LOWER SAN JOAQUIN LEVEE DISTRICT

INDEPENDENT AUDITOR'S REPORTS
AND
FINANCIAL STATEMENTS
TWENTY-FOUR MONTH PERIOD ENDED JUNE 30, 2025

C O N T E N T S

RYAN P. JOLLEY
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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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 (the "District") as of and for the twenty-four month period ended June 30, 2025, 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 financial position of the District as of June 30, 2025, and the changes in financial position and its cash flows for the twenty-four month period ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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.

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 July 26, 2026 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.

July 26, 2026

LOWER SAN JOAQUIN LEVEE DISTRICT

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION
JUNE 30, 2025

	General Fund	Adjustments (Note 7)	Statement of Net Position
Assets			
Cash and investments	$ 3,828,132	$ -	$ 3,828,132
Grant receivable	45,342	-	45,342
Interest receivable	3,566	-	3,566
Capital assets, net of accumulated depreciation	-	11,092,651	11,092,651
Total assets	3,877,040	11,092,651	14,969,691
Liabilities			
Accounts payable	910,036	-	910,036
Retainage payable	107,429	-	107,429
Accrued payroll	23,440	-	23,440
Total liabilities	1,040,905	-	1,040,905
Fund Balances/Net Position			
Unassigned	2,836,135	(2,836,135)	-
Total fund balances	2,836,135	(2,836,135)	-
Total liabilities and fund balances	$ 3,877,040	$ (2,836,135)	$ 1,040,905
Net Position			
Net investment in capital assets			11,092,651
Unrestricted			2,836,135
Total net position			$ 13,928,786

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, 2025

	12 Month Period Ended June 30, 2024	12 Month Period Ended June 30, 2025	Total General Fund	Adjustments (Note 7)	Statement of Activities
Revenue					
Property taxes	$ 1,541,304	$ 1,851,161	$ 3,392,465	$ -	$ 3,392,465
Grant income	2,115,244	6,351,604	8,466,848	-	8,466,848
Interest	85,299	123,822	209,121	-	209,121
Rents and sand revenue	7,206	16,545	23,751	-	23,751
Other revenue	14,569	935	15,504	-	15,504
Total revenue	3,763,622	8,344,067	12,107,689	-	12,107,689
Expenditures					
Salaries and wages	591,656	649,031	1,240,687	-	1,240,687
Employee benefits	211,298	208,717	420,015	-	420,015
Professional services	432,876	114,595	547,471	-	547,471
Insurance	141,150	159,610	300,760	-	300,760
Travel and transportation	75,569	82,615	158,184	-	158,184
Repairs and maintenance	117,519	159,479	276,998	-	276,998
Equipment rental	1,824	48,583	50,407	-	50,407
Office	27,749	23,840	51,589	-	51,589
Communications	9,534	14,205	23,739	-	23,739
Materials and supplies	18,118	21,721	39,839	-	39,839
Memberships and publications	1,974	3,302	5,276	-	5,276
Utilities	8,332	9,662	17,994	-	17,994
Other	100	-	100	-	100
Capital outlay	2,262,457	5,960,015	8,222,472	(8,222,472)	-
Depreciation	-	-	-	600,103	600,103
Total expenditures	3,900,156	7,455,375	11,355,531	(7,622,369)	3,733,162
Excess (deficiency) of revenues over expenditures	$ (136,534)	$ 888,692	752,158	-	-
Change in net position				$ 7,622,369	$ 8,374,527
Fund Balances/Net Position					
Beginning of year			2,083,977	-	5,554,259
End of year			$ 2,836,135	$ -	$ 13,928,786

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, 2025

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Property taxes	$ 3,252,103	$ 3,252,103	$ 3,392,465	$ 140,362
Grant income	-	-	8,466,848	8,466,848
Interest	20,000	20,000	209,121	189,121
Rents and sand revenue	2,400	2,400	23,751	21,351
Other revenue	10,772	10,772	15,504	4,732
Total revenue	3,285,275	3,285,275	12,107,689	8,822,414
Expenditures				
Salaries and wages	1,342,626	1,342,626	1,240,687	101,939
Employee benefits	453,929	453,929	420,015	33,914
Professional services	185,000	185,000	547,471	(362,471)
Insurance	295,000	295,000	300,760	(5,760)
Travel and transportation	161,000	161,000	158,184	2,816
Repairs and maintenance	225,000	225,000	276,998	(51,998)
Equipment rental	52,000	52,000	50,407	1,593
Office	47,000	47,000	51,589	(4,589)
Communications	20,500	20,500	23,739	(3,239)
Materials and supplies	48,500	48,500	39,839	8,661
Memberships and publications	3,500	3,500	5,276	(1,776)
Utilities	21,000	21,000	17,994	3,006
Other	2,000	2,000	100	1,900
Capital outlay	294,000	294,000	8,222,472	(7,928,472)
Total expenditures	3,151,055	3,151,055	11,355,531	(8,204,476)
Excess (deficiency) of revenue over expenditures	$ 134,220	$ 134,220	752,158	$ 617,938
Fund Balance				
Beginning of year			2,083,977	
End of year			$ 2,836,135	

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.

<u>Blended Component Units</u>

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.

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 in 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.

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

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.

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, 2025 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 3,828,132

Cash and investments as of June 30, 2025 consist of the following:

County of Merced's Pooled Cash	$ 3,502,604
Local Agency Investment Fund (LAIF)	325,528
Total Cash and Investments	$ 3,828,132

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, 2025 the District had the following investments.

Investment Type		Maturity Date
County of Merced's Pooled Cash	$ 3,502,604	N/A
Local Agency Investment Fund (LAIF)	325,528	N/A
Total	$ 3,828,132	

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.

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.

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, 2025, was as follows:

	Balance July 1, 2023	Additions	Retirements	Balance June 30, 2025
Capital assets, not being depreciated				
Land	$ 2,340	$ -	$ -	$ 2,340
Construction in progress	-	7,142,939	-	7,142,939
Total capital assets,not being depreciated	$ 2,340	$ 7,142,939	$ -	$ 7,145,279
Capital assets, being depreciated				
Buildings and improvements	3,390,659	-	-	3,390,659
Machinery and equipment	1,224,045	1,079,533	(164,622)	2,138,956
Total capital assets, being depreciated	4,614,704	1,079,533	(164,622)	5,529,615
Less accumulated depreciation for:				
Buildings and improvements	(274,543)	(169,250)	-	(443,793)
Machinery and equipment	(872,219)	(430,853)	164,622	(1,138,450)
Total accumulated depreciation	(1,146,762)	(600,103)	164,622	(1,582,243)
Total capital assets, being depreciated, net	3,467,942	479,430	-	3,947,372
Governmental activities capital assets, net	$ 3,470,282	$ 7,622,369	$ -	$ 11,092,651

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 – 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	$ 11,092,651
Net adjustment to increase net change in fund balances to arrive at net position of governmental activities	$ 11,092,651

Note 6 – Reconciliation of Government-Wide and Fund Financial Statements (continued)

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	$ 8,222,472
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	(600,103)
Net adjustment to decrease net change in fund balances total governmental funds to arrive at change in net position of governmental activities	$ 7,622,369

Note 7 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through July 26, 2026, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2025 that required recognition or disclosure in such financial statements.

Note 7 – San Joaquin River Flood Control Project Agency

The District participates in the San Joaquin River Flood Control Project Agency, a jointly governed organization formed to received funding from the State of California to paid for a flood management plan every five years through an outside engineering firm. The JPA's governing board consists of representatives from all member agencies (Firebaugh Canal District, Central California Irrigation District, Columbia Canal Company, and Henry Miller Reclamation District) ; however, no participant possesses an equity interest. The District provides all administrative, management, and clerical support necessary to operate the JPA. These in-kind services are provided at no cost, and the District receives no reimbursement. The District has no ongoing financial responsibility for the JPA's liabilities. The Agency dissolved in October 2025.

RYAN P. JOLLEY
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Ryan P. Jolley C.P.A.
Bryant L. Jolley C.P.A.
Darryl L. Smith C.P.A.
Luis A. Perez C.P.A.
Brandon J. Lang C.P.A.
Lan T. Kimoto
Kali A. Kaakah

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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 26, 2026.

Report 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 July 26, 2026 that we considered to be significant deficiencies in internal control. Please refer to that communication for a more detailed explanation of the deficiencies 2025-001 and 2025-002.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

July 26, 2026

2025-001: 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 Statements 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, 2025, were not effective.

Cause
No oversight over year-end closing and grant reconciliations

Effect
Material audit adjustments

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 places 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, 2023.

2025-002: 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, 2023.

Summary Schedule of Prior Audit Findings

2023-01 Internal Controls over Financial Reporting – Not Implemented

2023-02 Address Oversight of Financial Statement Conversion from Cash to Accrual Basis – Not Implemented