

BALLICO CORTEZ WATER DISTRICT

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
JUNE 30, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ballico Cortez Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Ballico Cortez Water District (the District) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2021 and 2020, the respective changes in financial position, and cash flows thereof for the years 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." The signature is fluid and cursive, with "Hudson" and "Henderson" connected, and "& Company, Inc." following in a similar style.

Fresno, California

January 19, 2022

BALLICO CORTEZ WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 31,554	\$ 33,978
Investments	11,922	16,780
Accounts receivable	558	503
GSP gap funding receivable	6,615	6,615
Prepaid expenses	<u>885</u>	<u>1,665</u>
Total Assets	<u>51,534</u>	<u>59,541</u>
NET POSITION		
Unrestricted	<u>51,534</u>	<u>59,541</u>
Total Net Position	<u>\$ 51,534</u>	<u>\$ 59,541</u>

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

BALLICO CORTEZ WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Charges for services	\$ _____ -	\$ _____ -
Total operating revenues	_____ -	_____ -
OPERATING EXPENSES		
Groundwater sustainability plan	18,733	12,444
Groundwater sustainability agency charges	11,499	15,029
Administrative expenses	3,456	2,946
Professional services	3,948	3,261
Total operating expenses	<u>37,636</u>	<u>33,680</u>
Net operating income (loss)	<u>(37,636)</u>	<u>(33,680)</u>
NON-OPERATING REVENUES		
Property tax revenue	29,453	29,249
Investment earnings	142	386
Interest income	34	75
Total non-operating revenue	<u>29,629</u>	<u>29,710</u>
Change in Net Position	(8,007)	(3,970)
Net Position, Beginning of Year	<u>59,541</u>	<u>63,511</u>
Net Position, End of Year	<u>\$ 51,534</u>	<u>\$ 59,541</u>

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

BALLICO CORTEZ WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash Flows from Operating Activities:		
Payments to vendors for operating activities	\$ (36,856)	\$ (41,159)
Net cash used by operating activities	<u>(36,856)</u>	<u>(41,159)</u>
Cash Flows from Investing Activities:		
Investment earnings	142	386
Interest income	34	75
Net cash provided by investing activities	<u>176</u>	<u>461</u>
Cash Flows from Non-Capital Financing Activities:		
Property taxes received	<u>29,398</u>	<u>29,559</u>
Net cash provided by non-capital financing activities	<u>29,398</u>	<u>29,559</u>
Net decrease in cash, cash equivalents, and investments	(7,282)	(11,139)
Cash, Cash Equivalents, and Investments - Beginning of Year	<u>50,758</u>	<u>61,897</u>
Cash, Cash Equivalents, and Investments - End of Year	<u>\$ 43,476</u>	<u>\$ 50,758</u>
Reconciliation of cash, cash equivalents, and investments to the Statements of Net Position:		
Cash and cash equivalents	\$ 31,554	\$ 33,978
Investments	<u>11,922</u>	<u>16,780</u>
Total cash, cash equivalents, and investments	<u>\$ 43,476</u>	<u>\$ 50,758</u>
Reconciliation of net operating income (loss) to net cash used by operating activities:		
Net operating income (loss)	\$ (37,636)	\$ (33,680)
Changes in operating assets and liabilities:		
GSP gap funding receivable	-	(6,615)
Prepaid expenses	<u>780</u>	<u>(864)</u>
Total adjustments	<u>780</u>	<u>(7,479)</u>
Net cash used by operating activities	<u>\$ (36,856)</u>	<u>\$ (41,159)</u>

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

**BALICO CORTEZ WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Ballico Cortez Water District (the District) is a water district formed to act on behalf of the individual farms that encompass the approximately 6,800 acres located in the region that is north of the Merced River and up to the Merced County line. The District does not provide water delivery services to the landowners in the District, nor does the District own property.

The District has a Board of Directors consisting of five members. The Board meets as required as operations dictate. The District is wholly funded by property tax revenues and investment earnings. The District does not employ individuals; however, it has hired an outside contractor for administrative and secretarial duties.

The District is a member of the East Turlock Subbasin Groundwater Sustainability Agency (the GSA). The District allocates a portion of the expenses incurred by the GSA annually.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses.

All activities of the District are accounted for within a proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through users charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or operating income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation.

The District typically does not receive operating revenues, as the operating expenses are funded through property tax revenues and investment income. Operating expenses include GSA fees and general and administrative expenses. All other revenues and expenses not meeting the definition of operating revenues and expenses are reported as non-operating revenues and expenses.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Cash and Cash Equivalents: For purposes of reporting the Statements of Cash Flows, the District considers all cash accounts and all highly liquid debt instruments purchased with an original maturity of three (3) months or less to be cash equivalents.

Investments: All investments are stated at fair value. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidated sale. Investments consist of deposits in the Local Agency Investment Fund, a state investment pool.

BALLICO CORTEZ WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable: The District's accounts receivables include property taxes assessed for the current reporting period but not received until the following fiscal year. The District utilizes the allowance method of accounting for uncollectible or doubtful accounts based on historical experience and current information as it becomes available. There was no allowance for doubtful accounts recorded at June 30, 2021 and 2020. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The District has recorded a receivable balance for the groundwater sustainability plan (GSP) additional funding provided to the GSA to cover the costs of the GSP. These additional funds are expected to be reimbursed through grant funding at the conclusion of the GSP process.

Accounts Payable: Certain costs are incurred by the District during the current reporting period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements. The District's account payable balance as of June 30, 2021 and 2020 was \$0.

Net Position: Net position represents the residual interest in the District's assets after liabilities are deducted. The Statements of Net Position report total net position and presents it in three broad components: net investment in capital assets, restricted, and unrestricted. Net position, net investment in capital assets includes capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. Amounts included as unrestricted net assets are available for designation for specific purposes established by the District's Board of Directors. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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 expenses during the reporting period. Actual results could differ from those estimates.

Property Taxes: The District receives property taxes from Merced County. Property taxes are recorded in the fiscal year for which the tax is levied based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1 and become delinquent on August 31.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through January 19, 2022, which is the date the financial statements were available to be issued.

BALLICO CORTEZ WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments at June 30, 2021 and 2020 are classified in the accompanying financial statements as follows:

	2021	2020
Cash and cash equivalents	\$ 31,554	\$ 33,978
Investments	<u>11,922</u>	<u>16,780</u>
 Total cash, cash equivalents, and investments	 <u>\$ 43,476</u>	 <u>\$ 50,758</u>

Cash, cash equivalents, and investments at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Deposits with financial institutions	\$ 31,554	\$ 33,978
LAIF investment	<u>11,922</u>	<u>16,780</u>
 Total cash, cash equivalents, and investments	 <u>\$ 43,476</u>	 <u>\$ 50,758</u>

Credit Risk: State law limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: The District's policies place no limit on the amount the District may invest in any one issuer.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Deposits: The District invests its excess cash in deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At various times during the year such amounts may be in excess of the insured limits.

BALLICO CORTEZ WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

Investment in Local Agency Investment Fund (LAIF): As of June 30, 2021 and 2020, the District's investment in LAIF was \$11,922 and \$16,780, respectively. The investment in LAIF is reported at its net asset value, which approximates fair value.

LAIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA cash and investments are recorded at cost which approximates fair value. The District's deposits with LAIF are available for withdrawal generally on demand.

NOTE 3 – FAIR VALUE MEASUREMENT

GASB No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The District utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the District's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are as follows:

- LAIF – uses the fair value of the pool's share price multiplied by the number of shares held. This pool can include a variety of investments such as U.S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, and other investments. The fair values of the securities are generally based on quoted market prices.

As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The District's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

The LAIF investments of \$11,922 and \$16,780, as of June 30, 2021 and 2020, respectively, are not subject to the fair value hierarchy and as such, are not included in the fair value hierarchy table. The District had no other financial assets and liabilities that were accounted for on a recurring basis within the fair value hierarchy as of June 30, 2021 and 2020.

BALLICO CORTEZ WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

Coronavirus Pandemic: Management has determined the events regarding the Novel Coronavirus (COVID-19) require disclosure in accordance with accounting standards. On March 4, 2020, Governor Newsom issued an emergency proclamation declaring a State of Emergency in California due to COVID-19. The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by the governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the District is unknown.



**INDEPENDENT AUDITORS' 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
Ballico Cortez Water District

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 business-type activities of the Ballico Cortez Water District (the District) as of June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 19, 2022.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) 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. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California

January 19, 2022