PANOCHE WATER DISTRICT
FIREBAUGH, CALIFORNIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
FEBRUARY 28, 2021

PANOCHE WATER DISTRICT
FINANCIAL STATEMENTS
FEBRUARY 28, 2021

TABLE OF CONTENTS

PRICE PAIGE & COMPANY
Accountancy Corporation

The Place to Be

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, 2021, 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.

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

tel 559.299.9540
fax 559.299.2344

www.ppcpas.com

Opinions

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, 2021, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Paige & Company

Clovis, California
November 23, 2021

HISTORY AND BACKGROUND

The Management Discussion and Analysis (MDA) of Panoche Water District (the District) provides an overview of the financial activities and transactions for the fiscal-year ended February 28, 2021, 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 (being Division 13 of the California Water Code), for the purpose 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") use, 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 (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 for the District is the accrual basis of accounting.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

This Management's 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 success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

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 2021, resulting in a net position of $14,299,218.
- The District's current year net position decreased by $312,458 and is predominately attributed to decreases in operating revenues compared to fiscal-year 2020.
- During the fiscal-year 2021, the District's revenues decreased by $2,344,096, or 10%, and expenses increased by $264,586, or around 1%.
- For fiscal-year 2021, operating expenses exceeded operating revenues by $2,448,258.
- The District's cash balance on February 28, 2021, was $4,455,150 representing a decrease of $4,782,433 from February 29, 2020.

STATEMENT OF NET POSITION

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

Condensed Statements of Net Position

	2021	2020	Increase (Decrease)	Percent Change
Current assets	$ 17,561,498	$ 16,941,733	$ 619,765	4%
Capital assets	10,133,411	10,721,250	(587,839)	-5%
Other noncurrent assets	1,140,863	636,943	503,920	79%
Total assets	28,835,772	28,299,926	535,846	2%
Current liabilities	7,350,833	4,264,900	3,085,933	72%
Noncurrent liabilities	7,185,721	9,423,350	(2,237,629)	-24%
Total liabilities	14,536,554	13,688,250	848,304	6%
Net position:				
Net investment in capital assets	10,133,411	10,721,250	(587,839)	-5%
Unrestricted	4,165,807	3,890,426	275,381	7%
Total net position	$ 14,299,218	$ 14,611,676	$ (312,458)	-2%

The District's net position decreased by $312,458 between fiscal-year 2020 and 2021 from $14,611,676 to $14,299,218 due to excess of operating expenses over operating revenues. The District's net position reflects its investment in capital assets (e.g., land and land rights, source 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 are 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 $587,839, or about 5%, is primarily due to current year depreciation exceeding acquisition of new assets by the amount of $533,057.

The increase in current liabilities of $3,085,933 or about 72% is primarily due to increases in unearned revenues attributed to pending US Bureau of Reclamation ("USBR") and San Luis & Delta-Mendota Water Authority ongoing accounting analysis. The District expects to receive updates in FY22 for these accounting analyses in order to determine the final amounts of revenue or expense to recognize.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2021	2020	Increase (Decrease)	Percent Change
Operating revenues	$ 20,192,880	$ 22,536,976	$ (2,344,096)	-10%
Operating expenses	22,641,138	22,376,552	264,586	1%
Operating income	(2,448,258)	160,424	(2,608,682)	-1626%
Non-operating revenues/(expenses)	2,135,800	(8,170,923)	10,306,723	1371%
Change in net position	(312,458)	(8,010,499)	7,698,041	-96%
Beginning net position	14,611,676	22,622,175	(8,010,499)	-35%
Ending net position	$ 14,299,218	$ 14,611,676	$ (312,458)	-2%

- Operating revenues and expenses decreased due to a drop in costs of water associated with acquiring water for irrigation and increases to USBR water allocations.
- Non-operating revenues increased when compared to FY20 mainly due to a one-time settlement expense to the USBR in FY21.

CAPITAL ASSETS

The District's investment in capital assets as of February 28, 2021, amounts to $10,133,411, net of accumulated depreciation. The total decrease in capital assets for the current fiscal year was approximately $587,839, or about 5%. Major capital asset events during the current fiscal year included:

- New excavator: $240,300
- New semi-truck: $129,538
- Two new pick-up trucks: $76,779
- New pumps and lifts totaling: $73,431
- The District continued its policy of aggressive write-off of old and obsolete assets.

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

LONG-TERM DEBT

On February 28, 2021, the District had $7,185,721 of long-term debt; this represents a decrease of $2,237,629 or about 24% from the prior year. Of this amount, $1,053,578 was due within the next twelve months. More detailed information about the District's long-term debt is presented in Note 10 and 11 of the financial statements.

MAJOR ECONOMIC FACTORS AND OTHER ISSUES AFFECTING THE DISTRICT'S 2021 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 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 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 – the CVP's 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 until the District's permanent 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 40% of its CVP contract allocation on a 10-year average.

At the end of the 2021 fiscal-year, the District held three other contracts with the USBR to provide for the conveyance, storage, exchange, and/or purchase of supplemental water supplies. Two of these agreements are commonly referred to as Warren Act Contracts. One allows for the conveyance and storage of supplemental water acquired by the District in Northern California. The other allows for the conveyance and storage of local groundwater developed by the District. The third agreement provides for the exchange and/or purchase of locally developed groundwater by the District for the USBR to supplement its refuge management water supply.

In addition, at the end of the 2021 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 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.

The $4,782,433 decrease in cash balance from the end of the 2020 fiscal-year to 2021 was due to a combination of decreased revenues and increased expenses. As it relates to water supply, approximately 30% of the change is attributable to supplemental water purchases and approximately 20% is attributable to rate stabilization implemented by the District's Board of Directors. Some of the supplemental water purchased in 2021 remained in water inventory and was carried over for delivery in fiscal-year 2022 in anticipation of a low CVP allocation due to drought. The District expects to recover approximately $4,000,000 in cash during the 2022 fiscal-year from 2021 water inventory delivered in FY22. In the 2020 fiscal-year, the District realized greater than budgeted revenues. The reduced water supply in 2021 resulted in a higher water rate to recover the District's operating expenses. In light of the weak agricultural economy and rising production costs, in part due to the COVID-19 pandemic, the District's Board elected to utilize some of the 2020 revenues in cash reserve to lower the 2021 water delivery rate.

One-Time Settlements

During the 2021 fiscal-year, the District resolved two major issues so as to significantly reduce its litigation risk. The first issue involved the United States' contention that the District made unauthorized diversions of federally owned water from the Delta-Mendota and San Luis canals between 2009 and 2015. The District entered into a Settlement Agreement with the United States in January 2021, agreeing to pay the United States the total sum of $7,462,808.00, against which 1% simple interest per year began to accrue beginning January 15, 2021. An initial payment of $1,000,000 was required at the time of execution in January, which was paid from the District's cash reserve. In the 2022 fiscal-year, the District conducted a Proposition 218 special benefits assessment election, which passed overwhelmingly. The Board of Directors imposed the assessment and provided the District an opportunity to issue a bond to pay the required settlement amount, including recovery of the initial payment amount, in FY22. This was done August 2021.

The second issue stemmed from an internal audit of the historic vacation accrual of its employees. The audit determined that the District may have under accounted for employees' accrued vacation prior to March 1, 2018. To resolve the matter, the District's Board authorized one-time payments totaling approximately $478,000 to current and former employees that may had been affected. These payments were offered in part in exchange for a general release of all claims against the District related to accrued vacation. As this one-time activity was unforeseen, and therefore unbudgeted, so the payments came from cash reserves.

Cash Advances

Drainage management is vital to the District's agricultural productivity and sustainability. Management of the District's drainage is preformed, 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 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 will provide cash advances that are subsequently reimbursed. In fiscal-year 2021, the District advanced approximately $700,000 to support the grant activities, which it expects to recover from the Drainage District in fiscal-year 2022.

Bad Debt Recovery

The majority of Bad Debt Recovery stems from related party transactions that have accumulated over the years by the Panoche Drainage District (PDD) and its operation of the San Joaquin River Water Quality Improvement Project (SJRIP). The Panoche Water District is dependent upon management of its subsurface drainage to sustain agricultural productivity in the District. While the PDD is the entity primarily responsible for the administration, operation, and maintenance necessary to perform these drainage management services, including, historically, operation of the SJRIP, it is the District that provides the labor and other services to the PDD to perform its duties on a reimbursement basis. For reasons explained below, the SJRIP could not meet its reimbursement obligations as and when they fell due. As it is the policy of the District to categorize unrealized liability as "bad debt" at the close-out of the fiscal year in which it was incurred, the outstanding balances owed by the PDD for the SJRIP have been so declared. However, as activities with the related parties are underway to validate the liability and establish a repayment schedule, these amounts remain considered recoverable by the District.

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 to the SJRIP through the PDD continued to be provided by the District. While cognizant of the growing liability, as 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. The District is currently working with the Grassland Basin Authority to establish a process to validate the liability and a repayment schedule. Management expects an agreement with the Grassland Basin Authority to be executed prior to the end of the current 2022 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.

PANOCHE WATER DISTRICT
STATEMENT OF NET POSITION
FEBRUARY 28, 2021

ASSETS		
Current assets:		
Cash and cash equivalents	$	4,455,150
Accounts receivable		8,234,680
Employees receivable		21,593
Interest receivable		2,461
Current portion of notes receivable		540,173
Water inventory		4,111,344
Supplies inventory		83,722
Prepaid expense		112,375
Total current assets		17,561,498
Other assets:		
Noncurrent portion of notes receivable		1,140,863
Capital assets		10,133,411
Total other assets		11,274,274
Total assets		28,835,772
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses		1,596,817
Prepayments/prebillings on account		3,559,766
Current portion of noncurrent liabilities		2,194,250
Total current liabilities		7,350,833
Noncurrent liabilities:		
Notes payable		2,015,475
Settlement payable to United States Bureau of Reclamation		5,170,246
Total noncurrent liabilities		7,185,721
Total liabilities		14,536,554
NET POSITION		
Net investment in capital assets		10,133,411
Unrestricted		4,165,807
Total net position	$	14,299,218

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

PANOCHE WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2021

OPERATING REVENUES	
Irrigation water sales	$ 12,968,925
District operations and maintenance	5,134,747
Charges for services to other governments	1,779,900
Other operating revenue	309,308
Total operating revenues	20,192,880
OPERATING EXPENSES	
Water costs	11,678,610
Transmission and distribution	3,139,225
Administration and general	5,563,757
Depreciation	1,120,896
General plant	1,138,650
Total operating expenses	22,641,138
Operating income (loss)	(2,448,258)
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	97,108
Bad debt recovery revenue	2,107,670
Interest expense	(68,978)
Total nonoperating revenues (expenses)	2,135,800
Change in net position	(312,458)
Net position, beginning of year	14,611,676
Net position, end of year	$ 14,299,218

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

PANOCHE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 21,072,022
Payments to suppliers	(21,687,171)
Payments to employees	(2,932,198)
Net cash provided by (used in) operating activities	(3,547,347)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets (capital outlay)	(533,057)
Net cash provided by (used in) capital and related financing activities	(533,057)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Principal paid on noncapital noncurrent liabilities	(1,096,957)
Interest paid on noncurrent liabilities	(68,978)
Net cash provided by (used in) noncapital financing activities	(1,165,935)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments received on loans to others	342,001
Interest revenue	121,905
Net cash provided by (used in) investing activities	463,906
Net increase (decrease) in cash	(4,782,433)
Cash and cash equivalents, beginning of year	9,237,583
Cash and cash equivalents, end of year	$ 4,455,150

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

PANOCHE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2021
(Continued)

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	$	(2,448,258)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		1,120,896
(Increase) decrease in accounts receivable		(1,341,607)
Increase (decrease) in prepayments/prebillings on account		2,220,750
(Increase) decrease in inventory		(2,817,862)
Increase (decrease) in prepaid expenses		(5,777)
Increase (decrease) in accounts payable and accrued expenses		(275,489)
Net cash provided by (used in) operating activities	$	(3,547,347)

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

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 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.

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.

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)

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.

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)

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 cash equivalents as of February 28, 2021, consist of the following:

Cash in bank - business checking and savings	$ 1,243,465
Local Agency Investment Fund	3,211,685
Total	$ 4,455,150

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depositary 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, 2021, 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)

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, 2021, balance was $3,211,685.

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, 2021, the Local Agency Investment Fund managed by the State of California 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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at February 28, 2021:

Charges for services to other governments	$ 3,348,453
Water user fees	3,858,412
Others	1,524,991
Less allowance for doubtful accounts	(473,122)
Total	$ 8,258,734

NOTE 4 – CAPITAL ASSETS

Following is a summary of activity affecting capital assets for the year ended February 28, 2021:

	Balance March 1, 2020	Additions	Deletions	Balance February 28, 2021
Depreciable assets:				
Improvements and equipment	$ 27,665,847	$ 533,057	$ (1,643,365)	$ 26,555,539
Total depreciable assets	27,665,847	533,057	(1,643,365)	26,555,539
Accumulated depreciation:				
Improvements and equipment	(16,944,597)	(1,120,896)	1,643,365	(16,422,128)
Total accumulated depreciation	(16,944,597)	(1,120,896)	1,643,365	(16,422,128)
Depreciable assets, net	10,721,250	(587,839)	-	10,133,411
Total capital assets	$ 10,721,250	$ (587,839)	$ -	$ 10,133,411

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Following is a summary of accounts payable and accrued expenses as of February 28, 2021:

Trade payables	$ 987,979
Compensated absences payable	204,564
Other accrued expenses	404,274
Total	$ 1,596,817

NOTE 6 – LONG-TERM LIABILITIES

Following is a summary of noncurrent (long-term) liabilities for the year ended February 28, 2021:

	Balance March 1, 2020	Additions	Deletions	Balance February 28, 2021
Bonds payable, San Luis & Delta-Mendota Water Authority	$ 2,215,467	$ -	$ (96,957)	$ 2,118,510
Total	2,215,467	-	(96,957)	2,118,510
Less current portion	(53,578)	-	(49,457)	(103,035)
Noncurrent portion	$ 2,161,889	$ -	$ (146,414)	$ 2,015,475

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 mature February 2043. In 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:

Due During the Years Ending:	Interest	Principal	Total
02/28/22	$ 45,134	$ 103,035	$ 148,169
02/28/23	44,555	103,715	148,270
02/29/24	43,882	90,113	133,995
02/28/25	43,072	90,793	133,865
02/28/26	42,036	91,813	133,849
02/28/26 - 02/28/30	153,326	380,856	534,182
02/28/31 - 02/28/35	143,560	521,976	665,536
02/29/36 - 02/29/40	67,568	595,087	662,655
02/28/41 - 02/28/43	2,476	141,122	143,598
Total	$ 585,609	$ 2,118,510	$ 2,704,119

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, 2020, 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, 2020, $11,387,210 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 $102,217, as of February 28, 2021, 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, 2021, were $175,003, with covered payroll equaling $2,932,198.

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 – PREPAYMENTS/PREBILLINGS ON ACCOUNT

Prepayments/prebillings on account in the amount of $3,559,766 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 28, 2022.

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. The District entered into the latest water service contract with the United States, Contract No. 14-06-200-7864A-IR7, which shall serve as the District's interim renewal contract from March 1, 2021, through and if needed, February 28, 2023

As provided for by federal law, the District has converted its water service contract, which was subject to a two-year renewal cycle, into a repayment contract. The Repayment Contract is for the same 94,000 acre-feet of Central Valley Project water which the water service contracts provided for and has 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 timely paid the lump sum payment as required in the Repayment Contract. In part to provide for this lump sum payment, the District performed the required analysis to levy assessments against lands in the District in accordance with Proposition 218. The landowners overwhelmingly approved of the Benefit Assessments, including the Benefit Assessment regarding contractual obligations. Funds from the assessment were used in part to provide a source of repayment for debt the District caused the Panoche Financing Authority (of which the District is a member) to issue bonds to provide funds to make the lump sum payment.

The District and the United States entered into a Settlement Agreement on January 15, 2021. The key financial terms of the Settlement Agreement are that the District shall pay the United States the total sum of $7,462,808.00 (the "Settlement Amount"), against which 1% simple interest per year shall begin to accrue beginning 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 20, 2015, the District diverted approximately 53,000 acre-feet of federally owned water from the Delta-Mendota and San Luis Canals, and 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)

Commitments (Continued)

An initial payment of $1,000,000.00 was timely provided to the United States as required by the Settlement Agreement. The Settlement Agreement provided 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 provides that the District is entitled to prepay the Settlement Amount including interest accumulated to the payment date (the "Payoff Amount") early at any time without penalty. As discussed above, the District conducted a Proposition 218 Benefit Assessment proceeding related to the issuance of bonds, in part to provide sufficient revenue for the Payoff Amount. The Benefit Assessment 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 for 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.

In addition to the above, the Settlement Agreement provides that the San Luis & Delta-Mendota Water Authority (the "Water Authority") sustained damages of $798,653.00 as a result of the Covered Conduct. The Settlement Agreement required the District is 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 that the District obtain releases from the Water Authority. In the Settlement Agreement and Limited Release, the District agreed to pay to the Water Authority: unpaid OM&R costs associated with the Released 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)

Contingencies

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 in April 2018, 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 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.

NOTE 14 – LEGAL SETTLEMENT OBLIGATIONS

Following is a summary of noncurrent (long-term) Settlement payable to United States Bureau of Reclamation:

	Balance February 28, 2021
Settlement payable to United States Bureau of Reclamation	$ 7,261,461
Less current portion	(2,091,215)
Noncurrent portion	$ 5,170,246

NOTE 14 – LEGAL SETTLEMENT OBLIGATIONS (Continued)

Settlement payable bears interest at the rate of one percent per annum with future payments summarized as follows:

Due During the Years Ending:	Interest	Principal	Total
02/28/22	$ 40,547	$ 2,091,215	$ 2,131,762
02/28/23	51,702	1,292,562	1,344,264
02/29/24	38,777	1,292,562	1,331,339
02/28/25	25,851	1,292,562	1,318,413
02/28/26	12,927	1,292,560	1,305,487
Total	$ 169,804	$ 7,261,461	$ 7,431,265

NOTE 15 – 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, 2021, were approximately $1,031,380 in total.

NOTE 16 – RELATED PARTY TRANSACTIONS

The District has outstanding employee loans receivable totaling $22,793 as of the fiscal year ended February 28, 2021.

NOTE 17 – UNCERTAINTY

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus, COVID-19, a pandemic. Accordingly, some functions of the District's operations were limited to protect the health and safety of its employees. The financial impact that could occur as a result of the pandemic is unknown at this time.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent Events

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. The 2021 Bonds are dated July 28, 2021. Interest on the 2021 Bonds is payable on each March 1 and September 1 (each an "Interest Payment Date"), commencing on March 1, 2022.

NOTE 18 – SUBSEQUENT EVENTS (Continued)

Subsequent Events (Continued)

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 bond 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 the CVP contract. There is no parity debt outstanding.

Contractual Obligation Assessment

The district has authorized a Proposition 218 special assessment established at 1.30x projected annual debt service on the bonds.

On June 2, 2021, following notice, hearing and majority affirmative vote of owners of land representing approximately 87% of the assessment, the Board authorized a benefit assessment up to $60 per beneficial acre. Up to $38.09 of such benefit assessment, the Contractual Obligation Assessment, will be assessed by the District on approximately 38,207 acres to pay the Series 2021 Installment Payments. The Future Modernization Projects Assessment is not pledged to, nor will it be available for payment of, the Series 2021 Installment Payments.

Management has evaluated and concluded that there are no subsequent events other than disclosed above that have occurred from February 28, 2021, through the date the financials were available to be issued at November 23, 2021, that would require disclosure or adjustment.

OTHER AUDITOR’S REPORT

THIS PAGE IS LEFT BLANK INTENTIONALLY.

PRICE PAIGE & COMPANY
Accountancy Corporation

The Place to Be

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, 2021, 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 23, 2021.

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 District'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 may exist that have not been identified.

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

tel 559.299.9540
fax 559.299.2344

www.ppcpas.com

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 required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Price Paige & Company

Clovis, California
November 23, 2021

FINDINGS AND QUESTIONED COSTS

PANOCHE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEBRUARY 28, 2021

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

PANOCHE WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 28, 2021

FINANCIAL STATEMENT FINDINGS

Finding 2020-001 **Financial Close and Reporting Process (Material Weakness)**

Condition:
The District incorrectly “reversed” a prior year adjusting entry in the amount of $264,369 which they believed was an accrual entry but was in fact a correcting entry for revenue and accounts receivable.

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:
An overstatement of revenue and an overstatement of accounts receivable in the current year of $264,369 which was corrected by an audit adjustment.

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, 2021):
Implemented.