

LOWER SAN JOAQUIN LEVEE DISTRICT

INDEPENDENT AUDITOR'S REPORTS

AND

FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
BASIC FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet and Statement of Net Position	3
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities	4
Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	5
NOTES TO BASIC FINANCIAL STATEMENTS	6 - 16
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17 - 18
SCHEDULE OF FINDINGS	19 - 20
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	21

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lower San Joaquin Levee District
Dos Palos, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lower San Joaquin Levee District as of and for the twenty-four month period ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lower San Joaquin Levee District as of June 30, 2021, and the respective changes in financial position for the twenty-four month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 5 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 June 20, 2022 on our consideration of the Lower San Joaquin Levee 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 the 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.

A handwritten signature in black ink, appearing to be "Kendall J. [unclear]", written in a cursive style.

June 20, 2022

LOWER SAN JOAQUIN LEVEE DISTRICT

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION JUNE 30, 2021

	<u>General Fund</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Net Position</u>
Assets			
Cash and investments	\$ 2,588,649	\$ -	\$ 2,588,649
Taxes receivable	15,849	-	15,849
Grant receivable	142,426	-	142,426
Interest receivable	240	-	240
Capital assets, net of accumulated depreciation	-	3,404,468	3,404,468
Total assets	<u>2,747,164</u>	<u>3,404,468</u>	<u>6,151,632</u>
Liabilities			
Accounts payable	66,208	-	66,208
Retainage payable	2,515	-	2,515
Accrued payroll	15,856	-	15,856
Total liabilities	<u>84,579</u>	<u>-</u>	<u>84,579</u>
Deferred inflows of resources			
Unavailable revenues	<u>142,426</u>	<u>(142,426)</u>	<u>-</u>
Total unavailable revenues	142,426	(142,426)	-
Fund Balances/Net Position			
Unassigned	<u>2,520,159</u>	<u>(2,520,159)</u>	<u>-</u>
Total fund balances	<u>2,520,159</u>	<u>(2,520,159)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 2,747,164</u>	<u>\$ (2,662,585)</u>	<u>\$ 84,579</u>
Net Position			
Net investment in capital assets			3,404,468
Unrestricted			<u>2,662,585</u>
Total net position			<u>\$ 6,067,053</u>

LOWER SAN JOAQUIN LEVEE DISTRICT

GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

	12 Month Period Ended June 30, 2020	12 Month Period Ended June 30, 2021	Total General Fund	Adjustments (Note 7)	Statement of Activities
Revenue					
Property taxes	\$ 927,020	\$ 1,131,574	\$ 2,058,594	\$ -	\$ 2,058,594
Grant income	340,481	150,879	491,360	(88,729)	402,631
Interest	49,423	22,645	72,068	-	72,068
Rents and sand revenue	1,632	909	2,541	-	2,541
Other revenue	46,980	8,422	55,402	-	55,402
Total revenue	<u>1,365,536</u>	<u>1,314,429</u>	<u>2,679,965</u>	<u>(88,729)</u>	<u>2,591,236</u>
Expenditures					
Salaries and wages	485,379	529,287	1,014,666	-	1,014,666
Employee benefits	168,149	191,176	359,325	-	359,325
Professional services	373,384	56,347	429,731	-	429,731
Insurance	100,642	107,259	207,901	-	207,901
Travel and transportation	57,802	44,660	102,462	-	102,462
Repairs and maintenance	65,694	56,600	122,294	-	122,294
Equipment rental	606	1,585	2,191	-	2,191
Office	22,095	24,939	47,034	-	47,034
Communications	10,961	7,488	18,449	-	18,449
Materials and supplies	6,761	4,129	10,890	-	10,890
Memberships and publications	526	318	844	-	844
Utilities	5,369	6,410	11,779	-	11,779
Other	171	686	857	-	857
Capital outlay	115,391	110,713	226,104	(226,104)	-
Depreciation	-	-	-	133,746	133,746
Total expenditures	<u>1,412,930</u>	<u>1,141,597</u>	<u>2,554,527</u>	<u>(92,358)</u>	<u>2,462,169</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (47,394)</u>	<u>\$ 172,832</u>	125,438	-	-
Change in net assets				<u>\$ 3,629</u>	<u>\$ 129,067</u>
Fund Balances/Net Position					
Beginning of year			<u>2,394,721</u>	-	<u>5,937,986</u>
End of year			<u>\$ 2,520,159</u>	<u>\$ -</u>	<u>\$ 6,067,053</u>

LOWER SAN JOAQUIN LEVEE DISTRICT

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue				
Property taxes	\$ 2,126,000	\$ 2,126,000	\$ 2,058,594	\$ (67,406)
Grant income	144,483	144,483	491,360	346,877
Interest	4,000	4,000	72,068	68,068
Rents and sand revenue	-	-	2,541	2,541
Other revenue	-	-	55,402	55,402
Total revenue	<u>2,274,483</u>	<u>2,274,483</u>	<u>2,679,965</u>	<u>405,482</u>
Expenditures				
Salaries and wages	990,732	990,732	1,014,666	(23,934)
Employee benefits	317,614	317,614	359,325	(41,711)
Professional services	457,500	457,500	429,731	27,769
Insurance	189,795	189,795	207,901	(18,106)
Travel and transportation	97,000	97,000	102,462	(5,462)
Repairs and maintenance	108,000	108,000	122,294	(14,294)
Equipment rental	1,000	1,000	2,191	(1,191)
Office	71,068	71,068	47,034	24,034
Communications	13,935	13,935	18,449	(4,514)
Materials and supplies	13,000	13,000	10,890	2,110
Memberships and publications	5,537	5,537	844	4,693
Utilities	11,000	11,000	11,779	(779)
Other	1,600	1,600	857	743
Capital outlay	209,135	209,135	226,104	(16,969)
Total expenditures	<u>2,486,916</u>	<u>2,486,916</u>	<u>2,554,527</u>	<u>(67,611)</u>
Excess (deficiency) of revenue over expenditures	<u>\$ (212,433)</u>	<u>\$ (212,433)</u>	125,438	<u>\$ 337,871</u>
Fund Balance				
Beginning of year			2,394,721	
End of year			<u>\$ 2,520,159</u>	

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 1 – Summary of Significant Accounting Policies

The accounting and reporting policies of the Lower San Joaquin Levee District (the “District”) conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled "Audits of State and Local Governmental Units" and by the Financial Accounting Standards Board (when applicable).

Reporting Entity - The Lower San Joaquin Levee District is a California special district formed in 1955 to operate, maintain and repair levees, bypasses, channels, control structures, and other facilities in connection with the Lower San Joaquin River Flood Control Project.

The governmental reporting entity consists of the District (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the District are such that exclusion would cause the District’s financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and (i) either the District’s ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the District.

The basic financial statements include the District’s and a blended component unit. The blended component unit, although legally separate entity is, in substance, part of the District’s operations and so data from this unit is combined with data of the primary government.

For financial reporting purposes, the District’s basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the District’s Board.

Blended Component Units

San Joaquin River Flood Control Project Agency (the SJRFCPA) is a joint exercise of powers agency organized under the laws of the State of California by agreements dated March 2013 and entered into by the SJRFCPA. The SJRFCPA was formed to assist the members in the financing of the Regional Flood Management Plan that is required by the State of California for this region every five years.

The SJRFCPA and the District have a financial and operational relationship which requires that the SJRFCPA’s financial statements be blended into the District’s financial statements. The SJRFCPA’s policies are determined by a nine-member board, which consists of the District’s 5 board members and four members from the San Joaquin River Exchange Contractors Water Authority (which represents four other water agencies, Central California Irrigation District, Columbia Canal District, Firebaugh Canal Water District and Henry Miller Reclamation District).

The SJRFCPA has no employees and all staff work is done by the District staff or by consultants to the SJRFCPA.

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements - The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the activities of the District. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by general revenues. Direct expenses are those that are clearly identifiable with a specific function. Taxes and other items are reported as general revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be collectible when it is collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers property taxes and other revenue to be available in the period for which levied if it is collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenue in the current period.

Cash and Investments – Cash balances held in banks are insured to \$250,000 by the Federal Depository Insurance Corporation (“FDIC”).

The District maintains substantially all its cash in the County of Merced Treasury. The County pools these funds with those of other Districts in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value. Interest earned is deposited quarterly into participating funds.

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and Payables - Billed but unpaid services provided to individuals or non-governmental entities are recorded as accounts receivable.

Merced County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is March 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The District considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

Capital Assets - Capital outlays are recorded as expenditures of the General Fund and as assets in the Statement of Net Position to the extent the District's capitalization threshold is met.

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental columns in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings, structures and improvements	40
Furniture and equipment	5
Automobiles and trucks	5

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Balance – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District Board. The District Board has the authority establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the District Board for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the District's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the District's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Net Position - The fund financial statements utilize a net position presentation. Net position are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the District, not restricted for any project or other purpose.

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information – The District budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The District Manager is required to prepare and submit to the District Board the annual budget of the District and administer it after adoption. District Board approval is required for budget revisions that affect the total appropriations of the District.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

The District uses the County of Merced as a fiscal agent for the processing of cash receipts and disbursements. Although the County maintains separate fund accounts for the District, the cash is not segregated, but rather commingled with other County funds and investments.

Cash and investments as of June 30, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 2,588,649
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Cash and investments as of June 30, 2021 consist of the following:

County of Merced's Pooled Cash	\$ 2,211,555
Local Agency Investment Fund (LAIF)	293,686
Deposits with Financial Institutions	83,308
Cash on hand	100
Total Cash and Investments	<u>\$ 2,588,649</u>

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 2 – Cash and Investments (continued)

Investments Authorized by the District’s Investment Policy

The District’s investment policy does not contain any specific provisions intended to limit the District’s exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to 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. As of June 30, 2021 the District had the following investments.

<u>Investment Type</u>		<u>Maturity Date</u>
County of Merced's Pooled Cash	\$ 2,211,555	N/A
Local Agency Investment Fund (LAIF)	<u>293,686</u>	N/A
Total	<u>\$ 2,505,241</u>	

Disclosures Relating to 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.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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 the possession of an outside party. The California Government Code and the District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk (continued)

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District is considered to be an voluntary participant in an external investment pool, which is under the direct authority of the Merced County Treasurer and Tax Collector and governed by the California Government Code. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 2 – Cash and Investments (continued)

The District's only investments, which are allocated at fair value, are in the County of Merced Treasurer's Investment Pool and the California Local Agency Investment Fund (LAIF). These investment pools invest in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, it is not an investment type that can be categorized in any particular level in the fair value hierarchy.

Authorized Deposits and Investments

The District's investment policy authorizes investments in the County of Merced Treasurer's Pooled Cash Portfolio and the California Local Agency Investment Fund (LAIF). The District's investment policy does not contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Note 3 – Capital Assets

Capital asset activity for the twenty-four month period ended June 30, 2021, was as follows:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>
Capital assets, not being depreciated				
Land	\$ 2,340	\$ -	\$ -	\$ 2,340
Construction in progress	2,080,801	37,482	-	2,118,283
Total capital assets, not being depreciated	<u>\$ 2,083,141</u>	<u>\$ 37,482</u>	<u>\$ -</u>	<u>\$ 2,120,623</u>
Capital assets, being depreciated				
Buildings and improvements	1,223,895	48,481	-	1,272,376
Machinery and equipment	1,104,269	140,141	(325,058)	919,352
Total capital assets, being depreciated	<u>2,328,164</u>	<u>188,622</u>	<u>(325,058)</u>	<u>2,191,728</u>
Less accumulated depreciation for:				
Buildings and improvements	(42,159)	(63,134)	-	(105,293)
Machinery and equipment	(1,057,036)	(70,612)	325,058	(802,590)
Total accumulated depreciation	<u>(1,099,195)</u>	<u>(133,746)</u>	<u>325,058</u>	<u>(907,883)</u>
Total capital assets, being depreciated, net	<u>1,228,969</u>	<u>54,876</u>	<u>-</u>	<u>1,283,845</u>
Governmental activities capital assets, net	<u>\$ 3,312,110</u>	<u>\$ 92,358</u>	<u>\$ -</u>	<u>\$ 3,404,468</u>

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 4 – Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District regular full time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, resignation, retirement, death or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributed to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of the benefits under the plans), subject only to claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

In accordance with Small Business Job Protection Act of 1996, all deferred compensation plan assets are held in trust for the exclusive benefit of participating employees and are not accessible by the District or its creditors. Accordingly, these assets have been removed from the District's financial statements.

Note 5 – Risk Management

The District is exposed to various risks of loss to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District joined together with other special districts for insurance coverage under the Rural Special Districts Insurance Services (RSDIS). The District pays an annual premium to RSDIS for its general insurance coverage.

The District continues to carry commercial insurance for all other risks of loss, including workers' compensation, and employee health and accident insurance.

Note 6 – Deferred Inflows of Resources

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2021, the District had no balance to report.

Unavailable revenues arise only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The District has \$142,426 in grants receivable reported as deferred inflows of resources reported for unavailable revenues.

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 7 – Reconciliation of Government-Wide and Fund Financial Statements

A) Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

Amounts reported for governmental activities in the Statement of Net Position are different from the fund balance of the General Fund because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the General Fund	\$ 3,404,468
Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources until that time	<u>(142,426)</u>
Net adjustment to increase net change in fund balances to arrive at net position of governmental activities	<u>\$ 3,262,042</u>

B) Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

Amounts reported for governmental activities in the Statement of Activities are different from the governmental fund statement of revenues, expenditures, and changes in fund balances because:

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities and Changes in Net Position the cost of those assets are capitalized as an asset and depreciated over the period of service	\$ 226,104
Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in the General Fund	(133,746)
Some amounts included in the statement of activities do not provide (or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental fund (net change): Unavailable revenues	<u>(88,729)</u>
Net adjustment to increase net change in fund balances total governmental funds to arrive at change in net position of governmental activities	<u>\$ 3,629</u>

LOWER SAN JOAQUIN LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2021

Note 8 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through June 20, 2022, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in such financial statements.

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

To the Board of Directors
Lower San Joaquin Levee District
Dos Palos, 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 governmental activities and each major fund of the Lower San Joaquin Levee District (the District), as of and for the twenty-four month period ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 20, 2022.

Internal Controls 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 to determine the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in our schedule of findings dated June 20, 2022 that we considered to be significant deficiencies in internal control. Please refer to that communication for a more detailed explanation of the deficiencies 2021-001 and 2021-002.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink, appearing to read "Meredith J. [unclear]", is written over a faint, illegible stamp or background.

June 20, 2022

LOWER SAN JOAQUIN LEVEE DISTRICT

SCHEDULE OF FINDINGS AS OF JUNE 30, 2021

2021-001: Internal Controls over Financial Reporting (Material Weakness)

Criteria

A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process in order to accurately and completely close the current year general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with account principles generally accepted in the United States of America (U.S. GAAP).

Condition

We have determined that processes utilized for closing and reporting of financial activity for the fiscal year ended June 30, 2021, were not effective, which contributed to the District's delayed completion of for the audit. We encountered several delays due to misplaced documentation and delayed responses to information requests.

Cause

The moving of offices, major capital projects, and COVID-19 caused unforeseen delays as District Staff had to work remotely and/or quarantine at various points over the last year which resulted in a delay of closing the books.

Effect

Delay in the issuance of the audit report.

Recommendation

We recommend that the District perform the following steps in order to address the matters described above.

- Create a closing checklist to assist with the preparation of audit schedules that are complete, accurate, and reconciled to the District's general ledger account balances. Additionally, ensure that a system is in place to allow the District to perform this in a timely matter.
- Hire additional staff to assist the General Manager in performing the administrative tasks for the District.

Management Response

The Levee District concurs with your independent audit finding and staff is working on a process, which may include establishing a closing process, establishing a timeline, and/or enlisting additional support, possibly through part-time accounting personnel.

Status

Repeat finding from June 30, 2019.

LOWER SAN JOAQUIN LEVEE DISTRICT

SCHEDULE OF FINDINGS AS OF JUNE 30, 2021

2021-002: Address Oversight of Financial Statement Conversion from Cash to Accrual Basis

Criteria

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information and compliance with laws and regulations.

Cause of Condition

As part of the audit, management requested us to assist in converting your accounting records from the cash basis to the accrual basis so the financial statements could be prepared in conformity with U.S. generally accepted accounting principles. This is a necessary step in the period-end financial reporting process.

Effect of Condition

Although the District's financial statements are fairly presented, the absence of District control policies and procedures to prevent, detect, and correct a material misstatement in the financial statements is considered a material weakness.

Recommendation

We recommend the District provide training opportunities for its accounting staff that would enable them to become more familiar with generally accepted accounting principles. The training should include, but is not limited to, the differences between cash and accrual basis financial statements and the required accruals to report the financial results on an accrual basis. Another possible approach may be to contract with a qualified person that would assist the District in maintaining their financial records on the accrual basis.

Management Response

The independent auditor's recommendation, providing training opportunities for the District's accounting staff to enable preparation of the financial statements, is one possible approach. It is unclear what level of training may be needed in order for current staff to attain the level of expertise required to maintain the financial records on the accrual basis. Another possible approach may be to contract for preparation of the financial statements by a Certified Public Accountant or other qualified persons separate from the independent auditor. Management believes the cost of correcting the material weakness would exceed the benefits to be derived from doing so.

Status

Repeat finding from June 30, 2019.

LOWER SAN JOAQUIN LEVEE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AS OF JUNE 30, 2021

Summary Schedule of Prior Audit Findings

2019-01 Internal Controls over Financial Reporting – Not Implemented

2019-02 Address Oversight of Financial Statement Conversion from Cash to Accrual Basis – Not Implemented