Report of Independent Auditors and Financial Statements with Required Supplementary Information

# Upper Salinas-Las Tablas Resource Conservation District

June 30, 2025

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Moss, Levy & Hartzheim LLP

Certified Public Accountants

## Report of Independent Auditors

The Board of Directors

Upper Salinas-Las Tablas Resource Conservation District

### Report on the Audit of the Financial Statements

### Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Upper Salinas-Las Tablas Resource Conservation District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Upper Salinas-Las Tablas Resource Conservation District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Upper Salinas-Las Tablas Resource Conservation District, as of June 30, 2025, and the respective changes in financial position thereof for the year then 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 Upper Salinas-Las Tablas Resource Conservation 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 Upper Salinas-Las Tablas Resource Conservation 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.

**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 Upper Salinas-Las Tablas Resource Conservation 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 Upper Salinas-Las Tablas Resource Conservation 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**

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued a report dated November 13, 2026, on our consideration of the Upper Salinas-Las Tablas Resource Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and should be read in conjunction with this report in considering the results of our audit.



Santa Maria, California

November 13, 2026

# Basic Financial Statements

**Upper Salinas-Las Tablas Resource Conservation District**
Statement of Net Position
June 30, 2025

| | Governmental Activities |
|---|---|
| ASSETS | |
| Cash and investments | $ 223,388 |
| Accounts receivable | 772,810 |
| Prepaid and other assets | 30,317 |
| Pledge receivable | 990,000 |
| Right-to-use asset, net | 169,554 |
| Capital assets, net | 815,914 |
| Total assets | 3,001,983 |
| LIABILITIES | |
| Accounts payable | 668,407 |
| Accrued payroll liabilities | 27,003 |
| Compensated absences, due within one year | 3,359 |
| Current portion, lease payable | 47,817 |
| Noncurrent liabilities | |
| Lease payable | 125,476 |
| Total liabilities | 872,062 |
| NET POSITION | |
| Net investment in capital assets | 812,175 |
| Restricted for the Willow Creek Restorative Project | 1,106,587 |
| Unrestricted | 211,159 |
| Total net position | $ 2,129,921 |

See accompanying notes to basic financial statements.

**Upper Salinas-Las Tablas Resource Conservation District**
Statement of Activities
For the Fiscal Year Ended June 30, 2025

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Contributions and Grants | Program Revenues: Capital Contributions and Grants | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Soil and water conservation | $ 3,817,087 | $ 465,493 | $ 3,461,159 | $ – | $ 109,565 |
| Total governmental activities | $ 3,817,087 | $ 465,493 | $ 3,461,159 | $ – | 109,565 |
| General revenues | | | | | |
| Interest income | | | | | 7 |
| Miscellaneous revenue | | | | | 50 |
| Gain on lease termination | | | | | 4,612 |
| Total general revenues | | | | | 4,669 |
| Change in net position | | | | | 114,234 |
| Net position, beginning of year, as previously reported | | | | | 2,001,371 |
| Restatement (Note 14) | | | | | 14,316 |
| Net position, beginning of year, as restated | | | | | 2,015,687 |
| Net position, end of year | | | | | $ 2,129,921 |

See accompanying notes to basic financial statements.

**Upper Salinas-Las Tablas Resource Conservation District**
Balance Sheet - Governmental Funds
June 30, 2025

| | General Fund |
|---|---|
| **ASSETS** | |
| Cash and investments | $ 223,388 |
| Accounts receivable | 772,810 |
| Prepaid and other assets | 30,317 |
| Pledge receivable | 990,000 |
| Total assets | 2,016,515 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | |
| LIABILITIES | |
| Accounts payable | 668,407 |
| Accrued payroll liabilities | 27,003 |
| Total liabilities | 695,410 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pledge receivable | 990,000 |
| Total deferred inflows of resources | 990,000 |
| FUND BALANCES | |
| Nonspendable | |
| Prepaid expenditures | 30,317 |
| Restricted | |
| Willow Creek Restorative Project | 116,587 |
| Unassigned | 184,201 |
| Total fund balances | 331,105 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 2,016,515 |

See accompanying notes to basic financial statements.

**Upper Salinas-Las Tablas Resource Conservation District**
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2025

| | | | |
|---|---|---|---|
| Total fund balance | | | $ 331,105 |
| Amounts reported for governmental activities in the statement of net position are different because: | | | |
| In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital, right-to-use assets, accumulated depreciation and accumulated amortization | | | |
| Capital assets at historical cost | $ 895,378 | | |
| Accumulated depreciation | (79,464) | | |
| Right-to-use asset | 203,464 | | |
| Accumulated amortization | (33,910) | | |
| Net | | | 985,468 |
| In governmental funds, the pledge receivable is reported as a deferred inflow of resources because the amount was not considered available under the modified accrual basis of accounting. In the statement of net position, the pledge is recognized as revenue when the pledge becomes unconditional. | | | 990,000 |
| Long-Term Liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of: | | | |
| Compensated absences | $ (3,359) | | |
| Lease payable | (173,293) | | |
| Total | | | (176,652) |
| Total net position | | | $ 2,129,921 |

See accompanying notes to basic financial statements.

**Upper Salinas-Las Tablas Resource Conservation District**
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2025

| | General Fund |
|---|---|
| REVENUES | |
| Grant revenue | $ 3,431,669 |
| Program income | 465,493 |
| Contributions | 359,490 |
| Interest income | 7 |
| Miscellaneous revenue | 50 |
| Total revenues | 4,256,709 |
| EXPENDITURES | |
| Current: | |
| Salaries and employee benefits | 623,896 |
| Services and supplies | 3,113,478 |
| Capital outlay | 399,268 |
| Debt service | |
| Principal | 37,708 |
| Interest | 6,412 |
| Total expenditures | 4,180,762 |
| Excess of revenues over/(under) expenditures | 75,947 |
| OTHER FINANCING SOURCES (USES) | |
| Lease inception | 203,464 |
| Total other financing sources (uses) | 203,464 |
| Net change in fund balance | 279,411 |
| FUND BALANCE, beginning of year, as previously reported | 37,378 |
| Restatement (Note 14) | 14,316 |
| FUND BALANCE, beginning of year, as restated | 51,694 |
| FUND BALANCE, end of year | $ 331,105 |

See accompanying notes to basic financial statements.

**Upper Salinas-Las Tablas Resource Conservation District**
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2025

| | | |
|---|---|---|
| Net change in fund balance | $ | 279,411 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which additions to capital assets of $195,804 and right-to-use assets of $203,464 exceeded depreciation expense of $47,087 and amortization expense of $42,515 in the period. | | 309,666 |
| In the statement of activities, compensated absences are measured by the amounts earned during each year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This year, vacation used was more than the vacation earned by $16,301 | | 16,301 |
| In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: | | (203,464) |
| In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: | | 37,708 |
| In governmental funds, pledge installments are recognized as revenue when they are collected. In the government-wide statements the pledge was recognized in full when it became unconditional, so the installment recognized in the fund this year is removed and the deferred inflow of resources is reduced instead. | | (330,000) |
| In governmental funds, the termination of the office lease is not reported. In the government-wide statements, the lease liability derecognized exceeded the carrying amount of the right-to-use asset given up, and the difference is reported as a gain: | | 4,612 |
| Change in net position | $ | 114,234 |

See accompanying notes to basic financial statements.

## Note 1 – Organization

The Upper Salinas-Las Tablas Resource Conservation District (the District) is made up of three previously separate Districts: The Upper Salinas Resource Conservation District, the Parkfield-Cholame Resource Conservation District, and the Las Tablas Resource Conservation District. The Upper Salinas Resource Conservation District was originally organized in 1951, the Parkfield-Cholame Resource Conservation District was originally organized in 1956, and the Las Tablas Resource Conservation District was originally organized in 1953. All three RCDs were authorized under Division IX of the California Public Resources Code.

The Upper Salinas and Parkfield-Cholame RCDs were consolidated in 1973 into the Upper Salinas RCD. In 1985, the Upper Salinas and Las Tablas RCDs were consolidated into the larger Upper Salinas-Las Tablas RCD. This RCD covers a jurisdiction of over 2,000 square miles within San Luis Obispo and Monterey counties.

## Note 2 – Summary of Significant Accounting Policies

### A. Reporting Entity

The reporting entity is the Upper Salinas-Las Tablas Resource Conservation District. There are no component units that meet the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, No. 61, No. 80, and No. 90.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District's governmental activities are supported primarily by grants, charges for services and contributions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### C. Basis of Presentation

**Government-wide Financial Statements** – The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities.

Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column. The District has no nonmajor funds.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds presents increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

### D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

**Revenues – exchange and non-exchange transactions** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after fiscal year-end, except that installments of the pledge described in Note 4 are considered available only when collected by the end of the fiscal year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include grants and contributions. Revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned revenue** – Unearned revenues arise when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as unearned revenue.

**Expenses/expenditures** – On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

### E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The District's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into one major fund as follows:

*General Fund* – The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

### F. Budgets and Budgetary Accounting

The District adopts an annual budget for the General Fund. The budget for the fiscal year ended June 30, 2025 was reviewed by the Board of Directors on October 10, 2024 and adopted at a special meeting in December 2024, after the regular meeting of December 12, 2024 lacked a quorum. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations.

The Board of Directors may amend the budget by motion during each fiscal year. The original and final budgets are presented for the General Fund. The budget is prepared on the modified accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the District are subject to annual review by the Board of Directors; hence, they legally are one year contracts with an option for renewal for another fiscal year.

For the fiscal year ended June 30, 2025, total expenditures of the General Fund did not exceed total appropriations. The budget did not appropriate amounts for capital outlay or debt service, and expenditures for capital outlay of $399,268, including the $203,464 recognized at the inception of the office lease, and for debt service of $44,120 were incurred without a corresponding appropriation.

### G. Investments

The District held no investments during the year. Investments, when held, are stated at fair value.

### H. Prepaid Expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the period benefitted.

### I. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.

### J. Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are recorded at acquisition value at the date of the contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than $1,000 and estimated useful life in excess of two years.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the governmental column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net position. The estimated useful lives are as follows:

| | |
|---|---|
| Equipment | 7 to 10 years |
| Structures | 10 to 50 years |

### K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, 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 during the reporting period. Actual results could differ from those estimates.

### L. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

### M. Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave. In accordance with GASB Statement No. 101, a liability is recognized for leave that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash, together with the related salary-related payments. Accumulated vacation meets these criteria and is recognized; sick leave is not paid out on separation and is not recognized, because it is not more likely

than not to be used beyond the amounts taken each year. The liability is reported in the government-wide financial statements, and in the governmental fund only to the extent it is due and payable at year end.

### N. Fund Balances

Fund balance of the governmental fund is classified as follows:

**Nonspendable** – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed** – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Fund balance is committed by resolution of the Board of Directors. The District had no committed fund balance at June 30, 2025. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned** – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority; the Board has not delegated that authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the District.

**Unassigned** – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

### O. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

| | | |
|---|---|---|
| Statement No. 103 | "Financial Reporting Model Improvements" | The provisions of this statement are effective for fiscal years beginning after June 15, 2025. |
| Statement No. 104 | "Disclosure of Certain Capital Assets" | The provisions of this statement are effective for fiscal years beginning after June 15, 2025. |
| Statement No. 105 | "Subsequent Events" | The provisions of this statement are effective for fiscal years beginning after June 15, 2026. |

### P. New Accounting Pronouncements Implemented

The District implemented GASB Statement No. 101, Compensated Absences, effective July 1, 2024. The Statement requires a liability for leave that has not been used if the leave is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid, together with the related salary-related payments. The effect on beginning net position was not material, and beginning balances were not restated for the change.

The District also implemented GASB Statement No. 102, Certain Risk Disclosures, effective July 1, 2024. The disclosure it requires is presented in Note 12.

## Note 3 – Cash and Investments

On June 30, 2025, the District had the following cash and investments:

| | | Amount |
|---|---|---|
| Cash in banks | $ | 206,648 |
| Cash held by payment processor | | 16,740 |
| **Total cash and investments** | $ | 223,388 |

Cash and investments are presented on the accompanying basic financial statements, as follows:

| | | Amount |
|---|---|---|
| Cash and investments, statement of net position | $ | 223,388 |
| **Total cash and investments** | $ | 223,388 |

**Interest rate risk, credit risk and concentration of credit risk** – The District held no investments during the year and so had no exposure to interest rate risk, credit risk or concentration of credit risk on investments.

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in 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 or investments, 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 fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2025, the District's deposits with financial institutions did not exceed federal depository insurance limits, and none of the District's deposits were held in uncollateralized accounts. During the fiscal year the District closed its accounts at its former depository and opened checking and savings accounts at another financial institution. Amounts held by the District's payment processor are not deposits at a financial institution and are not covered by federal depository insurance.

## Note 4 – Pledge Agreement

On March 23, 2023, the District entered into a Charitable Pledge Agreement (the "Agreement") with a private donor whereby the donor agreed to make charitable contributions to the District to fund and support a Restoration and Regenerative Agriculture Workspace project (the "Restorative Project") on certain real property located at 1380 Willow Creek Road, Paso Robles, California (the "Property").

**Property Donation –** On August 23, 2023, the donor transferred the Property, consisting of approximately 375 acres in the County of San Luis Obispo, to the District. The Property was recorded at its acquisition value of $570,000, based on an appraisal, and is included in land on the District's statement of net position. Pursuant to the Agreement, the Property is subject to a conservation easement recorded in the official records of San Luis Obispo County restricting its use exclusively for conservation purposes. The Property is included in net investment in capital assets; its use is restricted by the conservation easement.

**Cash Pledge –** In connection with the property donation, the donor pledged to contribute $1,650,000, payable in five equal annual installments of $330,000. All pledge proceeds are donor-restricted for use in connection with the Restorative Project as described in Exhibit A of the Agreement. Under the terms of the Agreement, the cash pledge was conditional until the Property was transferred to the District. The Property was transferred on August 23, 2023, at which time all conditions associated with the pledge were satisfied. Accordingly, the remaining installments of the pledge became unconditional during the fiscal year ended June 30, 2024, and the District recognized a pledge receivable in that year in accordance with GASB Statement No. 33.

Installments totaling $660,000 had been received through June 30, 2025, of which $330,000 was collected during the fiscal year then ended. The third installment, which fell due on or around June 1, 2025, was received on August 21, 2025 (Note 15). In the General Fund, pledge installments are recognized as revenue when they are collected, and the $990,000 outstanding at June 30, 2025 is reported as a deferred inflow of resources. The District has assessed the remaining installments as fully collectible and has recorded no allowance for uncollectible amounts. The pledge receivable as of June 30, 2025, is due as follows:

| Fiscal Year Ended June 30 | | Amount |
|---|---|---|
| 2026 | $ | 660,000 |
| 2027 | | 330,000 |
| **Total** | $ | 990,000 |

The pledge receivable is classified as restricted net position as the proceeds are donor-restricted for use in connection with the Restorative Project.

**Matching Pledge –** Under the Agreement, the donor also pledged to match outside contributions received by the District for the Restorative Project on a dollar-for-dollar basis, up to a maximum of $500,000 (the "Matching Pledge"). The Matching Pledge is payable in annual installments on or around December 31 over a ten-year period beginning December 31, 2024, based on outside funds received by the District during the preceding twelve-month period. The District is required to provide the donor with an Annual Match Report on or around December 1 of each year documenting all outside funds received for the Restorative Project during the preceding twelve-month period.

During the fiscal year ended June 30, 2025, the District received $29,490 under the Matching Pledge, which is reported in contributions. The remainder of the Matching Pledge has not been recognized in the financial statements because the amount is contingent upon future outside fundraising activities. The District will recognize Matching Pledge revenue as qualifying outside funds are received and reported to the donor in accordance with the Agreement.

## Note 5 – Capital Assets

Capital assets activity for the year ended June 30, 2025 was as follows:

| | Balance July 1, 2024 | Additions | Deletions | Balance June 30, 2025 |
|---|---|---|---|---|
| **Capital assets not being depreciated** | | | | |
| Land | $ 570,000 | $ – | $ – | $ 570,000 |
| Total capital assets not being depreciated | 570,000 | – | – | 570,000 |
| **Capital assets being depreciated** | | | | |
| Machinery and equipment | 129,574 | 195,804 | – | 325,378 |
| Total capital assets being depreciated | 129,574 | 195,804 | – | 325,378 |
| **Less accumulated depreciation for** | | | | |
| Machinery and equipment | 32,377 | 47,087 | – | 79,464 |
| Total accumulated depreciation | 32,377 | 47,087 | – | 79,464 |
| Total capital assets being depreciated, net | 97,197 | 148,717 | – | 245,914 |
| **Capital assets, net** | $ 667,197 | $ 148,717 | $ – | $ 815,914 |

Depreciation expense of $47,087 was charged to the soil and water conservation function.

## Note 6 – Right-to-Use Asset

| | Balance July 1, 2024 | Additions | Reductions | Balance June 30, 2025 |
|---|---|---|---|---|
| **Right-to-use assets** | | | | |
| Leased office | $ 129,067 | $ 203,464 | $ 129,067 | $ 203,464 |
| Total right-to-use assets | 129,067 | 203,464 | 129,067 | 203,464 |
| Less: accumulated amortization | 17,209 | 42,515 | 25,814 | 33,910 |
| **Right-to-use assets, net** | $ 111,858 | $ 160,949 | $ 103,253 | $ 169,554 |

Amortization of right-to-use assets of $42,515 was charged to the soil and water conservation function.

## Note 7 – Lease Payable

On November 1, 2023, the District entered into a noncancelable lease for office space at 5855 Capistrano Avenue, Atascadero. At commencement the District recognized a right-to-use asset and a corresponding lease liability of $129,067, measured as the present value of the lease payments using a discount rate of 3.9 percent.

That lease was terminated on October 31, 2024. On termination the District derecognized the remaining lease liability of $107,865 and the carrying amount of the related right-to-use asset of $103,253, and recognized a gain of $4,612, which is reported in general revenues. On November 1, 2024, the District entered into a noncancelable lease for office space at 5905 Capistrano Avenue, Atascadero. The lease runs for 48 months to October 31, 2028, with base rent of $4,390 per month subject to a 3 percent increase each November, plus a fixed common area fee of $410 per month. The common area fee is a nonlease component and is excluded from the measurement of the lease liability in accordance with GASB Statement No. 87. At commencement the District recognized a right-to-use asset and a corresponding lease liability of $203,464, measured as the present value of the 48 lease payments using a discount rate of 3.9 percent.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2025, were as follows:

| Fiscal Year Ended June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2026 | $ 47,817 | $ 5,917 | $ 53,734 |
| 2027 | 51,357 | 3,989 | 55,346 |
| 2028 | 55,086 | 1,920 | 57,006 |
| 2029 | 19,033 | 155 | 19,188 |
| **Total** | $ 173,293 | $ 11,981 | $ 185,274 |

## Note 8 – Long-term Liabilities

The following is a summary of long-term liability activity for the year ended June 30, 2025:

| | Balance July 1, 2024 | Additions | Deletions | Balance June 30, 2025 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| Compensated absences | $ 19,660 | $ 14,449 | $ 30,750 | $ 3,359 | $ 3,359 |
| Lease payable | 115,402 | 203,464 | 145,573 | 173,293 | 47,817 |
| **Total long-term liabilities** | $ 135,062 | $ 217,913 | $ 176,323 | $ 176,652 | $ 51,176 |

Compensated absences and the lease liability are liquidated by the General Fund.

## Note 9 – Defined Contribution Plan

The District provides retirement benefits to its employees through a deferred compensation plan under Internal Revenue Code section 457(b), a defined contribution plan administered by Nationwide. Employees may defer part of their compensation, and the District matches employee deferrals dollar for dollar. Benefits depend solely on the amounts contributed and the investment earnings on them, and the District has no obligation beyond its contributions. The plan provisions and contribution requirements are established, and may be amended, by the Board of Directors.

For the fiscal year ended June 30, 2025, employee deferrals totaled $28,054 and the District recognized contributions of $28,274. Employer contributions payable at June 30, 2025 of $1,013, together with employee deferrals withheld, were remitted to the plan in July 2025.

## Note 10 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), a joint powers authority that provides risk pooling and insurance coverage to California special districts. Through SDRMA the District obtains property, general liability, errors and omissions, automobile liability and physical damage, and workers' compensation coverage, subject to SDRMA's memorandum of coverage and deductibles, for an annual premium.

Settled claims have not exceeded this coverage in any of the past three fiscal years.

## Note 11 – Related Party Transactions

The District's contracted Financial Officer provides accounting services to the District as an independent contractor. Payments under the contract totaled $39,000 for the fiscal year ended June 30, 2025, and no amount was payable under the contract at June 30, 2025.

## Note 12 – Concentration of Revenue Sources

For the fiscal year ended June 30, 2025, grant revenue of $3,431,669 represented 81 percent of total General Fund revenues, including $419,335 awarded directly by federal agencies. Beginning in early 2025, changes in federal funding priorities resulted in the pause, delay or cancellation of certain federal programs in which the District participates. A significant reduction or delay in grant funding could substantially affect the District's ability to continue its programs at their current level. The Board is reviewing the District's budget and overhead costs in light of these changes.

## Note 13 – Commitments and Contingencies

**State and Federal Allowances, Awards, and Grants** – The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

**Litigation** – The District is a defendant in a lawsuit filed in May 2023 by a former employee alleging wrongful termination, retaliation, discrimination, and related employment claims. The District denies the allegations and is contesting the claim. The matter was tendered to the District's insurer, which has retained counsel to defend the District. The plaintiff has not stated the amount claimed, and the outcome cannot presently be determined; in the opinion of the District's counsel, any settlement would be funded by the District's insurer rather than by the District. No liability has been recorded in the financial statements.

## Note 14 – Restatement of Beginning Balances

During the fiscal year ended June 30, 2025, the District identified two errors in its previously issued financial statements for the fiscal year ended June 30, 2024, which are corrected by restating beginning fund balance and beginning net position in accordance with GASB Statement No. 100, Accounting Changes and Error Corrections:

**Invoice 4003** – Grant invoice 4003, for services in the fiscal year ended June 30, 2024, was recorded at $8,784 rather than $20,462, understating that year's grant revenue and accounts receivable by $11,678.

**Invoice 4260** – Grant invoice 4260, for services performed in June 2024, was recorded as revenue of the fiscal year ended June 30, 2025, together with $22,000 of the related subcontractor expenditure. Revenue of the fiscal year ended June 30, 2024 was understated by $24,638, expenditures by $22,000, and ending fund balance and net position by $2,638.

The effect on beginning fund balance and net position is as follows:

| | Governmental Activities | General Fund |
|---|---|---|
| Beginning balance, as previously reported | $ 2,001,371 | $ 37,378 |
| Restatement - correction of errors | 14,316 | 14,316 |
| **Beginning balance, as restated** | $ 2,015,687 | $ 51,694 |

## Note 15 – Subsequent Events

The District has evaluated subsequent events through November 13, 2026, the date on which the financial statements were available to be issued.

**Pledge Receivable** – The $330,000 installment of the pledge described in Note 4 falling due on or about June 1, 2025 was invoiced to the donor on July 3, 2025. The donor's first remittance, on August 12, 2025, was directed to a bank account the District had closed during the fiscal year and was returned; the donor reissued the payment, which the District received on August 21, 2025. No allowance for uncollectible amounts is recorded against the pledge receivable.

**Cash Held by Payment Processor** – The $16,740 held by the District's payment processor at June 30, 2025, described in Note 3, was transferred to the District's checking account in two amounts, $10,000 on August 29, 2025 and $6,740 on March 19, 2026. The account with the payment processor was closed on March 26, 2026.

**Local Agency Formation Commission Review** – On September 18, 2025, the San Luis Obispo County Local Agency Formation Commission (the Commission) initiated a periodic Municipal Service Review and Sphere of Influence study of the District. On February 19, 2026, the Commission established a twelve-month remediation period for the District to complete its outstanding financial audits and to work with the County Auditor-Controller-Treasurer-Tax Collector's Office to identify the financial concerns documented in prior audits. The District continues to work with the Commission and the County.

# Required Supplementary Information

**Upper Salinas-Las Tablas Resource Conservation District**
General Fund - Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2025

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget Positive (Negative) |
| REVENUES | | | | |
| Grant revenue | $ 5,219,847 | $ 5,219,847 | $ 3,431,669 | $ (1,788,178) |
| Program income | 1,507,441 | 1,507,441 | 465,493 | (1,041,948) |
| Contributions | – | – | 359,490 | 359,490 |
| Interest income | – | – | 7 | 7 |
| Miscellaneous revenue | – | – | 50 | 50 |
| Total revenues | 6,727,288 | 6,727,288 | 4,256,709 | (2,470,579) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries and employee benefits | 858,828 | 858,828 | 623,896 | 234,932 |
| Services and supplies | 5,538,083 | 5,538,083 | 3,113,478 | 2,424,605 |
| Capital outlay | – | – | 399,268 | (399,268) |
| Debt service | | | | |
| Principal | – | – | 37,708 | (37,708) |
| Interest | – | – | 6,412 | (6,412) |
| Total expenditures | 6,396,911 | 6,396,911 | 4,180,762 | 2,216,149 |
| Excess of revenues over/(under) expenditures | 330,377 | 330,377 | 75,947 | (254,430) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Lease inception | – | – | 203,464 | 203,464 |
| Total other financing sources (uses) | – | – | 203,464 | 203,464 |
| Net change in fund balance | 330,377 | 330,377 | 279,411 | (50,966) |
| FUND BALANCE, beginning of year | 37,378 | 37,378 | 37,378 | – |
| Restatement (Note 14) | – | – | 14,316 | 14,316 |
| FUND BALANCE, beginning of year, as restated | 37,378 | 37,378 | 51,694 | 14,316 |
| FUND BALANCE, end of year | $ 367,755 | $ 367,755 | $ 331,105 | $ (36,650) |



Moss, Levy & Hartzheim LLP
Certified Public Accountants

## Report of Independent Auditors 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

Upper Salinas-Las Tablas Resource Conservation 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 governmental activities and each major fund of the Upper Salinas-Las Tablas Resource Conservation District (the "District"), as of and for the fiscal year 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 November 13, 2026.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2025-001 and 2025-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and

responses as items 2025-003, 2025-004, 2025-005, 2025-006, and 2025-007 to be significant deficiencies.

**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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2025-002, 2025-004, and 2025-007.

**The District's Response to Findings**

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**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.



Santa Maria, California

November 13, 2026

**Finding 2025-001 — Release of Restricted Fund Balance Not Supported (Material Weakness)**

Criteria: Under GASB Statement No. 54, restricted fund balance is reduced only as resources are spent for the restricted purpose, so the amount released in a year should be supported by expenditure identifiable to that purpose and reconciled to the general ledger.

Condition: The District released $348,363 of restricted fund balance to unassigned fund balance at June 30, 2025 by a single journal entry built from a project-system report that priced staff time at a billing rate and was not reconciled to the general ledger. The release was supported only when the District rebuilt the project's cost in October 2026.

Cause: The restricted balance is accounted for once a year at close, and the release is prepared from project records rather than from the accounting records. Payroll and equipment spent on the project are not coded to it when incurred, and the District has not adopted a fund balance policy.

Effect: Without a reconciled release, restricted and unassigned fund balance could be misclassified by an amount above materiality without detection.

Recommendation: We recommend the District support the annual release of restricted fund balance with a schedule drawn from the general ledger, prepared before the entry is posted and reviewed by someone other than its preparer; code all project expenditure, including payroll and equipment, to the project when it is incurred; and adopt a fund balance policy addressing the order of use of restricted and unrestricted resources.

Prior year: This finding is related to finding 2024-002.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

The District has since reconstructed the fiscal year 2024-25 cost of the Willow Creek Restorative Project from the payroll register, the general ledger and the full-year time records. That reconstruction established actual project cost of $352,383.25 against the $348,362.59 released, so the release did not exceed the cost of the project for the year. The deficiency the District accepts is that the release was not supported at the time the entry was posted and was not prepared from the accounting records.

Beginning with the fiscal year 2026 close, the annual release of restricted fund balance will be supported by a schedule prepared from the general ledger before the entry is posted. The release will be measured at actual cost recorded in the general ledger rather than at a charge rate.

The pledge agreement does not expressly address the recovery of indirect cost. The District will take two steps. First, an indirect cost allocation methodology will be presented to the Board for adoption, setting out how the rate is derived from actual administrative expense, how often it is recalculated, and how it is applied, so that any indirect recovered against the restricted balance rests on Board-adopted policy and on actual cost. Second, the District will seek the donor’s agreement to record the treatment of indirect cost in the Charitable Pledge Agreement, so that the basis on which the restricted balance is released rests on the agreement as well as on District policy.

The schedule will be reviewed before the entry is posted by the Board Treasurer, who is independent of its preparation, with the review evidenced by signature and date.

Project expenditure is coded to the Willow Creek Restorative Project when incurred. The payroll journal does not currently carry project detail, although staff time is recorded against the project on timesheets. The District will allocate actual payroll cost — wages, employer taxes and benefits — to projects using the

hours already recorded, so that project cost can be drawn from the general ledger rather than reconstructed.

The Board adopted a Fiscal Policy & Procedure Manual on October 30, 2025 under Resolution 2025-4. The District will present an amendment to that Manual adding a fund balance policy addressing the order of use of restricted and unrestricted resources and a minimum level of unassigned fund balance.

Responsible official: Executive Director.

**Finding 2025-002 — Revenue, Receivables and Unearned Revenue Not Reviewed (Material Weakness and Instance of Noncompliance)**

Criteria: Grant and program revenue should be recorded in the period in which it is earned, advances should be recognized as revenue when the obligation they relate to is satisfied, and the District's grant invoice schedule should agree to the revenue it records. Under the terms of a federal award and 2 CFR 200.305, a recipient may draw only for allowable costs it has incurred and may not draw its own cost share.

Condition: (1) Grant invoice 4003 for the fiscal year ended June 30, 2024 was recorded at $8,784 rather than $20,462; the District identified this error through its accounts receivable subsidiary ledger reconciliation and disclosed it to us in writing on September 4, 2026. Audit procedures identified the following: grant invoice 4260 for June 2024 services ($24,638) was recorded in the fiscal year ended June 30, 2025; both errors are corrected by restating beginning fund balance and net position (Note 14). (2) Two advance deposits totaling $119,979 remained in unearned revenue at June 30, 2025 although the agreements under which they were received had ended during the year; an audit adjustment of $119,979 was required to recognize them as revenue. (3) The District's grant invoice schedule omitted $91,481 of invoices that are recorded in the general ledger. (4) On its U.S. Department of Energy award DE-EE0010727, the District's first-quarter cost share of $6,067 was drawn through the federal payment system on August 7, 2024 and recorded as revenue. The District credited the amount back on invoice 4298 dated September 24, 2024, but restored it on invoice 4317 dated October 24, 2024, and the correction was not completed, so $6,067 was received in excess of allowable costs.

Cause: Revenue, receivable and unearned revenue balances are not reviewed against the executed agreements and the billing records at year end, and drawdowns on federal awards are not reconciled to the costs incurred. Turnover in the District's staff and leadership during the year contributed to the lapse.

Effect: Audit adjustments above materiality were required, beginning balances were restated, and the financial statements include uncorrected misstatements of revenue. The District is exposed to repayment of $6,067 to the U.S. Department of Energy, which is an instance of noncompliance with the terms of the award.

Recommendation: We recommend the District reconcile its grant invoice schedule to the general ledger each month; review each advance against its agreement at year end so that it is recognized when the obligation is satisfied; review invoices issued after year end for services performed before it; reconcile each federal drawdown to allowable costs incurred; and repay or offset the $6,067 drawn in excess of allowable costs on award DE-EE0010727 in consultation with the grantor.

Prior year: This finding repeats finding 2024-001.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

The District identified the error in grant invoice 4003 through the accounts receivable subsidiary ledger reconciliation implemented in response to finding 2024-001, and disclosed it to the auditors in writing on September 4, 2026, before fieldwork began. That correction is included in the restatement described in Note 14.

*Award DE-EE0010727*

The District's first-quarter cost share of $6,066.87 was included in the drawdown requested on August 6, 2024. The District recorded the overdraw in the payment request itself at the time, stating: "We overdrew by $6,066.87 (cost share amount from the quarter) so the amount requested is greater than the amount Harvest shows we were owed."

The amount was credited back to the Department of Energy on invoice 4298 dated September 24, 2024, which reduced that drawdown: $73,816.57 was requested against $74,026.48 of invoices. The credit was subsequently restored by a line on invoice 4317 dated October 24, 2024, annotated "overdraw to be corrected on next invoice," and the correction was not completed.

Taking the year as a whole, the District issued $370,552.20 of invoices on the project, of which $69,681.41 remained receivable at June 30, 2025, and drew $306,937.66 — $6,066.87 more than those invoices support. A reconciliation of every invoice to its drawdown and to the cash recorded in the general ledger accompanies this response.

On November 6, 2026 the District initiated the return of $6,066.87 to the Department of Energy through ASAP.gov, the mechanism by which it returned $2,941.60 on October 30, 2025 after identifying that amount as drawn above actual cost on the September 2025 invoice. ASAP.gov did not accept the return because the account from which the original payment was made is no longer active, and the District is awaiting direction from the Department of Energy to complete it.

*Grant invoice schedule*

The $91,481 of invoices omitted from the schedule are recorded in the general ledger; the omission is a deficiency in the schedule and did not misstate revenue. The schedule will be reconciled to the general ledger monthly and built from the general ledger rather than from invoice numbers, so that invoices entered out of numerical sequence are not omitted.

*Advances*

At each year end the District will review every advance against the executed agreement under which it was received, so that revenue is recognized when the obligation to which it relates is satisfied, and will review invoices issued after year end for services performed before it.

*Drawdowns*

Each federal drawdown will be reconciled to allowable costs incurred before the request is submitted, and the District will not draw its own cost share. Any amount credited back to a grantor will be recorded as a discrete entry identifying the award and the drawdown to which it relates, rather than as an adjustment within a subsequent invoice.

*Project records*

All project cost is coded in the District's project system with the source document attached, and transferred manually to the accounting system. The District will reconcile the two systems by project each

month. For this award in fiscal year 2024-25 that reconciliation ties every subcontractor invoice across both systems without exception; the only unmatched item is the $6,066.87 line described above, which was created in the accounting system with no entry in the project records behind it.

Responsible official: Executive Director.

**Finding 2025-003 — Segregation of Duties and Review of Bank Reconciliations (Significant Deficiency)**

Criteria: A properly designed system of internal control segregates incompatible duties, including the preparation and posting of journal entries, payroll processing and approval, and vendor set-up and payment. Bank reconciliations should be prepared promptly after each month end and reviewed by someone other than the preparer.

Condition: Due to the District's small staff, the preparation and posting of journal entries, payroll processing and approval, and vendor set-up and payment processing are not segregated. The bank reconciliations at June 30, 2025 were completed fourteen months after the period, by one person acting as both preparer and reconciler, with no evidence of review.

Cause: Limited staff size inherent to a small special district, and no compensating review of the reconciliations by the Board or another individual independent of the accounting function.

Effect: Errors or irregularities in cash, payroll or disbursements may not be prevented, or detected and corrected, on a timely basis.

Recommendation: We recommend the District prepare its bank reconciliations within thirty days of each month end, and that each reconciliation, the payroll register, journal entries and vendor master file changes be reviewed and approved by a Board member or other individual independent of the processing function, with the review evidenced by signature and date.

Prior year: This finding repeats finding 2024-003.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

*Segregation of incompatible duties*

The District employs ten people and a single individual performs the accounting function. Full segregation of journal entry preparation and posting, payroll processing and approval, and vendor set-up and payment is not achievable within that staffing. Rather than represent that these duties will be segregated, the District relies on compensating review.

*Policy framework and its current status*

On October 30, 2025 the Board adopted a Fiscal Policy & Procedure Manual under Resolution 2025-4. Policy 201 requires all bank and credit card accounts to be reconciled monthly with independent review; Policy 404 requires the month-end close to be completed by the tenth business day of the following month against the Comprehensive Month-End Close Checklist at Section 4.1; and Policy 101 establishes a Finance Committee of at least two Directors including the Treasurer.

The District has not yet implemented Policy 404 and does not represent that it has.

*Implementation*

Implementation will begin with the November 2026 month-end close. Each month the District will complete the Section 4.1 checklist and assemble a close packet containing the completed checklist together with the bank and credit card reconciliations exported as PDF. The packet will be reviewed, signed and dated by the Board Treasurer and retained as a record independent of the accounting system. The reviewer will be given read-only access to the accounting system so that the review does not itself create an access risk, and if the reviewer is unavailable the review will pass to a second Director designated for that purpose.

The District accepts that review by the Executive Director alone, as Policy 201 provides, is not review by an individual independent of the processing function.

*Timeliness of bank reconciliations*

This is within the District's control and is addressed separately from the staffing limitation. Each bank reconciliation will be prepared within thirty days of month end and included in the close packet, beginning with the November 2026 reconciliation. The outstanding fiscal year 2026 close will be completed and reviewed on the same basis as a single package.

The District acknowledges that finding 2024-003 was reported as not implemented. The measures described above differ from the prior-year commitment in that they rest on Board-adopted policy, name the reviewing official, carry a start date, and produce a dated record outside the accounting system.

Responsible official: Executive Director.

**Finding 2025-004 — Budget Adopted After the Year Began and Expenditures Incurred Without Appropriation (Significant Deficiency and Instance of Noncompliance)**

Criteria: The District's budget is its authority to spend. An annual budget should be adopted before the fiscal year to which it applies begins, should state the period it covers, and should appropriate every category in which the District expects to incur expenditure.

Condition: The budget for the fiscal year ended June 30, 2025 was reviewed by the Board on October 10, 2024 and adopted at a special meeting in December 2024, after the regular meeting of December 12, 2024 lacked a quorum, more than five months after the year began. The budget document states no period; the minutes of October 10, 2024 record it as covering the calendar year 2025, while the agenda describes it as the fiscal year 2025 budget. The budget appropriates nothing for capital outlay or debt service, and the District incurred $399,268 of capital outlay and $44,120 of debt service during the year.

Cause: The budget calendar is not tied to the fiscal year, and the budget is prepared on the District's own captions rather than on the captions in which it reports.

Effect: For most of the year the District operated without an adopted appropriation, and expenditures were incurred in categories for which no appropriation exists. The budgetary comparison schedule is presented on the basis that the budget covers the fiscal year, which the budget document does not state.

Recommendation: We recommend the District adopt its annual budget before the start of the fiscal year to which it applies, state the period covered on the face of the budget document, present the budget in the captions used in the financial statements, appropriate capital outlay and debt service, and record any amendment by formal Board action during the year.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

*Cause*

The District budgeted on a calendar year basis. The fiscal year ended June 30, 2025 was therefore spanned by two budgets — the calendar year 2024 budget adopted April 4, 2024 and the calendar year 2025 budget adopted in December 2024 — and no budget was aligned to the fiscal year on which the District reports.

*Corrective action taken*

At a special meeting on October 30, 2025 the Board adopted Resolution 2025-08, which recorded that the District had inadvertently adopted a budget for the calendar year January 1 to December 31, 2025, misaligned with its legally mandated fiscal year; rescinded and voided that budget; and adopted a budget for the fiscal year July 1, 2025 to June 30, 2026. At the same meeting the Board adopted Resolution 2025-07, ratifying and confirming all actions, expenditures and disbursements for the fiscal year ended June 30, 2025.

Also on October 30, 2025, the Board adopted a Fiscal Policy & Procedure Manual under Resolution 2025-4. Policy 301 and the budget workflow at Section 3.1 tie the budget calendar to the fiscal year, set a public hearing and adoption date in June and a deadline for adoption of June 30, and require budget amendments to be brought to the Board for formal action.

The District notes that the fiscal year 2025-26 budget was itself adopted after that fiscal year had begun, and does not present these actions as complete remediation of that year.

*Evidence the correction holds*

The budget for the fiscal year 2026-2027 was reviewed and approved by the Board on June 25, 2026, before the start of that fiscal year, on a motion recorded in the minutes of that meeting. The agenda item and the minutes identify the budget by fiscal year. At the same meeting the Board reviewed and approved fiscal year 2025-26 fourth quarter budget modifications by motion, in accordance with Policy 301.

The District also notes that total expenditures of the General Fund did not exceed total appropriations for the fiscal year ended June 30, 2025, as disclosed in Note 2F.

Responsible official: Executive Director.

**Finding 2025-005 — Disbursement Controls and Purchasing Policy Approvals (Significant Deficiency)**

Criteria: The District's internal control questionnaire describes a check of payment history before each payment and the Executive Director's approval of all expenditures. The Board-adopted Purchasing Policy of February 2022 requires Board approval for purchases above $10,000 and, above $200,000, Board approval and at least three written quotes. The policy provides an exception from Board approval where the purchase is made with grant funds and the item is specifically listed in the grant budget approved by the grantor.

Condition: Erroneous payments of $44,036 were made during the year: a duplicate payment of $16,304 issued eight days after the original, and an overpayment of $27,731 to a consultant. Each was identified and returned by the payee rather than detected by the District. In addition, $1,262,308 was paid to two contractors whose engagements exceeded $200,000 without Board approval. The engagements were

competitively bid and were funded by grants whose grantor-approved budgets list them, so the Purchasing Policy's grant exception was available, but the Board record does not document that the exception was applied.

Cause: The duplicate-payment check and the approval of payments are performed on screen and not evidenced, and compliance with the Purchasing Policy is not documented on the Board record.

Effect: Erroneous or unauthorized disbursements may not be prevented, or detected and corrected, on a timely basis.

Recommendation: We recommend the District evidence the duplicate check and the approval on each payment run, and document compliance with the Purchasing Policy in the Board record for every contract above the policy thresholds, including Board approval and quotes or the grantor-approved budget line on which an exception is claimed.

Prior year: This finding repeats finding 2024-004.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

*The disbursement process*

The District’s disbursement process operates in five steps and involves two individuals. Project management staff enter each bill in the District’s project system, coded to the project, and upload the invoice itself at the point of entry. The contracted Financial Officer then enters the bill in QuickBooks Online, confirming against the project system and the vendor’s payment history that it is not a duplicate. The bill is received by the Executive Director. The Financial Officer processes the vendor payment electronically. The Executive Director reviews and approves the payment before funds are released.

Entry and payment processing are therefore performed by the Financial Officer and approval by the Executive Director, so the two functions are not combined. The duplicate confirmation occurs at the point the bill is entered rather than at a payment run, and the District also reviews bills entered for duplicates on a monthly basis.

*The erroneous payments*

The duplicate payment of $16,304 did not arise in the electronic process described above. The payment was printed on two separate days and mailed. The District seldom issues printed payments; substantially all vendor payments are made electronically. The District accepts that a duplicate confirmation performed when the bill is entered does not reach a payment printed a second time after the bill has been entered once, and that this is a gap in the reach of the control and not only in its documentation.

The overpayment of $27,731 is a different matter. An overpayment of a correctly recorded bill that is not a duplicate would not be detected by a duplicate confirmation, and the District does not suggest that the process described above would have prevented it.

*Evidencing the controls*

The District accepts that neither the duplicate confirmation nor the Executive Director’s approval leaves a record, and that a control performed on screen cannot be tested. Effective immediately, the Financial Officer will record the duplicate confirmation on the bill at the time of entry, and the Executive Director’s approval of each payment release will be captured as a dated authorization retained with the disbursement records. The requirement will apply to every payment path, including the printed payments

that remain in occasional use, so that the control reaches the circumstance in which it failed during the fiscal year under audit.

*Purchasing Policy*

The two engagements referred to in the finding are Souza Construction, Inc. ($883,188.97) and Firestorm Wildland Fire Suppression Inc. ($379,118.83), together $1,262,307.80. The District's project records code the Souza engagement entirely to project 21-02, funded by the California Department of Transportation, and the Firestorm engagement entirely to project 22-09, funded by CAL FIRE. Both engagements were made with grant funds.

Quotations. Both engagements were competitively procured. The District opened each to bid, and the solicitation and bid records are held in the respective project files. The requirement of the policy at the over-$200,000 tier is that quotations be solicited and received in writing from at least three sources. That requirement was met, through a process more open than the policy obliges the District to use: Section III of the policy makes a formal bid process discretionary rather than mandatory, requires no advertising, and states that the District seeks but is not required to receive at least two proposals for projects in this range.

Board approval. The policy provides that for item or aggregate purchases over $200,000, Board of Directors approval is required, and in the same paragraph provides that an exception may be made where the purchase is made with grant funds and the item is specifically listed in the grant budget that was approved by the grantor. Both engagements were made with grant funds. The grantor-approved budget for project 21-02 and the grantor-approved budget for project 22-09, each showing the engagement scope as a specifically listed item, are provided with this response.

The District accepts that the exception was not claimed on the Board record at the time, and that the basis for proceeding without a recorded Board approval was not documented contemporaneously. That is a documentation failure and the District does not minimize it. The deficiency lies in the Board record rather than in the absence of competition or in the authority to contract.

Corrective action. The District holds more than one Board-approved instrument of overlapping scope governing purchasing: the February 2022 policy cited in the finding, a separate Purchasing and Contracting Policy, and the approval matrix adopted at Policy 201 of the Fiscal Policy & Procedure Manual on October 30, 2025, which assigns approval of awarded grant and project budgets to the Executive Director and approval of expenditures within an awarded budget to the Program or Project Manager. The District will present a single consolidated purchasing policy to the Board for adoption, expressly superseding the others, and will thereafter record in the Board minutes, for every contract above its thresholds, either the Board's approval and the quotations obtained or the specific grantor-approved budget line on which an exception under the policy is claimed.

Responsible official: Executive Director.

**Finding 2025-006 — Year-End Close: Cutoff of Subcontractor Costs and Lease Accounting (Significant Deficiency)**

Criteria: Expenditures should be recorded in the period in which the goods or services are received, and leases should be recognized and measured in accordance with GASB Statement No. 87, Leases.

Condition: Subcontractor bills are entered without their service period, and $205,246 of liabilities had to be re-dated during the year-end close. A June 2024 invoice of $34,700 was recorded as an expenditure

of the fiscal year ended June 30, 2025 and was not corrected. Neither the office lease terminated during the year nor its replacement is recognized under GASB Statement No. 87 in the District's records; the right-to-use asset of $169,554 and lease liability of $173,293 reported in the financial statements rest on the auditor's measurement, and the government-wide conversion and the notes are prepared with the auditor's assistance.

Cause: The year-end close relies on the District's ledger as posted, without a review of subsequent bills for service periods, and the District does not have staff with the technical knowledge to apply GASB Statement No. 87.

Effect: Expenditures and liabilities may be misstated at year end, and lease balances and disclosures may be misstated without the auditor's involvement.

Recommendation: We recommend the District record the service period on each subcontractor bill when it is entered, review bills received after year end for costs belonging to the prior year, maintain a lease schedule under GASB Statement No. 87, and post the 5905 Capistrano Avenue lease on the measurement used in these financial statements.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

*Cutoff of subcontractor costs*

The District identified the subcontractor costs requiring re-dating through its own review of vendor bills during audit preparation, and corrected $205,246 of liabilities to the periods in which the services were received. The District accepts that the review was performed retrospectively, and that a June 2024 invoice of $34,700 recorded in the fiscal year ended June 30, 2025 was not identified because the review tested for costs belonging into the year rather than out of it.

Since fiscal year 2025-26 each subcontractor invoice is reviewed for its service dates when entered and the bill date is set to the service period. At each year end the District will review bills received after the close for costs belonging to the prior year, and bills recorded in the current year for costs belonging to a prior one.

*Lease accounting*

The District has prepared amortization and payment schedules for the lease at 5855 Capistrano Avenue terminated on October 31, 2024 and for the lease at 5905 Capistrano Avenue commencing November 1, 2024. These schedules were not posted to the accounting records.

The District confirms the measurement used in these financial statements: a right-to-use asset and lease liability of $203,464 recognized at commencement on November 1, 2024, measured as the present value of the forty-eight lease payments at a discount rate of 3.9 percent.

The District’s own schedule had included the common area fee of $410 per month within the lease payments. The District accepts that the common area fee is a non-lease component excluded from the measurement of the lease liability under GASB Statement No. 87, as described in Note 7, and that its exclusion accounts for the difference between the two measurements.

So that the District posts and maintains the same schedules rather than a parallel set, the District has asked Moss, Levy & Hartzheim to provide the amortization and payment schedules underlying that measurement. On receipt the District will reconcile its own workings to those schedules, post both the termination of the former lease and the commencement of the current lease, and maintain the

amortization, interest and principal entries monthly in accordance with Section 4.1 of the Fiscal Policy & Procedure Manual, so that the balances can be reproduced from the District's own records in future years.

Responsible official: Executive Director.

**Finding 2025-007 — 457(b) Deferrals Not Remitted Timely (Significant Deficiency and Instance of Noncompliance)**

Criteria: Amounts withheld from employees under the District's 457(b) deferred compensation plan are held for the exclusive benefit of the participants under Internal Revenue Code section 457(g) and should be remitted to the plan as soon as administratively practicable after each payroll.

Condition: Deferrals withheld from July to September 2024 were remitted on October 1 to 4, 2024, up to 88 days after the pay date. Later deferrals were remitted in batches two to six weeks after each payroll, and $3,120 recorded at June 30, 2025 was remitted on July 18, 2025.

Cause: Remittances to the plan administrator are not scheduled with each payroll.

Effect: Employee deferrals were held by the District rather than invested in the plan, and the District did not comply with the timing the plan requires.

Recommendation: We recommend the District remit 457(b) deferrals and the employer match to the plan administrator with each payroll and reconcile the 457(b) liability account monthly.

Prior year: This finding repeats finding 2024-006.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding.

Remittances improved over the course of the year: deferrals withheld from July to September 2024 were remitted up to eighty-eight days after the pay date; later deferrals were remitted within two to six weeks of each payroll; and the $3,120 withheld at June 30, 2025 was remitted on July 18, 2025. The District currently remits monthly. It accepts that none of these intervals met the requirement to remit as soon as administratively practicable.

Remittance to the plan administrator is a manual upload and can be performed for each payroll. Employee deferrals and the employer match will therefore be remitted with each payroll. The upload will be a step within the payroll process rather than a separate task performed afterwards, and the 457(b) liability account will be reconciled monthly to the payroll records and to the plan administrator's confirmations.

The District will work with the plan administrator to determine whether lost earnings are due to participants for the periods during which deferrals were held, and will fund any amount determined to be due.

The District acknowledges that finding 2024-006 was reported as not implemented.

Responsible official: Executive Director.

**Status of Prior Year Findings**

Finding 2024-001 — Untimely billing, unrecorded receivables and duplicate invoices (Material Weakness). Status: Partially implemented. The District now bills monthly in arrears and no unbilled

revenue accrual was required at June 30, 2025; the review of receivables and of the District's revenue schedules remains deficient. See finding 2025-002.

Finding 2024-002 — Charitable pledge transactions not identified, evaluated and recorded under GASB Statement No. 33 (Material Weakness). Status: Partially implemented. The pledge receivable, the installments received and the deferred inflow of resources are recorded in accordance with GASB Statement No. 33; the support for the restricted fund balance remains deficient. See finding 2025-001.

Finding 2024-003 — Segregation of duties limitations (Significant Deficiency). Status: Not implemented. See finding 2025-003.

Finding 2024-004 — Disbursement approvals not consistently documented (Significant Deficiency). Status: Not implemented. See finding 2025-005.

Finding 2024-005 — Compensated absence detail not available by employee (Significant Deficiency). Status: Implemented. The District now maintains leave detail by employee and pay period.

Finding 2024-006 — 457(b) deferrals not remitted timely (Significant Deficiency and Instance of Noncompliance). Status: Not implemented. See finding 2025-007.