

**PANOCHE WATER DISTRICT  
FIREBAUGH, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
FEBRUARY 28, 2019**

**PANOCHÉ WATER DISTRICT  
FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

TABLE OF CONTENTS

	<u>Page</u>
BASIC FINANCIAL STATEMENTS	
INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF NET POSITION .....	3
STATEMENT OF ACTIVITIES .....	4
STATEMENT OF CASH FLOWS .....	5
NOTES TO THE BASIC FINANCIAL STATEMENTS .....	7
OTHER 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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	19
FINDINGS AND QUESTIONED COSTS	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	22
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....	25
MANAGEMENT'S RESPONSE TO FINDINGS .....	27



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Panoche Water District  
Firebaugh, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Panoche Water District (the "District") as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Panoche Water District, as of February 28, 2019, 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.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management 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 Standard**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2020, on our consideration of Panoche Water 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 Page & Company*

Clovis, California  
November 6, 2020

**PANOCHÉ WATER DISTRICT  
STATEMENT OF NET POSITION  
FEBRUARY 28, 2019**

**ASSETS**

Current assets:

Cash and cash equivalents	\$	9,224,278
Accounts receivable		3,419,095
Employees receivable		23,693
Interest receivable		31,616
Current portion of notes receivable		281,881
Water inventory		743,041
Supplies inventory		42,047
Prepaid expense		<u>148,973</u>

Total current assets		<u>13,914,624</u>
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Other assets:

Noncurrent portion of notes receivable		1,051,715
Capital assets		<u>11,847,646</u>

Total other assets		<u>12,899,361</u>
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Total assets		<u>26,813,985</u>
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**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses		1,327,613
Prepayments/prebillings on account		597,830
Current portion of noncurrent liabilities		<u>51,000</u>

Total current liabilities		<u>1,976,443</u>
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Noncurrent liabilities:

Notes payable		<u>2,215,367</u>
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Total noncurrent liabilities		<u>2,215,367</u>
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Total liabilities		<u>4,191,810</u>
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**NET POSITION**

Net investment in capital assets		11,847,646
Unrestricted		<u>10,774,529</u>

Total net position		<u>\$ 22,622,175</u>
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The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2019**

<b>OPERATING REVENUES</b>	
Irrigation water sales	\$ 14,772,574
District operations and maintenance	6,856,774
Expense reimbursements from other governments	2,400,438
Municipal and industrial water sales	33,177
Other operating revenue	<u>90,916</u>
 Total operating revenues	 <u>24,153,879</u>
 <b>OPERATING EXPENSES</b>	
Water costs	15,458,880
Transmission and distribution	4,030,941
Administration and general	4,910,074
Depreciation	1,216,985
General plant	<u>1,047,442</u>
 Total operating expenses	 <u>26,664,322</u>
 Operating income (loss)	 <u>(2,510,443)</u>
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest revenue	161,064
Sale of capital assets	7,655
Interest expense	<u>(115,711)</u>
 Total nonoperating revenues (expenses)	 <u>53,008</u>
 Change in net position	 (2,457,435)
 Net position - beginning	 <u>25,079,610</u>
 Net position - ending	 <u>\$ 22,622,175</u>

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

**PANOCHÉ WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 23,492,577
Payments to suppliers	(20,556,144)
Payments to employees	<u>(3,030,179)</u>
Net cash provided (used) by operating activities	<u>(93,746)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets (capital outlay)	(160,734)
Gross proceeds from sale of equipment	7,655
Interest paid on noncurrent liabilities	<u>(115,711)</u>
Net cash provided (used) by capital and related financing activities	<u>(268,790)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Repayment of loans to others	(418,073)
Principal paid on noncapital noncurrent liabilities	<u>(313,779)</u>
Net cash provided by (used in) noncapital financing activities	<u>(731,852)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest revenue	<u>140,312</u>
Net cash provided by (used in) investing activities	<u>140,312</u>
Net increase (decrease) in cash	(954,076)
Cash and cash equivalents, beginning of year	<u>10,178,354</u>
Cash and cash equivalents, end of year	<u>\$ 9,224,278</u>

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

**PANOCHÉ WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2019  
(Continued)**

**Reconciliation of Operating Income (Loss) to Net Cash Provided  
(Used) by Operating activities:**

Operating income (loss)	\$ (2,510,443)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,216,985
(Increase) decrease in accounts receivable	1,876,425
(Increase) decrease in prepayments/prebillings on account	(2,537,726)
(Increase) decrease in inventory	1,587,945
(Increase) decrease in prepaid expenses	9,642
Increase (decrease) in accounts payable and accrued expenses	<u>263,426</u>
 Net cash provided (used) by operating activities	 <u>\$ (93,746)</u>

**Supplemental Disclosure of Cash Flows Information**

Cash paid for interest (net of amount capitalized)	\$ <u>115,711</u>
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**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

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

**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 28, 2019 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.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* in 2004. GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a management’s discussion and analysis section, a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: net investment in capital assets, restricted, and unrestricted.

**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.

**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, 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.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

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

**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.

**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 began 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 inventory 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.

**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.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

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

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

**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 investments as of February 28, 2019 consist of the following:

Cash in bank - business checking and savings	\$ 1,654,769
Local Agency Investment Fund	<u>7,569,509</u>
Total	<u>\$ 9,224,278</u>

**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, Rabobank, N.A. The balances are insured by the federal deposit insurance corporation up to \$250,000.

The District's deposits as of February 28, 2019, 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.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

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

**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.

**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 28, 2019 balance was \$7,569,509.

**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 28, 2019, the Local Agency Investment Fund managed by the State of California and was not rated.

**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.

**Fair Value**

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  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following at February 28, 2019:

Others	\$ 2,285,833
Water user fees	2,274,205
Less allowance for doubtful accounts	<u>(1,085,634)</u>
Total	<u>\$ 3,474,404</u>

**NOTE 4 – CAPITAL ASSETS**

Following is a summary of activity affecting capital assets for the year ended February 28, 2019:

	Balance Mar 1, 2018	Additions	Deletions	Balance Feb 28, 2019
Nondepreciable assets:				
Construction	\$ 13,168	\$ -	\$ (13,168)	\$ -
Total nondepreciable assets	<u>13,168</u>	<u>-</u>	<u>(13,168)</u>	<u>-</u>
Depreciable assets:				
Improvements and equipment	29,461,379	173,902	-	29,635,281
Total depreciable assets	<u>29,461,379</u>	<u>173,902</u>	<u>-</u>	<u>29,635,281</u>
Accumulated depreciation:				
Improvements and equipment	(16,570,650)	(1,216,985)	-	(17,787,635)
Total accumulated depreciation	<u>(16,570,650)</u>	<u>(1,216,985)</u>	<u>-</u>	<u>(17,787,635)</u>
Depreciable assets, net	<u>12,890,729</u>	<u>(1,043,083)</u>	<u>-</u>	<u>11,847,646</u>
Total capital assets	<u>\$ 12,903,897</u>	<u>\$ (1,043,083)</u>	<u>\$ (13,168)</u>	<u>\$ 11,847,646</u>

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

Following is a summary of accounts payable and accrued expenses as of February 28, 2019:

Trade payables	\$ 1,225,362
Compensated absences payable	<u>102,251</u>
Total	<u>\$ 1,327,613</u>

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 6 – LONG-TERM LIABILITIES**

Following is a summary of noncurrent (long-term) liabilities for the year ended February 28, 2019:

	<u>Balance</u> <u>Mar 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Feb 28, 2019</u>
Note payable, State Water Resources Control Board	\$ 265,224	\$ -	\$ (265,224)	\$ -
Bonds payable, San Luis & Delta-Mendota Water Authority	<u>2,314,922</u>	<u>-</u>	<u>(48,555)</u>	<u>2,266,367</u>
Total	2,580,146	-	(313,779)	2,266,367
Less current portion	<u>(313,779)</u>	<u>-</u>	<u>262,879</u>	<u>(50,900)</u>
Noncurrent portion	<u>\$ 2,266,367</u>	<u>\$ -</u>	<u>\$ (50,900)</u>	<u>\$ 2,215,467</u>

Note payable, State Water Resources Control Board reflects a note used for capital improvements of District property. The note bears interest at a rate of 2.60 percent per annum and during fiscal year 2019 the outstanding balance was paid in full.

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 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 mature February 2043. Panoche Water District has made all required scheduled payments year-to-date. The bonds bear interest at a rate of 5 percent per annum, with future payments summarized as follows:

<u>Due During the</u> <u>Years Ending:</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
02/29/20	\$ 113,318	\$ 50,900	\$ 164,218
02/28/21	110,774	53,578	164,352
02/28/22	108,095	56,257	164,352
02/28/23	105,281	58,936	164,217
02/28/24 - 02/28/28	479,125	342,232	821,357
02/28/29 - 02/28/33	384,575	436,664	821,239
02/28/34 - 02/28/38	263,974	556,880	820,854
02/28/39 - 02/29/43	<u>110,121</u>	<u>710,920</u>	<u>821,041</u>
	<u>\$ 1,675,263</u>	<u>\$ 2,266,367</u>	<u>\$ 3,941,630</u>

The District has available for use a \$1,000,000 working capital line of credit with Rabobank, N.A. The line of credit bears interest at the rate of 3.53 percent per annum and maturity on August 31, 2019. As of February 28, 2019, there was no outstanding balance on the line of credit.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**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 2008-2009, under the new interim contract, the District is required to reimburse Reclamation for such O&M deficits through increased costs of its water supply. As of September 30, 2018, according to Reclamation calculations, O&M deficits totaled zero.

In addition, CVP main project capital allocated to the District must be paid in full by the year 2030. This capital is allocated to the federal water contractor on the basis of future projected water deliveries and is included in Reclamation's cost-of-service water rate. As of September 30, 2018, \$17,904,912 in unpaid CVP capital was reflected on Reclamation's accounting records as the District's future capital obligations. This amount has not been accrued as an obligation on the District's financial statements.

**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. Accumulated vacation benefits in the amount of \$87,098, as of February 28, 2019, are included in accounts payable and accrued expense.

**NOTE 9 – EMPLOYEE RETIREMENT BENEFITS**

The District provides retirement benefits for all of its full-time employees through a defined contribution plan (Panoche Water District Retirement Plan). The plan is administered by the Panoche Water District and uses the Central Administrative Services, Inc. trust approved by the IRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All full-time employees, 21 years or older, are eligible to participate in the plan after six months of full-time service. The District makes an annual discretionary contribution, currently it contributes seven percent of eligible employee's annual compensation. If the employee terminates employment before fully vesting, forfeiture will take place as of the end of the plan year in which the earlier of the following occurs: 1) the employee incurs five consecutive breaks in service, 2) the employee receives a distribution of the entire vested account balance. Any changes to the rates are approved by the Governing Board. Employees may make voluntary pre-tax salary deferral contributions to the plan subject to Internal Revenue Service limits which combine employer and employee contributions. Total District contributions for the year ended February 28, 2019 were \$194,699, with covered payroll equaling \$3,030,180.

**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.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

**NOTE 11 – PREPAYMENTS/PREBILLINGS ON ACCOUNT**

Prepayments/prebillings on account in the amount of \$503,585 represent 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 29, 2020.

**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**

**Commitments**

As part of its ongoing operations, the District has entered into several long-term water purchase commitment agreements. Range of terms under individual agreements are as follows: 0-94,000 Acre Feet (AF), and \$99 - \$1,000/AF, cost per AF under each agreement differs based on water source type and price escalators (if applicable); agreements expire based on individual agreement terms ranging from FY 2018 to FY 2034, new agreements may be negotiated upon expiration.

**Contingencies**

Imani Percoats and Chris Bettencourt v. Panoche Water District, Fresno County Superior Court Case 18CECG01651: This pending litigation was filed after conclusion of FY 2018, on May 10, 2018, alleging failure to pay overtime required by California Statutes for a period including FY 2018. The District believes that it has a strong defense to this action and expects to vigorously defend itself. At this time it is not reasonably possible to estimate the likelihood that the District will be found liable or if found liable, the amount of damages.

Stephen Sloan v Panoche Water District, Fresno County Superior Court Case 18CECG00511: This case was initially filed on February 8, 2018; most recently, the District has filed a motion for summary judgment that is set for hearing on February 3, 2021, and a trial date is currently set for September 7, 2021. The matter arises from allegations that during FY 2017 and continuing in FY 2018, the District breached a multi-year agreement to purchase well water beginning in 2016. The District believes that it has a strong defense to this action and expects to vigorously defend itself. At this time it is not reasonably possible to estimate the likelihood that the District will be found liable or if found liable, the amount of damages.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

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

**Contingencies (Continued)**

The District is also under investigation by the Civil Division of the United States Attorney's Office in conjunction with the OIG relating to the water use by the District from the Delta-Mendota Canal and the San Luis Canal. In addition, the investigation involves financial assistance agreements between the Bureau of Reclamation and the Panoche Drainage District. The District understands that for the assistance agreements, the investigation is focused on potentially false claims relating to invoices and certifications submitted by the District. The District understands that the investigation originally focused in part on employee compensation invoiced to these federal grant agreements for Panoche Water District employees assigned to grant projects, as well as on certain claims relating to Panoche Drainage District's acquisition of equipment and failure to report certain items. The investigation also appears to be focused on potentially inflated claims by a Drainage District vendor who allegedly returned a part of such payments to a Water District employee. The District and the United States have entered into discussions including exchanges of potential settlement parameters with the United States in an effort to resolve these issues without any litigation, which discussions are subject to a wide range of contingencies, including whether or not grant issues would be resolved or left to administrative resolution. If the matter cannot be resolved through these discussions, it is probable that the United States would assert claims and bring a civil lawsuit, in which case it is reasonably likely that there would be an unfavorable outcome to the District on one or more of the issues. The District would vigorously oppose such suit, and at present the District does not have information sufficient to reasonably estimate the amount of liability either through settlement or from any litigation.

Based upon the litigation filed by the California Department of Justice against certain former District employees noted below and on February 20, 2018, the United States Environmental Protection Agency on April issued a Notice of Suspension 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 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.

Commencing in approximately May 2016, the Water 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 employee (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.

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-\$1000. 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.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2019**

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

**Contingencies (Continued)**

After close of FY2018, on or about January 28, 2020, the District learned that Jeffrey Moore, an employee of the District, has filed suit against the District in Federal District Court for the Eastern District of California. The District has not been served with this suit anticipates that it is based on employment, race discrimination, and retaliation. The District has notified its insurer of the potential action, expects to tender the case for insurance coverage and defense, and will vigorously oppose the action. Based on the currently known information, it is not possible to estimate the reasonable probability of any particular outcome to the case or the amount of any potential liability.

**NOTE 14 – RELATED ORGANIZATIONS**

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 reimburses the District for the cost of providing PDD with personnel services, including related taxes and benefits, and other operational costs. Amounts charged to PDD for fiscal year ended February 28, 2019 were approximately \$750,000 in total.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

The District has outstanding employee loans receivable totaling \$23,693 as of the fiscal year ended February 28, 2019. During the prior years, management made interest free loans to several employees. The District made these loans without proper authorization documents or agreements documenting the terms of the loans. In correcting this practice, the Board adopted formal, written policy prohibiting loans to any persons, including employees, except as authorized by law in August of 2016 in addition to adopting Reasonable Expense Reimbursement/Use of Public Resources Policy Statement "Reimbursement/Resources Policy") incorporating Loan Policy the following month (September 2016). Employee training on Reimbursement/Resources Policy was conducted by special counsel. In September 2016, Board adopted an Employee Handbook including a no-loan policy, formally acknowledged by all District employees.

The District has outstanding loans receivable totaling \$106,289 from Bennett Ranches. John F. Bennett, the District's Governing Board president during the fiscal year ended February 28, 2019, is a partner in this business entity. The terms of the loan is similar to those issued in prior years by the District, under an Agricultural Drainage Management Program Loan Contract between the State Water Resources Control Board and the District, to provide funds to purchase drip, sprinkler, and gated pipe irrigation equipment.

**NOTE 16 – SUBSEQUENT EVENTS**

On March 11, 2020 the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. In response, the State of California issued a shelter-in-place order and the temporary closure of all businesses deemed to be nonessential. Accordingly, there will be a contraction of the national, state and the District's economy, which will potentially result in a reduction and/or delay of the receipt of fee revenues, as well as hinder certain other revenue generating operations of the District. Additionally, it may negatively impact the ability of the District to collect on certain balances due from others. While the District expects there to potentially be a negative financial impact, since the duration and impact is unknown, management is unable to reasonably quantify the effect on future financial statements.

Management has evaluated and concluded that there are no other subsequent events that have occurred from February 28, 2019 through the date the financials were available to be issued at November 6, 2020, that would require disclosure or adjustment.

OTHER AUDITOR'S REPORT

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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 of  
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 28, 2019, 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 6, 2020.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 questioned costs as items 2019-001 and 2019-002 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 accompany schedule of findings and questioned costs as items 2019 - 003 to be a significant deficiency.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-002.

## **District's Responses to Findings**

The District's response to the findings identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Price Pange & Company*

Clovis, California  
November 6, 2020

## FINDINGS AND QUESTIONED COSTS

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEBRUARY 28, 2019**

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

**Financial Statements**

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2019-001    Financial Close and Reporting Process (Material Weakness)**

**Condition:**

The District did not properly record all payables, receivables, expenses and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts.

**Criteria:**

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

**Cause:**

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

**Effect:**

As a result of this condition, payables, receivables, expenses, assets, revenues and net position were initially materially misstated. Specifically, the misstatements were as follows:

- T&D Electric expense – Understated by \$82,467
- DMC Well Water expense – Understated by \$96,840
- Payroll related expenses – Understated by \$172,259
- Property, Plant and Equipment – Overstated by \$65,584
- Accounts receivable – Other – Overstated by \$264,398

**Recommendation:**

We recommend that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEBRUARY 28, 2019**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2019-002 Internal Controls Over Payroll (Material Weakness)**

**Condition:**

The District did not obtain proper authorization for payroll related transactions during the fiscal year. Specifically we identified the following transaction:

- Unauthorized Employee Fringe Benefits – No written contracts or agreements for housing and utilities payments provided to five employees.

**Criteria:**

COSO's Internal Control – Integrated Framework defines the five interrelated concepts of internal control which include: Control Environment, Risk Assessment, Information and Communication, Monitoring, and Control Activities. A proper control environment includes the following attributes: communication and enforcement of integrity and ethical values, commitment to competence, proper human resource policies and practices. Effective monitoring requires that the entity select, develop, and perform ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. Additionally, the monitoring process requires that the entity evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the governing body, as appropriate. Adequate control activities over disbursements include various controls over initiating, authorizing, recording, processing, correcting, reconciling and reporting transactions,

**Cause:**

The District did not have a properly designed or operating internal control system. Specifically, the District did not have adequate written policies and procedures to address payroll/personnel transactions.

**Effect:**

As a result of the condition described above, several transactions were processed by the District without proper documentation and authorization.

**Recommendation:**

We recommend that the District create policies and procedures which includes the necessary steps, in detail, that should be undertaken to ensure proper documentation, authorization and reporting of all accounting transactions.

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEBRUARY 28, 2019**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2019-003      **Accounts Receivable Reconciliation (Significant Deficiency)****

**Condition:**

The District did not reconcile receivables recorded in the STORM billing system to the general ledger accounting system (SAGE) on a monthly basis.

**Criteria:**

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

**Cause:**

Internal controls over the accounts receivable reconciliation process were not properly designed and were not placed in operation.

**Effect:**

Not determined.

**Recommendation:**

We recommend that the District create a monthly financial closing checklist which includes the necessary steps, in detail, that should be undertaken on a monthly basis to ensure proper reconciliation of accounts receivable records.

**PANOCHÉ WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FEBRUARY 28, 2019**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2018-001      **Financial Close and Reporting Process (Material Weakness)****

**Condition:**

The District did not properly record all payables, receivables, expenses and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts.

**Criteria:**

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

**Cause:**

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

**Effect:**

As a result of this condition, payables, receivables, expenses, assets, revenues and net position were initially materially misstated. Specifically, the misstatements were as follows:

- Prepaid Insurance Expenses – Understated by \$81,095
- Health, Dental, Vision and Life Insurances – Overstated by \$519,563
- Accounts Receivable – Panoche Drainage District – Understated by \$21,340
- Water Inventory – Understated by \$323,123
- Account Payable Vendors – Understated by \$228,069
- Water Purchases Expense – Understated by \$645,197

**Recommendation:**

We recommend that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**Status (as of February 28, 2019):**

Not Implemented. See Finding 2019-001.

**PANOCHÉ WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FEBRUARY 28, 2019**

**FINANCIAL STATEMENT FINDINGS** (Continued)

**Finding 2018-002 Internal Controls Over Payroll (Material Weakness)**

**Condition:**

The District did not obtain proper authorization for payroll related transactions during the fiscal year. Specifically we identified the following transaction:

- Unauthorized Employee Fringe Benefits – No written contracts or agreements for housing and utilities payments provided to five employees.

**Criteria:**

COSO's Internal Control – Integrated Framework defines the five interrelated concepts of internal control which include: Control Environment, Risk Assessment, Information and Communication, Monitoring, and Control Activities. A proper control environment includes the following attributes: communication and enforcement of integrity and ethical values, commitment to competence, proper human resource policies and practices. Effective monitoring requires that the entity select, develop, and perform ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. Additionally, the monitoring process requires that the entity evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the governing body, as appropriate. Adequate control activities over disbursements include various controls over initiating, authorizing, recording, processing, correcting, reconciling and reporting transactions,

**Cause:**

The District did not have a properly designed or operating internal control system. Specifically, the District did not have adequate written policies and procedures to address payroll/personnel transactions. Monitoring of financial transactions, was weak or non-existent.

**Effect:**

As a result of the condition described above, several transactions were processed by the District without proper documentation and authorization.

**Recommendation:**

We recommend that the District create policies and procedures which includes the necessary steps, in detail, that should be undertaken to ensure proper documentation, authorization and reporting of all accounting transactions.

**Status (as of February 28, 2019):**

Not Implemented. See Finding 2019-002

**PANOCHÉ WATER DISTRICT  
MANAGEMENT'S RESPONSE TO FINDINGS  
FEBRUARY 28, 2019**



**PANOCHÉ WATER DISTRICT**

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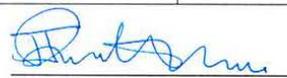
CORRECTIVE ACTION PLAN  
Fiscal Year End 2019

The Panoche Water District is in receipt of the findings with regards to the annual audit for the fiscal year end 2019. Below is the corrective action plan submitted by the Panoche Water District in response.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	This is noted and agreed. The Board adopted an updated Accounting Policies and Procedures Manual (APPM), which was last reviewed and adopted by the Board in December 2018. Management continues to review, refine, implement and maintain internal control as per the APPM. The APPM includes monthly and year-end financial closing procedures to help guide proper reconciliation and reporting of account balances. In response to this audit finding and recommendation, Management will further review and refine the APPM procedures to improve the year-end checklist to help identify, prevent and correct errors on a timely basis.	Ongoing	John Paul Otollo
2019-002	This is noted and agreed. The District has developed and implemented a Housing Policy that address this finding, which was approved by the Board in January 2019. The District has appointed an Ethics & Compliance Officer with responsibilities for monitoring and tracking compliance, in addition to creating multiple levels within its accounting department. District staff has received training on the various policies. The written Accounting Policies and Procedures Manual sets forth step by step measures for all payroll procedures. The totality of these actions addresses this particular find effectively, including both written polices, training and monitoring procedures.	Ongoing	John Paul Otollo
2019-003	This is noted and agreed. Management continues to develop and implement its internal control as per Accounting Policies & Procedures Manual (APPM). Management's focus has been on ensuring that the STORM billing system provides accurate and timely bills to the District's customers. This system is separate from the SAGE accounting system that provides the financial reports. Though the systems are integrated, the process of exporting data from STORM to SAGE is cumbersome and step intensive. In response to this audit recommendation, Management will further review and refine the APPM procedures to create a monthly closing checklist that details the steps of performing monthly reconciliation between the SAGE accounting system and the STORM billing system and cross-train staff in the performance of these steps.	Ongoing	John Paul Otollo

Signature:

  
General Manager

  
Controller

Board of Directors: John F. Bennett, *President*  
Ross Koda, *Director*

Suzanne Redfern-West, *Vice President*  
Michael Linneman, *Director*

Michael Stearns, *Secretary*  
Ara Azhderian, *General Manager*