2010 and through the fiscal year ending June 30, 2014. The annual assessment for each year thereafter is \$50,000 with an annual increase equal to the CPI Index. For the year ended June 30, 2022, the assessment was \$61,216.

NOTE 4. CASH AND INVESTMENTS

Cash and investments of the District as of June 30, 2022 consist of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fair Value</u>
Deposits			
Insured (to FDIC limits)	<u>\$ 21,609</u>	<u>\$ 52,062</u>	
Investment in External Investment Pool			
San Joaquin County Treasurer	<u>\$ 2,950</u>		<u>\$ 2,950</u>

Cash on deposit with the San Joaquin County Treasurer is invested in a pooled fund maintained by the Treasurer. These funds are pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer (see County Treasurer's investment policy at <http://www.sjgov.org/department/ttc/treasury>). The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. The value of the District's shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is unrated, stated at amortized cost which approximates fair value, available upon demand and considered cash equivalents. The District is considered an involuntary participant in the pool as the State of California statutes require certain special districts to maintain their cash surplus with the County Treasurer. The investment pool is not registered with the Securities and Exchange Commission as an investment company.

The District does not maintain a formal investment policy.

RECLAMATION DISTRICT NO. 2029

NOTES TO FINANCIAL STATEMENTS

NOTE 5. REGISTERED WARRANTS

The District entered into a \$2,000,000 maximum warrant line of credit with Farmers and Merchants Bank. The warrants issued under this agreement shall bear interest at 3.25% per annum from the date of registration until paid in full. Outstanding warrants total \$390,000 at 3.25% as of June 30, 2022.

NOTE 6. RELATED PARTY INFORMATION

During the current fiscal year, the District paid a managerial fee for services rendered to a landowner/trustee totaling \$24,000.

NOTE 7. LISTING OF BOARD OF TRUSTEES MEMBERS

<u>Members</u>	<u>Title</u>
James Harvey	Trustee
Mike Quartaroli	Trustee
Chris Podesto	Trustee

Secretary: Alan R. Coon

NOTE 8. INSURANCE

The District is covered by the following types of insurance as of June 30, 2022:

<u>Coverage</u>	<u>Limits of Liability</u>
General Liability	\$ 1,000,000/3,000,000
Property	250,000/299,712
Crime	100,000/250,000
Management Liability	1,000,000/3,000,000
Excess liability	1,000,000/1,000,000
Cyber & Privacy	20,000/1,000,000

NOTE 9. PENDING LITIGATION

A former tenant business (Plaintiff) filed a complaint alleging in four causes of action that the District's 2017 Special Project interfered with business opportunities. The matter was defended by District's insurance provider under a reservation of rights. Plaintiff asserted additional claims related to acts of a co-defendant, the County of San Joaquin (County), which had an existing action pending against Plaintiff and prior owners of the business. At the conclusion of trial the Court dismissed the County but determined liability and damages of \$300,000.00 against District as to the inverse condemnation cause of action. The court then awarded \$811,084.22 in attorney fees and \$273,848.00 in costs. The Court entered a Corrected Judgment After Trial on October 11, 2022. District's insurance provider asserts no duty to pay damages under a reservation of rights but has agreed to, and pay for, any appeal.

RECLAMATION DISTRICT NO. 2029

NOTES TO FINANCIAL STATEMENTS

NOTE 10. CONTINGENCY

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary closures, and wide-sweeping quarantines and stay-at-home orders. The COVID-19 pandemic has impacted the District's operations and the operations of the District's customers, suppliers and vendors as a result of quarantines, closures, and travel and logistics restrictions. The District has followed protocols and guidelines issued by federal and state government including expenditures to combat the spread of COVID-19 and implement protocols to prevent the spread. The extent to which the COVID-19 pandemic impacts the District's business in the future, and the results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the continued duration, spread, severity, and impact of the COVID-19 pandemic and the effects of the COVID-19 pandemic on the District's customers, suppliers and vendors including supply chain disruption that has been experienced since the outbreak of the pandemic. Even after the COVID-19 pandemic has subsided, the District may continue to experience adverse impacts to its business as a result of the negative impact of COVID-19 on the customers, suppliers and vendors of the District.