

**PANOCHE WATER DISTRICT
FIREBAUGH, CALIFORNIA**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
FEBRUARY 29, 2020**

**PANOCHÉ WATER DISTRICT
FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

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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 29, 2020, 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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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 29, 2020 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 March 10, 2021, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Price Pange & Company

Clovis, California
March 10, 2021

**PANOCHÉ WATER DISTRICT
STATEMENT OF NET POSITION
FEBRUARY 29, 2020**

ASSETS

Current assets:

Cash and cash equivalents	\$ 9,237,583
Accounts receivable	5,649,959
Employees receivable	22,793
Interest receivable	27,257
Current portion of notes receivable	520,338
Water inventory	1,305,378
Supplies inventory	71,826
Prepaid expense	<u>106,599</u>

Total current assets	<u>16,941,733</u>
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Other assets:

Noncurrent portion of notes receivable	636,943
Capital assets	<u>10,721,250</u>

Total other assets	<u>11,358,193</u>
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Total assets	<u>28,299,926</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	1,872,306
Prepayments/prebillings on account	1,339,016
Current portion of noncurrent liabilities	<u>1,053,578</u>

Total current liabilities	<u>4,264,900</u>
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Noncurrent liabilities:

Notes payable	2,161,889
Settlement payable to United States Bureau of Reclamation	<u>7,261,461</u>

Total noncurrent liabilities	<u>9,423,350</u>
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Total liabilities	<u>13,688,250</u>
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NET POSITION

Net investment in capital assets	10,721,250
Unrestricted	<u>3,890,426</u>

Total net position	<u>\$ 14,611,676</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 29, 2020**

OPERATING REVENUES	
Irrigation water sales	\$ 10,522,624
District operations and maintenance	7,642,685
Expense reimbursements from other governments	3,799,018
Other operating revenue	<u>572,649</u>
 Total operating revenues	 <u>22,536,976</u>
 OPERATING EXPENSES	
Water costs	10,669,327
Transmission and distribution	3,342,013
Administration and general	5,674,380
Depreciation	1,205,840
General plant	<u>1,484,992</u>
 Total operating expenses	 <u>22,376,552</u>
 Operating income (loss)	 <u>160,424</u>
 NONOPERATING REVENUES (EXPENSES)	
Interest revenue	198,744
Sale of capital assets	5,100
Interest expense	(113,306)
Legal settlement expense	<u>(8,261,461)</u>
 Total nonoperating revenues (expenses)	 <u>(8,170,923)</u>
 Change in net position	 (8,010,499)
 Net position, beginning of year	 <u>22,622,175</u>
 Net position, end of year	 <u>\$ 14,611,676</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 29, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 21,048,197
Payments to suppliers	(18,145,582)
Payments to employees	<u>(3,030,179)</u>
Net cash provided by (used in) operating activities	<u>(127,564)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets (capital outlay)	(79,444)
Gross proceeds from sale of equipment	5,100
Interest paid on noncurrent liabilities	<u>(113,306)</u>
Net cash provided by (used in) capital and related financing activities	<u>(187,650)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments received on loans to others	176,315
Principal paid on noncapital noncurrent liabilities	<u>(50,900)</u>
Net cash provided by (used in) noncapital financing activities	<u>125,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>203,104</u>
Net cash provided by (used in) investing activities	<u>203,104</u>
Net increase (decrease) in cash	13,305
Cash and cash equivalents, beginning of year	<u>9,224,278</u>
Cash and cash equivalents, end of year	<u>\$ 9,237,583</u>
Supplemental disclosure of cash flow information:	
Noncash financing activities, legal settlement obligations	<u>\$ 8,261,461</u>
Cash paid for interest (net of amount capitalized)	<u>\$ 113,306</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 29, 2020
(Continued)**

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

Operating income (loss)	\$	160,424
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		1,205,840
(Increase) decrease in accounts receivable		(2,229,964)
Increase (decrease) in prepayments/prebillings on account		741,186
(Increase) decrease in inventory		(592,116)
Increase (decrease) in prepaid expenses		42,373
Increase (decrease) in accounts payable and accrued expenses		<u>544,693</u>
 Net cash provided by (used in) operating activities	 \$	 <u><u>(127,564)</u></u>

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

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

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.

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 29, 2020**

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 29, 2020**

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 29, 2020 consist of the following:

Cash in bank - business checking and savings	\$ 998,515
Local Agency Investment Fund	<u>8,239,068</u>
Total	<u>\$ 9,237,583</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 29, 2020, 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 29, 2020**

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 29, 2020 balance was \$8,239,068.

Credit Rate Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At February 29, 2020, 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 29, 2020**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at February 29, 2020:

Others	\$ 4,429,499
Water user fees	3,044,905
Less allowance for doubtful accounts	<u>(1,774,395)</u>
 Total	 <u>\$ 5,700,009</u>

NOTE 4 – CAPITAL ASSETS

Following is a summary of activity affecting capital assets for the year ended February 29, 2020:

	Balance March 1, 2019	Additions	Deletions	Balance February 29, 2020
Depreciable assets:				
Improvements and equipment	\$ 29,635,281	\$ 79,444	\$ (2,048,878)	\$ 27,665,847
Total depreciable assets	<u>29,635,281</u>	<u>79,444</u>	<u>(2,048,878)</u>	<u>27,665,847</u>
Accumulated depreciation:				
Improvements and equipment	<u>(17,787,635)</u>	<u>(1,205,840)</u>	<u>2,048,878</u>	<u>(16,944,597)</u>
Total accumulated depreciation	<u>(17,787,635)</u>	<u>(1,205,840)</u>	<u>2,048,878</u>	<u>(16,944,597)</u>
 Depreciable assets, net	 <u>11,847,646</u>	 <u>(1,126,396)</u>	 <u>-</u>	 <u>10,721,250</u>
 Total capital assets	 <u>\$ 11,847,646</u>	 <u>\$ (1,126,396)</u>	 <u>\$ -</u>	 <u>\$ 10,721,250</u>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Following is a summary of accounts payable and accrued expenses as of February 29, 2020:

Trade payables	\$ 1,627,163
Compensated absences payable	<u>245,143</u>
 Total	 <u>\$ 1,872,306</u>

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 6 – LONG-TERM LIABILITIES

Following is a summary of noncurrent (long-term) liabilities for the year ended February 29, 2020:

	Balance March 1, 2019	Additions	Deletions	Balance February 29, 2020
Bonds payable, San Luis & Delta-Mendota Water Authority	2,266,367	-	(50,900)	2,215,467
Total	2,266,367	-	(50,900)	2,215,467
Less current portion	(50,900)	-	(2,678)	(53,578)
Noncurrent portion	<u>\$ 2,215,467</u>	<u>\$ -</u>	<u>\$ (53,578)</u>	<u>\$ 2,161,889</u>

Bonds payable, San Luis & Delta-Mendota Water Authority reflects Panoche Water District's, a Financing Participant, share of bond proceeds used to complete general planning requirements, preliminary engineering and design, and required environmental analysis and documentation leading to implementation of elements of the Bay Delta Conservation Plan. Under the 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:

Due During the Years Ending:	Interest	Principal	Total
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
02/29/24	102,335	61,950	164,285
02/28/25	99,237	64,964	164,201
02/28/26 - 02/28/30	444,048	377,393	821,441
02/28/31 - 02/28/35	339,821	481,201	821,022
02/29/36 - 02/29/40	206,896	613,808	820,704
02/28/41 - 02/29/43	45,458	447,380	492,838
	<u>\$ 1,561,945</u>	<u>\$ 2,215,467</u>	<u>\$ 3,777,412</u>

The District had available for use a \$2,000,000 working capital line of credit with Rabobank, N.A. The line of credit had an interest rate of 3.53 percent per annum and matured on August 31, 2019. The District did not renew a working capital line of credit with Rabobank and did not obtain a line of credit with any other financial institution.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

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, 2019, 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, 2019, \$12,900,944 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 \$110,746, as of February 29, 2020, 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 29, 2020 were \$184,129, with covered payroll equaling \$2,846,234.

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 29, 2020**

NOTE 11 – PREPAYMENTS/PREBILLINGS ON ACCOUNT

Prepayments/prebillings on account in the amount of \$1,339,016 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, 2021.

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 intends to pay the lump sum payment by August 29, 2021, as provided for in the Repayment Contract. The District is currently performing the required analyses to potentially levy assessments against lands in the District in accordance with Proposition 218. Funds from these assessments would be used in part to provide a source of repayment for debt the District intends to cause the Panoche Financing Authority (of which the District is a member) to issue bonds to provide funds to make the lump sum payment.

The Water 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 Water District may be liable to the United States for up to \$8,261,361, not including interest (the "Settlement Amount"), for what the United States contends to be the Water 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 Water District diverted federally owned water from the Delta-Mendota and San Luis Canals, and that the diversions were unauthorized and that the Water District did not compensate the United States Bureau of Reclamation for the diversions. (Collectively, the "Covered Conduct".)

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

An initial payment of \$1,000,000 was provided to the United States as required by the Settlement Agreement. The Water District intends to pursue financing or other funding sources to enable the Water District to 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 Water District is entitled to prepay the Settlement Amount including interest accumulated to the payment date (the "Payoff Amount") early at any time without penalty. The District intends to conduct a Proposition 218 Benefit Assessment proceeding related to the issuance of bonds, in part to provide sufficient revenue for the Payoff Amount. In the event that the Water District does not obtain approval of the Proposition 218 Benefit Assessment by landowners or does not issue Bonds such that the Water District does not pay the Payoff Amount by December 31, 2021, the Water District shall pay the remainder of the Settlement Amount plus interest pursuant to the Payment Schedule set forth in the Settlement Agreement. The payments are due beginning August 31, 2021 and continuing each year thereafter until August 31, 2025. In the event that the Water District does not make the Lump Sum Payment, the Settlement Agreement provides for certain postponed payments if, for the contract year (defined as March 1 of a year to the end of February of the next year) that includes a Payment Due Date, the Water District's Central Valley Project allocation is less than 30% of its 94,000 acre-feet allocation; provided, that the Water District may only postpone payments twice over the course of paying the amounts due under the Settlement Agreement. In such an event, the first postponed payment shall be due on August 15, 2026, and the second postponed payment shall be due on August 15, 2027.

Subject to certain specific exceptions provided in the Settlement Agreement, and conditioned upon the Water District's timely payment of the amounts described above, through the Settlement Agreement the United States agreed to release the Water 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 Water 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 Water District or whose Board of Directors contains Directors or designated representatives of the Water District, including any joint powers authority established under California law of which the Water District is a member.

The Settlement Agreement contains the requirement that the Water 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 Water District does not comply, it could be subject to an annual payment of \$100,000 for each calendar year in which the non-compliance occurs.

The District is currently performing the required analyses to levy assessments against lands in the Water District in accordance with Proposition 218. Funds from these assessments would be used in part to provide a source of repayment for debt the Water District intends to cause the Panoche Financing Authority (of which the Water District is a member) to issue bonds to provide funds to make the Lump Sum Payment.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

As indicated above, the District is currently performing the required analyses to potentially levy assessments against lands in the District in accordance with Proposition 218. Funds from these assessments would be used in part to provide a source of repayment for debt the Water District intends to cause the Panoche Financing Authority (of which the Water District is a member) to issue bonds to provide funds to make the lump sum payment for the Settlement Contract (discussed above), and the lump sum payment for the Repayment Contract (also discussed above). The District expects the assessments to provide adequate funding for both, and expects the landowners in the District to approve the assessments.

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 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 29, 2020**

NOTE 14 – LEGAL SETTLEMENT OBLIGATIONS

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

	Balance February 29, 2020
Settlement payable to United States Bureau of Reclamation	\$ 8,261,461
Less current portion	(1,000,000)
Noncurrent portion	\$ 7,261,461

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
02/28/21	\$ -	\$ 1,000,000	\$ 1,000,000
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	\$ 8,261,461	\$ 8,431,265

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 29, 2020 were approximately \$2,117,485 in total.

NOTE 16 – RELATED PARTY TRANSACTIONS

The District has outstanding employee loans receivable totaling \$22,793 as of the fiscal year ended February 29, 2020. 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.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

Note 17 – UNCERTAINTY

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. In response, the State of California has issued Stay At Home Orders which include the temporary closure of all businesses deemed to be nonessential. Accordingly, some functions of the Panoche Water District's operations have been 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

Management has evaluated and concluded that there are no other subsequent events that have occurred from February 29, 2020 through the date the financials were available to be issued at March 10, 2021, 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 29, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

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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 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*.

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
March 10, 2021

FINDINGS AND QUESTIONED COSTS

**PANOCHÉ WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEBRUARY 29, 2020**

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> </u> Yes <u> X </u> None reported
Noncompliance material to financial statement noted?	<u> </u> Yes <u> X </u> No

SECTION II – FINANCIAL STATEMENT FINDINGS

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.

**PANOCHÉ WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 29, 2020**

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.

Status (as of February 29, 2020):

Partially implemented. See Finding 2020-001.

**PANOCHÉ WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 29, 2020**

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. 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 29, 2020):

Implemented.

**PANOCHÉ WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 29, 2020**

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.

Status (as of February 29, 2020):

Implemented.

**PANOCHÉ WATER DISTRICT
MANAGEMENT'S RESPONSE TO FINDINGS
FEBRUARY 29, 2020**



PANOCHÉ WATER DISTRICT

52027 WEST ALTHEA AVE, FIREBAUGH, CA 93622
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**CORRECTIVE ACTION PLAN
Fiscal Year End 2020**

The Panoche Water District is in receipt of the findings with regards to the annual audit for the fiscal year end 2020. 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
2020-001	This is noted and agreed. Management continues to design, implement and maintain internal control as per the Accounting Policies and Procedures Manual (APPM), which was last reviewed and adopted by the Board in December 2018. 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 include follow up steps with Auditors for clarification of any audit adjusting entries required to properly correct the financial statements.	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*