

# Panoche Water District | Firebaugh, CA

Financial Statements

For the Year Ended February 29, 2024



**PRICE PAIGE & COMPANY**  
*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Panoche Water District  
Firebaugh, California

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of Panoche Water District (the District) as of and for the year ended February 29, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of February 29, 2024, and the respective changes in financial position, and cash flows 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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

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

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

***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.

570 N. Magnolia Avenue, Suite 100  
Clovis, CA 93611

tel 559.299.9540  
fax 559.299.2344

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

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

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

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 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 the budgetary comparison information 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 our report dated September 12, 2024, 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 solely 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 effectiveness of the District's 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.

*Price Pange & Company*

Clovis, California  
September 12, 2024

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **History & Background**

The Management's Discussion and Analysis (the MDA) of Panoche Water District (the District or Water District) provides an overview of the financial activities and transactions for the fiscal-year ended February 29, 2024, in the context of the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended. The MDA is designed to provide the District's citizens, taxpayers, customers, and creditors with a financial overview and highlights of the primary factors affecting the District's finances and operations. This discussion and analysis should be read in conjunction with the District's audited financial statements and accompanying notes.

The District was formed in, and has operated continuously since, 1950 under the California Water District Law (Division 13 of the California Water Code), for the purpose primarily of furnishing irrigation water for agricultural use within the District. The District includes approximately 38,231 acres located on the west side of the San Joaquin Valley in northwestern Fresno and southwestern Merced Counties of which approximately 36,970 acres are irrigable. The Delta-Mendota Canal, the San Luis Canal, and Interstate 5 pass through or are in close proximity to the District. The District primarily supplies water for Agricultural ("Ag") purposes, with a small amount of water delivered for Municipal & Industrial ("M&I") purposes, to approximately 106 landowners and lessees through its contract (14-06-200-7864A-IR1-P) with the United States Bureau of Reclamation (USBR) for water service from the Central Valley Project (the "CVP"). The District holds other contracts with the USBR for the conveyance and storage of supplemental supplies and for the purchase or exchange of refuge water supplies, in addition to other agreements with other entities to acquire supplemental water supplies.

### **Financial Reporting**

The District's accounting records are maintained in accordance with Generally Accepted Accounting Principles as prescribed by the GASB, which is the accrual basis of accounting for the District.

### **Description of Basic Financial Statements**

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include five components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Basic Financial Statements
- Required Supplementary Information

The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Net position is displayed in two categories:

- Net investment in capital assets
- Unrestricted

The Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Position presents information which shows how the District's net position changed during the fiscal year. All the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of timing of the related cash flows. The Statement of Revenues, Expenses and Changes in Net Position measures the effect of the District's operations over the past year and indicates whether the District has covered its costs through user fees and other charges or from cash reserves.

The Statement of Cash Flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in three categories:

- Operating
- Investing
- Capital and Related Financing

This statement differs from the Statement of Revenues, Expenses and Changes in Net Assets by only accounting for transactions that result in cash receipts or cash disbursements.

The Notes to the Basic Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

**Financial Highlights**

- The District's assets exceeded liabilities at the close of fiscal-year 2024, resulting in a net position of \$14,618,839.
- The District's current year net position increased by \$1,519,399 and is predominately attributed to increases in operating revenues compared to fiscal-year 2023.
- During the fiscal-year 2024, the District's revenues increased by \$4,667,613, or 25%, and expenses increased by \$2,446,915, or around 13%.
- For fiscal-year 2024, operating expenses exceeded operating revenues by \$3,054,272.
- The District's cash balance on February 29, 2024, was \$11,448,128 representing an increase of \$5,096,063 from February 28, 2023.

**Statement of Net Position**

To begin our analysis, a summary of the District's Statements of Net Position is presented below:

	2024	2023	Increase (Decrease)	Percent Change
Current assets	\$ 17,797,044	\$ 19,804,566	\$ (2,007,522)	-10%
Capital assets	16,133,159	17,260,884	(1,127,725)	-7%
Other noncurrent assets	<u>1,743,628</u>	<u>403,673</u>	<u>1,339,955</u>	332%
Total assets	<u>35,673,831</u>	<u>37,469,123</u>	<u>(1,795,292)</u>	-5%
Current liabilities	2,220,802	5,019,391	(2,798,589)	-56%
Noncurrent liabilities	<u>18,834,190</u>	<u>19,350,292</u>	<u>(516,102)</u>	-3%
Total liabilities	<u>21,054,992</u>	<u>24,369,683</u>	<u>(3,314,691)</u>	-14%
Net position:				
Net investment in capital assets	6,164,823	7,242,239	(1,077,416)	-15%
Unrestricted	<u>8,454,016</u>	<u>5,857,201</u>	<u>2,596,815</u>	44%
Total net position	<u>\$ 14,618,839</u>	<u>\$ 13,099,440</u>	<u>\$ 1,519,399</u>	12%

The District's net position increased by \$1,519,399 between fiscal-year 2023 and 2024 from \$13,099,441 to \$14,618,839 due to operating revenues exceeding operating expenses. The District's net position reflects its investment in capital assets (e.g., land and land rights, sources of water supply, canal structures, automobiles and trucks, machinery & equipment, building and improvement, office furniture and equipment, and the surface water treatment plant) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The decrease in capital assets of \$1,127,725, or about 7%, is primarily due to current year depreciation.

The decrease in current liabilities of \$2,798,589 or about 56% is the result of normal operations.

**Statement of Revenues, Expenses and Changes in Net Position**

	2024	2023	Increase (Decrease)	Percent Change
Operating revenues	\$ 23,311,466	\$ 18,643,853	\$ 4,667,613	25%
Operating expenses	(20,257,194)	(19,028,721)	(1,228,473)	6%
Operating income (loss)	3,054,272	(384,868)	3,439,140	-894%
Nonoperating revenues/(expenses)	(1,534,873)	(316,431)	(1,218,442)	385%
Change in net position	1,519,399	(701,299)	2,220,698	-317%
Net position - beginning	13,099,440	13,800,739	(701,299)	-5%
Net position - ending	<u>\$ 14,618,839</u>	<u>\$ 13,099,440</u>	<u>\$ 1,519,399</u>	12%

- Operating revenues and expenses increased due to actual water deliveries activity compared to prior water year.
- Non-operating revenues/(expenses) increased when compared to FY23 mainly due to bad debt write offs.

**Capital Assets**

The District's capital assets as of February 29, 2024, amount to \$16,133,159, net of accumulated depreciation. The total purchase in capital assets for the current fiscal year was approximately \$339,146, or about 2%. Major capital asset events during the current fiscal year included:

- 2023 Ford F350 Super Cab \$62,027
- Contour Canal Remodel \$242,822
- Ditch Liner \$19,365

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

**Long-term Debt**

On February 29, 2024, the District had \$18,834,190 of long-term debt; this represents a decrease of \$516,102 or about 3% from the prior year. Of this amount, \$465,793 was due within the next twelve months. More detailed information about the District's long-term debt is presented in Note 6 of the financial statements.

**Major Economic Factors and Other Issues Affecting the District's 2024 Fiscal-Year**

The primary factor affecting the District's finances year-over-year is water supply. On average, the District relies upon its contract with the USBR for the majority of the water it delivers in any given year to the District's growers. Other sources of supply include additional agreements with USBR for supplemental water, other agreements with other entities for supplemental water, and local supplies including groundwater and recycled drainage. Other factors impacting the District's finances include third-party costs to convey water to the District, labor, energy, regulation, and the cost to operate, maintain, and repair the District's aging infrastructure.

### **Water Supply**

The District's primary source of water is its contract with the USBR for water service from the Central Valley Project (CVP). In the early 1950's, the USBR completed construction of the Delta-Mendota Canal, which provided the District an opportunity for a long-term, reliable source of surface water. In August 1955, the District executed a 40-year contract with the USBR providing for water service from the CVP and a firm water supply of up-to 94,000 acre-feet per year. In the 1960's, the USBR and the California Department of Water Resources undertook the joint effort to build the San Luis Reservoir and San Luis Canal, thereby creating the CVP San Luis Unit. In August 1974, the District entered into a new contract with the USBR to provide for new points of delivery, storage, and drainage service from the San Luis Unit. The 1974 contract expired at the end of 2008 and the District operated under a series of "Interim Renewal Contracts" ("IRC") for a number of years. The District's sixth IRC expired at the end of the 2021 fiscal-year. In February 2021, the District's Board authorized execution of the District's seventh IRC, which provided a basis for CVP and other water delivery from the San Luis unit until the District's permanent Repayment Contract, executed under authority granted under the Water Infrastructure Improvements for the Nation Act (Public Law 114-322, 130 Stat. 1628), became effective on July 1, 2021. Under each of its various Federal contracts since 1955, the District has contracted for a 94,000 acre-foot supply of CVP water per year. For planning purposes, under the current regulatory regime, the District projects receiving 50% of its CVP contract allocation on average.

At the end of the 2024 fiscal-year, the District held two other contracts with the USBR to provide for the conveyance, storage, exchange, and/or purchase of supplemental non CVP water supplies. These agreements are commonly referred to as Warren Act Contracts and executed under authority of the Act of June 17, 1902 (32 Stat, 388) and acts mandatory thereof or supplementary thereto. One allows for the conveyance and storage of supplemental non CVP, water acquired by the District in Northern California. The other allows for the conveyance and storage of local groundwater developed by the District. A third agreement, which provides for the exchange and/or purchase of locally developed groundwater by the District for the USBR to supplement its refuge management water supply, was under negotiation and ultimately executed on April 1, 2022.

In addition, at the end of the 2024 fiscal-year, the District had five agreements for the purchase of supplemental water from other entities. These agreements, in general, have pricing structures that inversely relate to annual allocations of CVP contract water. In other words, when CVP allocations are high, supplemental water prices are lower and when CVP allocations are low, supplemental water prices are higher. In addition to potential swings in the price of water, the rate to deliver water, both to the District and within the District, can vary dramatically as water supply dependent, forecasted deliveries are the denominator used to set the delivery rate. Therefore, the delivery rate can expand or contract significantly. Higher delivery rates, coupled with higher water prices, can force some growers to fallow land and/or deficit irrigate perennial crops, compounding the impact on delivery rates through diminished deliveries.

### **Cash Advances**

Irrigation and Drainage are inherently linked, and Drainage management is vital to the District's agricultural productivity and sustainability. The San Luis Act (Pub. L. No. 86-488, 74 Stat. 156 (1960)) recognizes this reality and imposes an obligation on the Federal government for it to provide drainage service to lands receiving water through the San Luis Unit, i.e, to San Luis Unit Contractors like the district. Management of the District's drainage is performed, in large part, by the Panoche Drainage District. The Panoche Drainage District is administering a California Proposition 84 grant to implement the Westside Regional Drainage Plan (The "Plan"). The Water District is the largest beneficiary of the Plan's implementation. The grant is a reimbursement grant, and, on occasion, the Drainage District may not have cash sufficient to support ongoing activities, so the District provides cash advances that are subsequently reimbursed. In fiscal-year 2024, the District advanced approximately \$2,016,186 to support the grant activities, which it expects to recover from the Drainage District in fiscal-year 2025.

**Accounts Receivable**

The liabilities related to the SJRIP primarily stem from its service rate having been set too low from the fiscal-year ending 2018 through 2021, thereby creating a need for cash to maintain its vital function. This was a period of significant transition for the SJRIP as a new management team was established, revenues from grants were suspended, and governance and financial responsibility for the SJRIP was being transformed through the formation of a new joint-powers authority, the Grassland Basin Authority. The joint powers agreement was signed in June 2019. During this transition period, services provided to the SJRIP through the PDD continued to be provided by the District. While cognizant of the growing liability, as the District is the largest entity dependent upon the essential drainage management services provided by the SJRIP, and in the interest of facilitating the transition of the SJRIP operations to the joint-powers authority, the District allowed the liabilities to accumulate as the SJRIP could not meet its reimbursement obligations as and when they fell due. During the fiscal year the District established a repayment schedule with the Grasslands Basin Authority. This agreement when executed, generated the \$1,498,674 bad debt expense on the Statement of Revenues, Expenses and Changes in Net Position for the current 2024 fiscal-year.

**Contacting the District Regarding Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the financial resources it manages. The District can be contacted for questions about this report or additional financial information at 52027 West Althea Avenue, Firebaugh, California 93622, or by phone at (209) 364-6136.

## **BASIC FINANCIAL STATEMENTS**

**PANOCHÉ WATER DISTRICT | FEBRUARY 29, 2024**

## Statement of Net Position

**ASSETS**

## Current assets:

Cash and cash equivalents	\$	11,448,128
Accounts receivable, net		1,018,573
Accounts receivable - related party		740,234
Employees receivable		19,893
Interest receivable		65,054
Current portion of notes receivable		487,071
Current portion of notes receivable - related party		250,916
Advance to Panoche Drainage District - related party		2,016,186
Water inventory		1,553,479
Supplies inventory		128,236
Prepaid expense		69,274
Total current assets		<u>17,797,044</u>

## Noncurrent assets:

Noncurrent portion of notes receivable		1,139,196
Noncurrent portion of notes receivable - related party		604,432
Capital assets, net of accumulated depreciation/amortization		<u>16,133,159</u>
Total noncurrent assets		<u>17,876,787</u>

Total assets 35,673,831

**LIABILITIES**

## Current liabilities:

Accounts payable and accrued expenses		557,090
Unearned revenue		1,197,919
Current portion of noncurrent liabilities - bonds payable		<u>465,793</u>
Total current liabilities		<u>2,220,802</u>

## Noncurrent liabilities:

Bonds payable		<u>18,834,190</u>
Total noncurrent liabilities		<u>18,834,190</u>

Total liabilities 21,054,992

**NET POSITION**

Net investment in capital assets		6,164,823
Unrestricted		<u>8,454,016</u>

Total net position \$ 14,618,839

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT | FOR THE YEAR ENDED FEBRUARY 29, 2024**

Statement of Revenues, Expenses and Changes in Net Position

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Operating revenues:	
Irrigation water sales	\$ 14,522,303
District operations and maintenance charges	5,984,624
Charges for services to other governments	517,326
Fresno County property assessments	1,389,776
Land based assessments	814,696
Other operating revenue	<u>82,741</u>
Total operating revenues	<u>23,311,466</u>
Operating expenses:	
Water costs	12,623,822
Transmission and distribution	2,323,059
Administration and general	3,235,532
Depreciation/amortization	1,440,544
General plant	<u>634,237</u>
Total operating expenses	<u>20,257,194</u>
Operating income (loss)	<u>3,054,272</u>
Nonoperating revenues (expenses):	
Interest revenue	260,594
Sale of capital assets	145,079
Bad debt recovery revenue	111,530
Bad debt expense	(1,498,674)
Interest expense	<u>(553,402)</u>
Total nonoperating revenues (expenses)	<u>(1,534,873)</u>
Change in net position	1,519,399
Net position - beginning	<u>13,099,440</u>
Net position - ending	<u>\$ 14,618,839</u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT | FOR THE YEAR ENDED FEBRUARY 29, 2024**

Statement of Cash Flows

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and assessments	\$ 23,438,246
Payments to suppliers	(16,321,118)
Payments to employees	<u>(1,471,528)</u>
Net cash provided by (used for) operating activities	<u>5,645,600</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets (capital outlay)	(339,146)
Gross proceeds from sale of equipment	<u>183,080</u>
Net cash provided by (used for) capital and related financing activities	<u>(156,066)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Principal paid on noncapital noncurrent liabilities	(460,113)
Interest paid on noncapital noncurrent liabilities	<u>(553,402)</u>
Net cash provided by (used for) noncapital financing activities	<u>(1,013,515)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payments received on loans to others	87,236
Payments received on loans to related party	354,215
Interest revenue	<u>178,593</u>
Net cash provided by (used for) investing activities	<u>620,044</u>
Net increase (decrease) in cash	5,096,063
Cash and cash equivalents - beginning	<u>6,352,065</u>
Cash and cash equivalents - ending	<u>\$ 11,448,128</u>
<b>Supplemental disclosure of cash flow information:</b>	
Cash paid for interest	<u>\$ (553,402)</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ 3,054,272
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation/amortization	1,440,544
(Increase) decrease in accounts receivable	(308,919)
(Increase) decrease in inventory	4,261,044
(Increase) decrease in prepaid expenses	2,928
Increase (decrease) in accounts payable and accrued expenses	166,074
Increase (decrease) in unearned revenue	<u>(2,970,343)</u>
Net cash provided by (used for) operating activities	<u>\$ 5,645,600</u>

The notes to the basic financial statements are an integral part of this statement.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

Panoche Water District (the District) was formed in 1950 pursuant to the California Water District Act to furnish irrigation water to District land in Fresno and Merced Counties, California. Land eligible for water provided by the District as of February 20, 2020, approximated 38,000 acres. The District has entered into a contract with the United States Bureau of Reclamation providing for delivery of water to the District from the Delta-Mendota and San Luis Canals of the Central Valley Project. Such contracts also include a forty-year renewal provision.

**B. Financial Reporting Entity**

The Panoche Water District Financing Corporation (the Corporation) is a component unit of the District as the Corporation's governing board is appointed by the District's Board of Directors and consists of all the members of the District's Board of Directors. The District does not have a relationship with any other related activities, organizations or functions of government which should be included in the financial reporting entity of the District as required by GASB Statement No. 14, *The Financial Reporting Entity*. In addition, the District is not a component unit of any other governmental entity.

**C. Basis of Presentation and Accounting**

The financial statements of the District are presented using the full accrual method of accounting and conform to accounting principles generally accepted in the United States of America and with the policies and procedures of the office of the State Controller for the State of California.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity; or (ii) that are required by law or regulation that the activity's costs of providing services, including capital costs (such as depreciation or debt service) be recovered with fees and charges, rather than with taxes or similar revenue; or (iii) that the pricing policies of the activity establishes fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets less total liabilities) are segregated into net investment in capital assets, restricted and unrestricted components.

**D. Budgetary Procedures**

The District operates under a budget prepared and approved by the Board of Directors. The budget is prepared on a detailed line-item basis. Revenue is budgeted by use (services and supplies, other charges, water supply and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenues and expenditures or expenses.

The District follows these procedures in establishing the budgetary data: (a) prior to the beginning of the year, the budget is legally enacted through passage of a resolution; (b) budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that loan and bond proceeds are treated as other financial sources and loan and bond principal payments and fixed asset purchases are treated as expenditures.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**E. Assets, Liabilities and Net Position**

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**Inventory**

Panoche Water District accounts for water inventory consisting of water purchases in the current fiscal year and sold in the following fiscal year, such as: USBR CVP (Central Valley Project) Contract Water, Exchange Contractor water, Non-Project water, Wells, and Transfers. The District utilizes a vigorous process of tracking all components of water inventory on a monthly basis. The new process accounts for any usage, transfers, or losses for the purposes of financial statement presentation. Water inventory is valued at cost using the average-cost method.

Supplies inventories consist of materials and supplies for ongoing maintenance of the District's facilities. Supplies inventory is valued at cost.

**Capital Assets**

Capital assets (fixed assets) are stated at historical cost, except for donated assets, which are stated at fair value on the date donated. It is the policy of the District to capitalize all property, plant and equipment, except equipment with a cost of less than \$5,000. Costs of assets sold or retired are eliminated from the accounts in the year of disposition and the resulting proceeds (if any) are recorded as proceeds of sales in the applicable fund. Depreciation is recorded using the straight-line method. The estimated useful life for the irrigation distribution system of the District is 50 years.

In July 2021, the District entered into the 2021 Bond Revenue Agreement and acquired water rights from the United States Bureau of Reclamation. The purchase price was \$9,613,131 and the District is amortizing the cost over the 30 years period.

**Operating Revenue and Expense**

Operating revenues and expenses consist of those revenues that result from ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenue and expense items that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such is available and then to unrestricted net position.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**E. Assets, Liabilities and Net Position** (Continued)

**Net Position**

Net position comprises the various net earnings from operating income, nonoperating revenue, expenses and capital contributions. Net position is classified in the following three components:

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net components as the unspent proceeds.

*Restricted* – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

**F. Estimates**

Presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Unrestricted cash and cash equivalents as of February 29, 2024, consist of the following:

Cash in bank	\$ 10,066,448
2021 Bond Obligation Repayment Fund (LAIF)	1,221,371
Local Agency Investment Fund (LAIF)	<u>160,309</u>
 Total	 <u>\$ 11,448,128</u>

**A. 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 District maintains its cash balances in one financial institution, Mechanics Bank.

The District’s deposits as of February 29, 2024, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The market value of pledged securities must equal at least 110 percent of the District’s deposits. California law also allows financial institutions to secure the District’s deposit by pledging first deed of mortgage notes having a value of at least 150 percent of the District’s total deposit.

**NOTE 2 – CASH AND CASH EQUIVALENTS** (Continued)

**B. Investments Authorized**

The District strives to maintain the level of investment of idle funds as near to 100% as possible and operates its pooled idle cash investments under the Prudent Investor Standard. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and other imposed legal restrictions. Permitted investments are identified in Section 53635 of the Government Code of California. Criteria for selecting investments and the absolute order of priority are safety, liquidity and yield. The primary basic premise underlying the District's investment policy is to insure the safety of principal and to provide funds when needed. A high dollar yield on investments, though important, ranks third in the priority of investment strategy.

Investment maturities are selected to anticipate cash needs, thereby obviating the need for forced liquidation and the accompanying loss of interest income.

The District operates its investment program with many Federal, State and self-imposed constraints. It does not buy stocks; it does not speculate; it does not deal in futures, options or security loan agreements. Longer term investments (over one year) are generally limited to maturities of five years or less.

To maximize investment income, the District uses all available, economically feasible investment aids. Economic conditions and various money markets are monitored in order to assess the probable course of interest rates.

**C. Local Agency Investment Fund (LAIF)**

The District participates in an external investment pool by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the District's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the District's position in the pool. The District's portion of the February 29, 2024, balance was \$1,381,680.

**D. Credit Rate Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At February 29, 2024, the Local Agency Investment Fund managed by the State of California was not rated.

**E. Concentration of Credit Rate Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) did not exceed 5% or more of total District investments.

**F. Fair Value Measurement**

LAIF investment pool invests in numerous types of investments ranging all levels in the fair value hierarchy, and accordingly, is not an investment type that can be categorized in any particular level in the fair value hierarchy.

**PANOCHÉ WATER DISTRICT | FEBRUARY 29, 2024**

Notes to the Basic Financial Statements

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**NOTE 3 – ACCOUNTS RECEIVABLE**

A summary of accounts receivable at February 29, 2024 is as follows:

Charges for services to other governments	\$	317,726
Water user fees		797,376
Less allowance for doubtful accounts		<u>(96,529)</u>
Total	\$	<u>1,018,573</u>

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets activity for the year ended February 29, 2024 is as follows:

	Balance			Balance	
	March 1, 2023	Additions	Deletions	February 29, 2024	
Capital assets being depreciated/amortized:					
Property, plant and equipment	\$ 26,924,582	\$ 339,146	\$ (751,694)	\$ 26,512,034	
Acquired water rights	<u>9,613,131</u>	<u>-</u>	<u>-</u>	<u>9,613,131</u>	
Total capital assets	<u>36,537,713</u>	<u>339,146</u>	<u>(751,694)</u>	<u>36,125,165</u>	
Accumulated depreciation/amortization:					
Property, plant and equipment	(18,635,953)	(1,120,106)	725,367	(19,030,692)	
Acquired water rights	<u>(640,876)</u>	<u>(320,438)</u>	<u>-</u>	<u>(961,314)</u>	
Total accumulated depreciation/amortization	<u>(19,276,829)</u>	<u>(1,440,544)</u>	<u>725,367</u>	<u>(19,992,006)</u>	
Capital assets, net of accumulated depreciation/amortization	<u>\$ 17,260,884</u>	<u>\$ (1,101,398)</u>	<u>\$ (26,327)</u>	<u>\$ 16,133,159</u>	

Depreciation/amortization expense for the year ended February 29, 2024 was \$1,440,544.

**NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

A summary of accounts payable and accrued expenses at February 29, 2024 is as follows:

Trade payables	\$	450,347
Accrued payroll expenses		54,474
Compensated absences payable		<u>52,269</u>
Total	\$	<u>557,090</u>

**NOTE 6 – LONG-TERM LIABILITIES**

**A. 2022 Bonds Payable**

Following is a summary of noncurrent (long-term) liabilities for the year ended February 29, 2024:

	Balance March 1, 2023	Incurred or Issued	Satisfied or Matured	Balance February 29, 2024	Due within One Year
Direct placements:					
Bonds payable, San Luis & Delta- Mendota Water Authority	\$ 1,911,760	\$ -	\$ (90,113)	\$ 1,821,647	\$ 90,793
Total notes from direct placements	<u>\$ 1,911,760</u>	<u>\$ -</u>	<u>\$ (90,113)</u>	<u>\$ 1,821,647</u>	<u>\$ 90,793</u>

Bonds payable, San Luis & Delta-Mendota Water Authority reflects Panoche Water District’s, a Financing Participant, share of bond proceeds used to complete general planning requirements, preliminary engineering and design, and required environmental analysis and documentation leading to implementation of elements of the Bay Delta Conservation Plan. Under the Department of Water Resources (DWR) funding agreement, Westlands Water District agreed to pay 100 percent of the principal and interest when due for purposes of funding the Water Authority obligations under such agreement; failure of a Financing Participant to make payment required by this DHCCP Activity Agreement shall not relieve Westland Water District of its obligation to pay 100 percent of the outstanding bonds payable, which matured February 2043. On February 4, 2021, Panoche Water District refinanced the DWR funding agreement and has made all required scheduled payments year-to-date. The bonds bear interest at a rate of 6.8 percent per annum, with future payments summarized as follows:

Fiscal Years Ending February 28	Principal	Interest	Total
2025	\$ 90,793	\$ 43,072	\$ 133,865
2026	91,813	42,036	133,849
2027	92,834	40,770	133,604
2028	94,534	40,083	134,617
2029	95,894	38,495	134,389
2030-2034	510,075	161,650	671,725
2035-2039	578,425	93,226	671,651
2040-2042	<u>267,279</u>	<u>12,747</u>	<u>280,026</u>
Total	<u>\$ 1,821,647</u>	<u>\$ 472,079</u>	<u>\$ 2,293,726</u>

**NOTE 6 – LONG-TERM LIABILITIES** (Continued)

**B. 2021 Bonds Payable**

	Balance March 1, 2023	Incurred or Issued	Satisfied or Matured	Balance February 29, 2024	Due within One Year
Direct placements:					
2021 Bonds Payable, Panoche Financing Authority	\$ 16,490,000	\$ -	\$ (370,000)	\$ 16,120,000	\$ 375,000
2021 Bonds - Premium	1,408,645	-	(50,309)	1,358,336	-
Total notes from direct placements	<u>\$ 17,898,645</u>	<u>\$ -</u>	<u>\$ (420,309)</u>	<u>\$ 17,478,336</u>	<u>\$ 375,000</u>

In July 2021 the District issued the 2021 revenue bonds. The 2021A Bonds were issued in the aggregate principal amount of \$8,610,000 and the 2021B Bonds was issued in the aggregate principal amount of \$8,545,000. Interest on the 2021 Bonds is payable on each March 1 and September 1 (each an Interest Payment Date), commencing on March 1, 2022. In the case of default, Panoche Financing Authority shall assume custody or control of the District or any substantial part of its property.

Proceeds from the series 2021A bonds were used to prepay the district’s capital obligation to the Bureau of Reclamation (the Bureau) and convert its Central Valley Project (CVP) water supply contract to a 9(d) permanent contract from a 9(e) contract. As authorized under the Water Infrastructure Improvements for the Nation (WIIN) Act, reclamation contractors may receive 9(d) permanent contracts if they prepay their allocated share of known CVP construction costs. The permanent contractual right thereby eliminates potential contract renewal risk, administrative costs, and certain limitations on corporate farming. The district estimates that the financing after prepayment will provide a cost savings for its customers in all years where the CVP water allocation is greater than zero percent. Nevertheless, the amended contract does not give higher priority to the district’s water rights.

Series 2021B bonds proceeds were used to fund a settlement payment of approximately \$7.5 million to the Bureau and approximately \$1.1 million to the San Luis & Delta-Mendota Water Authority, both of which relate to a certain settlement agreement that was a precondition for prepayment for the CVP contract. There is no parity debt outstanding.

The 2021 Bonds installment payments of principal and interest summarized as follows:

Fiscal Years Ending February 28,	Principal	Interest	Total
2025	\$ 375,000	\$ 555,152	\$ 930,152
2026	380,000	549,561	929,561
2027	390,000	542,997	932,997
2028	395,000	535,422	930,422
2029	405,000	526,891	931,891
2030-2034	2,190,000	2,468,082	4,658,082
2035-2039	2,550,000	2,098,861	4,648,861
2040-2044	3,065,000	1,587,415	4,652,415
2045-2049	3,745,000	911,500	4,656,500
2050-2051	2,625,000	160,300	2,785,300
Subtotal	16,120,000	9,936,181	26,056,181
Plus: unamortized premium	1,358,336	-	1,358,336
Totals	<u>\$ 17,478,336</u>	<u>\$ 9,936,181</u>	<u>\$ 27,414,517</u>

**NOTE 7 – DEFICIT DEPOSITS: CENTRAL VALLEY PROJECT O&M AND CAPITAL OBLIGATIONS**

Federal legislation enacted in 1986 directed Reclamation to determine each water contractor's share of main projects O&M costs (occurring after October 1, 1985) which are not currently reimbursed to Reclamation under existing water contracts. Reclamation was further directed to accumulate these excess costs; including interest (collectively O&M deficits) until such time that the new contracts were renewed. Beginning in fiscal-year 2022, under the new, permanent repayment contract, the District is required to reimburse Reclamation for such O&M deficits through increased costs of its water supply. As of September 30, 2023, according to Reclamation calculations, O&M deficits totaled zero.

**NOTE 8 – COMPENSATED ABSENCES**

The District has a paid vacation policy which allows employees to accumulate vacation leave. Upon termination, employees are paid their accrued vacation at the rate of pay at separation. The District has a sick leave policy which allows employees to accumulate medical sick leave. Upon termination, the District has no obligation to compensate employees for unused sick leave. As of February 29, 2024, accumulated vacation benefits were in the amount of \$52,269.

**NOTE 9 – EMPLOYEE RETIREMENT BENEFITS**

Full-time employees who have been employed by Panoche Water District for a minimum of six (6) months continuous employment and are 21 years or older are eligible to participate in the District's 401k plan. The District will contribute 3% of the employees gross pay (not including fringe benefits) and for every percentage that the employee contributes the District will make a Safe Harbor Match up to 7%. If the employee contributes 1% of their gross the district will contribute 4%, if the employee contributes 2% the district will contribute 5%, if the employee contributes 3% the district will contribute 6% and if the employee contributes 4% of their gross the district will contribute 7%. Total District contributions for the year ended February 29, 2024, were \$84,508, with covered payroll equaling \$1,471,104.

**NOTE 10 – DEFERRED COMPENSATION**

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

**NOTE 11 – UNEARNED REVENUE**

Unearned revenue in the amount of \$1,197,919 represents prepayments from customers and water assessments billed in the current fiscal year for water which will be delivered to water users during the next fiscal year ending February 28, 2025.

**NOTE 12 – RISK MANAGEMENT**

The District is exposed to various risks and loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for the first \$2,500 in claims paid for auto and general liability claims. Buildings, personal property and mobile equipment are also self-insured for the first \$2,500 in claims paid.

The District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority for insurance claims above the self-insured limits listed above. The District and Authority members have pooled funds to be self-insured for liability and property coverage. The District accounts for premiums paid as a pooling of risk arrangement and, accordingly, expense premiums as they are paid.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**A. Commitments**

As part of its ongoing operations, the District has entered into several long-term water purchase agreements. The range of terms under individual agreements are as follows: 0-94,000 acre-feet (AF) at a cost of \$35 - \$+1,000 per AF, which can differ based on water source type, Central Valley Project (CVP) South-of-Delta agricultural water contract allocations, and price escalators (if applicable); agreements expire based on individual agreement terms ranging from FY 2024 to FY 2034, and new agreements may be negotiated upon expiration.

As provided for by federal law, the District converted its CVP water service contract, which had been subject to a two-year renewal cycle, into a permanent repayment contract with the United States, Contract No. 14-06-200-7864A-IR1-P, on January 14, 2021. The Repayment Contract is for the same 94,000 acre-feet of CVP water that the water service contract provided for and had an effective date of July 1, 2021. The Repayment Obligation, as provided for in Exhibit C of the Repayment Contract, provides for either four equal installments of \$2,843,314, or for a single lump sum payment of \$11,172,832. The District chose and timely paid the lump sum payment as provided for in the Repayment Contract. In part to provide for this lump sum payment, the District performed the required analysis to levy Special Benefit Assessments (SBA) against lands in the District in accordance with Proposition 218. The landowners overwhelmingly approved of the SBA Funds from the SBA are used to provide a source of repayment for debt the District caused the Panoche Financing Authority (of which the District is a member) to issue through bonds to provide funds to make the lump sum payment.

A federal civil investigation commenced by the United States Attorney's Office, Eastern District of California in FY 2018. The matters that appear to have been the subjects of the investigation include the rates set forth in invoices provided under grants administered by the District on behalf of the Panoche Drainage District for employees providing services, the acquisition of equipment utilizing grant funds, fees charged for certain custom harvesting and management services beginning in mid-2012, compliance with federal procurement regulations, and reporting and unauthorized diversions of water from the Delta-Mendota and San Luis Canals. The District and the United States subsequently entered into a Settlement Agreement on January 15, 2021, settling certain matters. The key financial terms of the Settlement Agreement are that the District pay the United States a total sum of \$7,462,808 (the Settlement Amount), against which 1% simple interest per year began accruing on January 15, 2021, for what the United States contends to be the District's unauthorized diversion of water from the Delta-Mendota Canal and the San Luis Canal between 2009 and 2015. In the Settlement Agreement, the United States specifically contends that between, on or about, January 1, 2009, and April 30, 2015, the District diverted approximately 53,000 acre-feet of federally owned water from the Delta-Mendota and San Luis Canals, that the diversions were unauthorized, and that the District did not compensate the United States Bureau of Reclamation for the diversions (collectively, the Covered Conduct).

**NOTE 13 – COMMITMENTS AND CONTINGENCIES** (Continued)

**A. Commitments** (Continued)

An initial payment of \$1,000,000 was timely made to the United States as required by the Settlement Agreement. The Settlement Agreement provides that the District may pay the remainder of the Settlement Amount, to include interest accrued up to the date of payment, in one lump sum during calendar year 2021 (the Lump Sum Payment). The Settlement Agreement also provides that the District is entitled to prepay the Settlement Amount including interest accumulated to the payment date (the Payoff Amount) early, without penalty. As discussed above, the District conducted a Proposition 218 Special Benefit Assessment proceeding related to the issuance of bonds, in part to provide sufficient revenue for the Payoff Amount. The SBA was approved by a significant majority of the landowners in the District and the District complied with the terms in the Settlement Agreement regarding the Payoff Amount and provided the funds to the United States in accordance with the Settlement Agreement. The District has therefore satisfied the terms in the Settlement Agreement related to the Settlement Amount.

Subject to certain specific exceptions provided in the Settlement Agreement, and conditioned upon the District's timely payment of the amounts described above, through the Settlement Agreement the United States agreed to release the District, together with its current and former direct and indirect parent corporations, current or former direct and indirect subsidiaries or affiliates, current or former brother or sister corporations, divisions, current or former direct and indirect corporate owners, other districts for whom the District has performed or does perform services, and the corporate successors and assigns of any of them, from any civil or administrative monetary claim the United States has for the Covered Conduct, arising under the False Claims Act, 31 U.S.C. §§ 3729, et seq.; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801, et seq, the Injunctions Against Fraud Act, 18 U.S.C. §§ 1345; 18 U.S.C. Section 1956; common law theories of conversion, negligence, gross negligence, payment by mistake, unjust enrichment, money had and received, breach of fiduciary duty, breach of contract, misrepresentation, deceit, fraud, civil conspiracy, and aiding and abetting any of the foregoing; or any other statutory or common law cause of action for civil damages or civil penalties that the Civil Division of the United State Department of Justice has actual and present authority to assert and compromise pursuant to 28 C.F.R. Part O, Subpart 1, .45(d) in connection with the Covered Conduct. For purposes of the Settlement Agreement, "affiliates" includes Panoche Drainage District and any other public agency managed by the District or whose Board of Directors contains Directors or designated representatives of the District, including any joint powers authority established under California law of which the District is a member.

The Settlement Agreement contains the requirement that the District continue to maintain certain programs, policies and procedures, provide certain training and undergo a limited review annually through the period ending December 31, 2025. In the event the District does not comply, it could be subject to an annual payment of \$100,000 for each calendar year in which the non-compliance occurs. The District has engaged an independent, third party to perform an annual audit of the District compliance with the non-monetary terms of the Settlement Agreement. At this time, no threatened claim has been made against the District for non-compliance with this provision.

In addition to the above, the Settlement Agreement provides that the San Luis & Delta-Mendota Water Authority (the Water Authority) sustained damages of \$798,653 as a result of the Covered Conduct. The Settlement Agreement required the District to make reasonable efforts to negotiate and resolve the final amount to be paid by the District to the Water Authority and, in return, to obtain releases from the Water Authority for the benefit of both the District and the United States relating to the Covered Conduct.

On July 16, 2021, the District and the Water Authority entered into a Settlement Agreement and Limited Release, the terms of which satisfy the relevant requirements of the Settlement Agreement. In the Settlement Agreement and Limited Release, the District agreed to pay to the Water Authority: unpaid operations and maintenance costs associated with the Covered Conduct in the amount of \$798,653; interest thereon of around \$172,252; the Water Authority's costs of sealing certain sites related to the Covered Conduct of around \$17,766; and costs of Water Authority's staff and outside counsel time related to the negotiation of the Settlement Agreement and Limited Release of around \$60,000. The District has performed all terms under the Settlement Agreement and Limited Release.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES** (Continued)

**B. Contingencies**

*USEPA Show Cause*

Based upon the litigation filed by the California Department of Justice on February 20, 2018 against certain former District employees noted below, the United States Environmental Protection Agency issued a Notice of Suspension in April 2018 to Panoche Water District and Drainage Districts, suspending the Districts from participation on future federal contracts. The suspension was subsequently reversed and a notice to show cause was issued. The District submitted documentation of its present responsibility to act as a federal contractor and provided supplemental information in the Fall of 2019. The District's understanding is that USEPA still has not acted in response to that submittal, but the District does not expect any further action by the EPA based upon the issues in that proceeding. The District is currently an authorized federal contractor.

*California Department of Justice Investigation*

Commencing in approximately May 2016, the District was subject to investigation by the California Department of Justice relating to issues regarding handling and disposal of chemicals under the jurisdiction of the Department of Toxic Substance Control. The investigation also potentially relates to whether personnel of the District may have misused District credit cards, issued or received District loans to public employees, or violated requirements under the Fair Political Practices Act. On February 20, 2018, the California Department of Justice filed a felony complaint against the former General Manager, former office manager, two former employees and one then-employee (all since separated from the District), *People v. Cascia*, Fresno County Superior Court Case No. F18901227. Following a preliminary hearing, two former employees were held over for trial on three counts each of embezzlement of public funds, and one was held over on one count of unlawful disposal of hazardous waste. At this point the likelihood that the California Department of Justice would bring any criminal complaint against the District appears to be remote.

*Federal Grand Jury Investigation Against Former District Employees*

A Federal Grand Jury investigation was initiated in May 2016, by the United States Attorney's Office, Eastern District of California, the Federal Bureau of Investigation, the Internal Revenue Service, Criminal Investigations Division and the United States Bureau of Reclamation, Office of Inspector General (hereinafter referred to as the Federal Grand Jury Investigation), when multiple subpoenas were served on the Custodian of District Records for both the District and the Panoche Drainage District, as well as on certain individual employees. The District, with its special counsel, engaged in efforts to resolve certain issues through the federal civil investigation discussed further above. As discussed above, the federal civil investigation resulted in a settlement of certain matters relating to the alleged unauthorized diversions of water.

The Federal Grand Jury Investigation included examining whether personnel of the District may have misused credit cards issued to them by using the cards at times for personal expenses and not for District business expenses and certain matters referenced in the civil investigation. The Federal Grand Jury Investigation also has sought information concerning whether certain payments made to or on behalf of employees of the District for housing, utilities, and other housing-related expenses were properly treated as business expenses, as opposed to personal expenses benefiting the employees. The District understands that the Federal Grand Jury Investigation also included an examination of the water usage by the District from the Delta-Mendota Canal and the San Luis Canal.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES** (Continued)

**B. Contingencies** (Continued)

*Federal Grand Jury Investigation Against Former District Employees (Continued)*

On April 14, 2022, the United States Attorney's Office for the Eastern District of California obtained a federal grand jury indictment against Dennis Falaschi, the District's former General Manager. The indictment includes one count of conspiracy in violation of Title 18, United States Code, Section 371, one count of theft of government property in violation of Title 18, United States Code, Section 641, three counts of filing a false tax return in violation of Title 26, United States Code, Section 7206(1) and a criminal forfeiture count. The grand jury indictment alleges, among other things, that the defendant, beginning in or around 1992 and continuing to, on or about, April 30, 2015, was involved in a conspiracy to steal water from the Delta-Mendota Canal that belongs to the United States Bureau of Reclamation, and to convert it to his own use and the use of others, and to file false tax returns for certain years. The District has been advised that on or about May 28, 2024, Mr. Falaschi agreed to and pled guilty to a felony charge of conspiracy to take government property in violation of 18 U.S.C. Sections 371 and 641. We also understand that he agreed to and did plead guilty to a felony charge of filing a false tax return in violation of 26 U.S.C. Section 7206(1). Mr. Falaschi's sentencing is currently set for September 16, 2024. According to the written plea agreement, the amount of federal water that was illegally taken from the Delta Mendota Canal for which Mr. Falaschi is being held responsible was valued at over \$1.5 million but under \$3.5 million. The written plea agreement also states that unnamed Panoche Water District board members, supervisors and lower-level employees likely acted on their own accord and took federal water for this own use and benefit at times, including allegedly from other sites and after 2017. The District does not anticipate any criminal proceeding to be brought against it relating to the federal grand jury investigation.

*Santa Clara Valley Water District Claim*

On January 14, 2022, Panoche Water District received a letter from Santa Clara Valley Water District (Santa Clara), in which it alleged damages due to the District's activities as described by the Covered Conduct described above as part of its settlement with the United States (the Santa Clara Claim). Santa Clara is, like the District, a South of Delta contractor for CVP water and a member of the San Luis & Delta-Mendota Water Authority. The Santa Clara Claim makes no specific reference to damages or the bases for those damages. The District and Santa Clara are in the process of engaging in mediation for the Santa Clara Claim, in which the District believes it will be able to demonstrate that Santa Clara suffered no damages as a result of the Covered Conduct. The District believes Santa Clara suffered no damages as a result of the Covered Conduct, and the District will defend its position vigorously.

*California Department of Toxic Substance Control*

Finally, the District could be subject to fines or penalties assessed by the Department of Toxic Substance Control, the State Water Resources Control Board or the County of Fresno relating to matters arising during or after FY 2017 which have been or are being investigated by those agencies and that have been remediated by District actions. The Department of Toxic Substance Control and the State Water Resources Control Board have notified the District of their intent to bill for investigation time, estimated to be in the range of \$200-\$1,000. Issues concerning violations of water quality objectives at the domestic water treatment plant are ongoing and it is possible, but not probable that the State Water Resources Control Board would impose fines on the District if current cooperative efforts to identify and fund new technology or a new plant were to fail. At this time, while possible, it does not appear reasonably likely that additional claims or litigation against the District will result.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES** (Continued)

**C. Contingencies** (Continued)

*Percoats v. Panoche Water District*

In 2018, two former employees of the District filed a complaint in Fresno County Superior Court asserting wage-related violations (which was later amended to a breach of written contract claim) and retaliation claims against the District. The retaliation claim was tendered to the District’s employment liability insurance carrier, ACWA JPIA, which is defending the claim. Jury trial commenced on May 1, 2023, with the jury returning a verdict for the plaintiffs on the breach of written contract claim and for the District on the retaliation claim. The jury awarded the plaintiffs a total of \$161,759.54 and awarded plaintiffs their allowable costs. In August 2023, the District filed a judgment notwithstanding the verdict, generally contending that the evidence presented at trial was not sufficient to support the jury’s verdict and the jury’s verdict was erroneous as a matter of law. The Court denied the District’s motion. On November 16, 2023, the Parties entered a Settlement Agreement and Release of Claims, where the Parties agreed the District would pay the Plaintiffs the sum of \$195,000.00 in full settlement and compromise of their lawsuit, and the Plaintiffs’ release of the District of any and all claims.

**NOTE 14 – RELATED PARTY**

The District’s Governing Board presides as the Panoche Drainage District’s (PDD) Governing Board. PDD is a separate Special District organized to provide for the water of certain agricultural lands, other than swamp and overflow lands located in Fresno and Merced Counties. A separate audit is performed for Panoche Drainage District and financial information of PDD can be obtained by writing to the PDD’s Chief Financial Officer, 52027 W. Althea Avenue, Firebaugh, CA 93622.

PDD, which has no employees, utilizes staff of the Panoche Water District and outside contractors to meet its administrative, operational, and maintenance needs. Amounts charged to PDD for fiscal year ended February 29, 2024, were \$191,119 in total. As of February 29, 2024, the amount due from related party is summarized as follows:

Accounts receivable	\$ 740,234
Notes receivable	855,348
Due from Panoche Drainage District	<u>2,016,186</u>
 Total	 <u>\$ 3,611,768</u>

The District has outstanding employee loans receivable totaling \$19,893 as of the fiscal year ended February 29, 2024.

**NOTE 15 – SUBSEQUENT EVENTS**

In April 2024 the District sold the property at 52081 W Althea Ave that included a house and 20 acres of land. The amount received from the sale was \$581,763 after closing costs. The book value of the residence is \$134,991 which will show a net Gain on Sale of Asset in the subsequent year of \$446,772. The property had been acquired in 2012.

**OTHER INDEPENDENT AUDITOR'S REPORT**



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

To the Board of Directors  
Panoche Water District  
Firebaugh, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Panoche Water District (the District) as of and for the year ended February 29, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 12, 2024.

**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.

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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

570 N. Magnolia Avenue, Suite 100  
Clovis, CA 93611

tel 559.299.9540  
fax 559.299.2344

**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.

*Price Page & Company*

Clovis, California  
September 12, 2024

## **FINDINGS AND QUESTIONED COSTS**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor's report issued	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weaknesses identified?	<u>          </u> Yes	<u>    X    </u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>    X    </u> None reported	
Noncompliance material to financial statement noted?	<u>          </u> Yes	<u>    X    </u> No	

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

**FINANCIAL STATEMENT FINDINGS**

None reported.