

**PANOCHÉ DRAINAGE DISTRICT
FIREBAUGH, CALIFORNIA**

FINANCIAL STATEMENTS

**FOR THE 8 MONTHS ENDED
FEBRUARY 28, 2019**

**PANOCHE DRAINAGE DISTRICT
 FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 Drainage District, as of February 28, 2019, and the respective changes in financial position, and cash flows thereof for the eight-month period 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Panoche Drainage District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report August 3, 2020, on our consideration of Panoche Drainage 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 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.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the District has elected to change its fiscal year end from June 30, 2019 to February 28, 2019. Our opinion is not modified with respect to this matter.

Price Pange & Company

Clovis, California
August 3, 2020

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

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,272,579
Accounts receivables, net of allowance of \$167,982	1,073,521
Interest receivable	1,622
Prepaid expense	<u>78,836</u>

Total current assets	<u>2,426,558</u>
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Other assets:

Capital assets, net of accumulated depreciation	<u>44,660,053</u>
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Total other assets	<u>44,660,053</u>
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Total assets	<u>\$ 47,086,611</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 5,096,383
Interest payable	8,012
Current portion of notes payable	<u>326,000</u>

Total current liabilities	<u>5,430,395</u>
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NET POSITION

Net investment in capital assets	44,660,053
Unrestricted	<u>(3,003,837)</u>

Total net position	<u>41,656,216</u>
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Total liabilities and net position	<u>\$ 47,086,611</u>
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The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ DRAINAGE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

OPERATING REVENUES	
SJRIP farming revenue	\$ 1,014,214
Drainage assessment fees	2,303,622
Delinquent accounts charges	12,626
Other District reimbursements	169,517
Fresno County property revenue	75,829
SJRIP participant dues	<u>706,724</u>
Total operating revenues	<u>4,282,532</u>
OPERATING EXPENSES	
SL&DM water authorities' fees	1,546,634
Contract labor and benefits	750,422
Custom farming	654,683
Utilities	426,495
Depreciation	772,685
Fuel	89,070
Chemicals	103,141
Contract services - Panoche Water District	585,766
Repairs and maintenance	105,975
Supplies and small tools	69,889
Office	4,740
Professional fees	125,723
Wires, structures and gates	4,482
Assessments and property taxes	44,009
Drainage studies and tests	1,940
Insurance	53,569
Dues and subscriptions	12,557
Laboratory	5,697
Bad debt expense	<u>91,354</u>
Total operating expenses	<u>5,448,831</u>
Operating income (loss)	<u>(1,166,299)</u>
NONOPERATING REVENUES (EXPENSES)	
Grant revenue	1,176,722
Interest income	6,645
Grant expense	(1,104,767)
Interest expense	<u>(10,004)</u>
Nonoperating revenues (expenses)	<u>68,596</u>
Change in net position	(1,097,703)
Net position - beginning of year	<u>42,753,919</u>
Net position - end of year	<u>\$ 41,656,216</u>

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

**PANOCHÉ DRAINAGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and others	\$ 4,453,120
Payments to suppliers	<u>(2,657,076)</u>
Net cash provided (used) by operating activities	<u>1,796,044</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(95,745)
Repayment of notes payable	(494,656)
Interest paid on notes payable	<u>(11,873)</u>
Net cash provided (used) by capital and related financing activities	<u>(602,274)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants received	1,176,722
Grant expenditures	<u>(1,104,767)</u>
Net cash provided (used) by noncapital and financing activities	<u>71,955</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>6,854</u>
Net cash provided (used) by investing activities	<u>6,854</u>
Net increase (decrease) in cash	1,272,579
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,272,579</u></u>

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

**PANOCHÉ DRAINAGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019
(Continued)**

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

Operating income (loss)	\$ (1,166,299)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	772,685
Bad debt expense	91,354
(Increase) decrease in accounts receivable	170,588
(Increase) decrease in prepaid expense	294,255
Increase (decrease) in accounts payable and accrued expense	<u>1,633,461</u>
 Net cash provided (used) by operating activities	 <u>\$ 1,796,044</u>

Supplemental Disclosure of Cash Flow Information

Cash paid for interest (net of amount capitalized)	<u>\$ 11,873</u>
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The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Panoche Drainage District (the “District”) was organized October 1, 1957 under the provisions of the Water Act of 1903 to provide for the water for certain agricultural lands, other than swamp and overflow lands, located in Fresno and Merced Counties. The District operates as a nontaxable state governmental entity and is governed by its own Board of Directors elected by users from Panoche, Eagle Field, Oro Loma, and Mercy Springs Water Districts.

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, Drainage 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.

**PANOCHE DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

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 \$1,000. 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 on enterprise fund fixed assets 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 and farming revenues. Nonoperating revenues and expenses consist of those revenue and expense items that are related to financing and investing type of activities and results 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 are available and then to unrestricted net position.

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 process 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.

Income Taxes

The District is a governmental agency and, accordingly, is not subject to income tax.

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 2 – CASH AND INVESTMENTS

Unrestricted cash and cash equivalents as of February 28, 2019 consist of the following:

Cash in Fresno County Treasury	\$ 9,161
Cash in bank - business checking and savings	870,981
Local Agency Investment Fund	<u>392,437</u>
 Total cash and cash equivalents	 <u>\$ 1,272,579</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District maintains its cash balances in one financial institution, Rabobank, N.A. The balances are insured by the federal deposit insurance corporation up to \$250,000.

The District's deposits as of February 28, 2019, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

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

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.

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund (LAIF)

The District participates in an external investment pool, as defined by the Government Accounting Standards Board (GASB) Statement No. 31, by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the District's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the District's position in the pool. The District's portion of the February 28, 2019 balance was \$392,437.

Cash in Fresno County Treasury

The District maintains cash deposits with the Fresno County Auditor-Controller/Treasurer and voluntarily participates in the common investment pool of the County. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer and is recorded on the amortized cost basis. Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. In accordance with applicable state laws, the Fresno County Treasurer may invest in derivative securities with the State of California. However, at February 28, 2019, the Fresno County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles. The District's portion of the February 28, 2019 balance was \$9,161.

Credit Rate Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At February 28, 2019, the LAIF managed by the State of California and the Fresno County investment pool were 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 and The Fresno County Treasury investment pools invest in numerous types of investments ranging all levels in the fair value hierarchy, and accordingly, are not investment types that can be categorized in any particular level in the fair value hierarchy.

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 3 – ACCOUNTS RECEIVABLE

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

Participants dues – San Joaquin River Improvement Project	\$ 558,442
Drainage service charges	443,467
Other drainage activities charges	20,761
Grants	218,833
Allowance for doubtful accounts	<u>(167,982)</u>
 Total accounts receivables	 <u>\$ 1,073,521</u>

NOTE 4 – CAPITAL ASSETS

Following is a summary of activity affecting capital assets for the 8 months ended February 28, 2019:

	Balance July 1, 2018	Additions	Transfers	Balance February 28, 2019
Nondepreciable assets:				
SJRIP land	\$ 27,803,183	\$ -	\$ -	\$ 27,803,183
Construction in progress	<u>202,405</u>	<u>176,846</u>	<u>(379,251)</u>	<u>-</u>
Total nondepreciable assets	<u>28,005,588</u>	<u>176,846</u>	<u>(379,251)</u>	<u>27,803,183</u>
Depreciable assets:				
SJRIP land improvements	20,254,903	-	-	20,254,903
Buildings and improvements	1,761,414	-	-	1,761,414
Equipment	1,354,859	298,150	-	1,653,009
GDMIP land improvements	<u>787,606</u>	<u>-</u>	<u>-</u>	<u>787,606</u>
Total capital assets, being depreciated	<u>24,158,782</u>	<u>298,150</u>	<u>-</u>	<u>24,456,932</u>
Less accumulated depreciation	<u>(6,827,377)</u>	<u>(772,685)</u>	<u>-</u>	<u>(7,600,062)</u>
Total capital assets, being depreciated, net	<u>17,331,405</u>	<u>(474,535)</u>	<u>-</u>	<u>16,856,870</u>
Total capital assets	<u>\$ 45,336,993</u>	<u>\$ (297,689)</u>	<u>\$ (379,251)</u>	<u>\$ 44,660,053</u>

Depreciation expense for the 8 months ended February 28, 2019 was \$772,685.

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Trade payables	\$ 4,096,383
Due to Panoche Water District	<u>1,000,000</u>
 Total accounts payable and accrued expenses	 <u>\$ 5,096,383</u>

NOTE 6 – LONG-TERM LIABILITIES

Following is a summary of noncurrent (long-term) liabilities for the 8 months ended February 28, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance February 28, 2019
Ag Water Loan Program - #1	\$ 160,835	\$ -	\$ (160,835)	\$ -
Ag Water Loan Program - #2	<u>659,820</u>	<u>-</u>	<u>(333,820)</u>	<u>326,000</u>
 Total	 820,655	 -	 (494,655)	 326,000
Less current portion	<u>-</u>	<u>(486,835)</u>	<u>160,835</u>	<u>(326,000)</u>
 Noncurrent portion	 <u>\$ 820,655</u>	 <u>\$ (486,835)</u>	 <u>\$ (333,820)</u>	 <u>\$ -</u>

State Water Resources Control Board (SWRCB) – Ag Water Loan Program (ADLP #1)

The District has contracted with SWRCB to borrow a maximum of \$1,800,000 (Phase 1) for the purpose of purchasing sprinkler, gated pipe and drip irrigation equipment for lease to District landowners. The revenue plan in place by the District will ensure that the lease payments received from the landowners will cover the entire amount of the costs of this program. During the 8 months ended February 28, 2019 the District paid a debt at full.

State Water Resources Control Board (SWRCB) – Ag Water Loan Program (ADLP #2)

The District has contracted with SWRCB to borrow a maximum of \$4,000,000 (Phase 2) for the purpose of purchasing sprinkler, gated pipe and drip irrigation equipment for lease to District landowners. The revenue plan in place by the District will ensure that the lease payments received from the landowners will cover the entire amount of the costs of this program. Payments on the obligation are due in 13 annual installments of \$341,834, including interest at the rate of 2.40 percent per annum. The following is a schedule of future debt service requirements as they relate to this loan program:

Due during the 8 months ending February 28,	Principal	Interest	Total
2020	<u>326,000</u>	<u>15,834</u>	<u>341,834</u>
Total	<u>\$ 326,000</u>	<u>\$ 15,834</u>	<u>\$ 341,834</u>

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is currently under investigation by the United States Attorney's Office, the Federal Bureau of Investigation, the Internal Revenue Service, Criminal Investigations Division and the United States Bureau of Reclamation/Office of the Inspector General of the Department of the Interior ("OIG"). The investigation involves general financial and accounting controls of the District, and more particularly, of the Panoche Water District, including examining whether personnel of the Panoche Water District may have misused District credit cards for personal, rather than business, expenses. Also, the investigation is reviewing issues concerning whether certain payments for housing, utilities and other housing-related expenses paid to Panoche Water District employees who were assigned to Drainage District activities were appropriately treated as business, rather than personal expenses benefiting the employees. The Panoche Water District has adopted and implemented written policies and adopted an Ethics & Compliance Program to address these issues, and the District does not have information sufficient to conclude if claims or litigation against either District or any individuals will result or if the claims were asserted, the likely outcome, or the range of the District's liability.

The District is also under investigation by the Civil Division of the United States Attorney's Office in conjunction with the OIG relating to financial assistance agreements between the Bureau of Reclamation and the District. Those grants were suspended in April 2017, and there have been no further invoices to the grants. The District understands that this investigation is focused on potentially false claims relating to these federal grants and may in part be focused on employee compensation invoiced by Panoche Water District for work provided on grant projects, as well as on Panoche Drainage District claims for reimbursement for equipment and inventory. The investigation also appears to include an examination of the revenue generated from the crops developed through the grant programs. The District and the Panoche Water District are seeking a resolution of the Federal Civil Investigation. The grants form part of the basis for resolution, and the District does not anticipate that the government has additional claims under the grant suspension outside of the resolution that are probable of assertion.

A separate audit by the OIG of the District's performance of obligations under a cooperative agreement for the federally owned Drainage Treatment Plant resulted in the issuance of Final Audit Report R2017-WR-0048, July 2018, which identified \$20,077 of the audited costs as unsupported and \$193,814 as unallowable, for a total of \$213,891 in questioned costs. On June 26, 2020, the District received the Bureau of Reclamation's Final Determination Regarding Panoche Drainage District Report No. 2017-WR-048, Findings 1-17; Cooperative Agreement R1AC00087, as a result of which Reclamation determined that instead of \$213,891 in costs questioned as unallowable or unsupported, only \$2,937 was in fact unallowable or unsupported and of that, the District had credited Reclamation with \$751, leaving \$2,186 owed by the District to Reclamation. That amount was paid on July 17, 2020, the bank account for the Cooperative Agreement was closed, and the District anticipates no further action.

The District understands that Panoche Water District or certain individuals previously or currently associated with the Water or Drainage Districts have been investigated by the California Department of Justice. On February 20, 2018, the Department filed a criminal complaint against the former General Manager, Office Manager and Manager of the District's San Joaquin River Improvement Project alleging, in relevant part, conspiracy and embezzlement and misappropriation of public resources. On February 21, 2019, the former General Manager and former Office Manager were each ordered to be held over for trial on counts of embezzlement and misappropriation of public funds relating to the Panoche Water District. However, charges against the former Manager of the Drainage District's San Joaquin River Improvement Project, were dropped. No charges were instituted against the Drainage District itself or its Board of Directors and the District does not anticipate that any such charges will be instituted.

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation (Continued)

Finally, in 2018, the United States Environmental Protection Agency (USEPA) issued a Notice of Suspension to Panoche Water District and Panoche Drainage District, suspending the Districts from participation in federal contracts and assistance activities. Upon the District's request to convert the Notice of Suspension to an Order to Show Cause, the acting EPA Suspending and Debarring Official ("SDO") terminated the Districts' suspension and issued a Show Cause Notice based on substantially the same underlying concerns as the initial Notice of Suspension. The Districts responded to the EPA's concerns as stated in the terminated Notice of Suspension and Show Cause Notice, and detailed the steps they had taken as of June 2018 to remedy the circumstances that served as bases for the Notice of Suspension. The Districts also responded to what the EPA later characterized as outstanding concerns, following which, while the Districts understand the EPA reserves its rights to take action based upon new information, the Districts do not anticipate any further action by the EPA, continue to implement the mitigation policies and practices reported to EPA, and continue to be eligible for federal contracts and assistance agreements

Going Concern

As indicated in the accompanying financial statements, the District showed a decrease in net position of \$1,097,703 during the 8 months ended February 28, 2019. As of that date, the District's current liabilities exceeded its current assets by \$3,003,837. Those factors create an uncertainty about the District's ability to continue as a going concern. Management of the District is developing a plan to reduce its liabilities through continuing financial support in the form of loans from Panoche Water District (related party), increasing drainage services fees and increasing the participants dues for the San Joaquin River Improvement Project (the "SJRIP"). The ability of the District to continue as a going concern is dependent on the plan's success. The financial statements do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction to assets, errors and omissions, injuries to employees, and natural disasters. The District is self-insured for the first \$2,500 in claims paid for automobile and general liability claims. The District is a member of the Association of California Water Agencies (ACWA) Joint Powers Insurance Authority (the "Authority"). The Authority was created to formulate, develop, and administer a program of self-insurance for its members. The District pays an annual premium to the Authority for automobile and general liability insurance. The District accounts for premiums paid as a pooling of risk arrangement and thus expense premiums as they are paid. The Authority has the right to make retrospective adjustments to premium deposits based on actual claims paid.

NOTE 9 – RELATED ORGANIZATIONS

The District's Governing Board presides as the Panoche Water District's Governing Board, Panoche Water District is a separate Special District organized to furnish irrigation water to District land in Fresno and Merced Counties, California. A separate audit is performed for Panoche Water District and financial information of Panoche Water District can be obtained by writing to the Panoche Water District's Controller at 52027 W. Althea Avenue, Firebaugh, CA 93622.

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

**PANOCHÉ DRAINAGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 10 – CHANGE OF FISCAL YEAR END

The District has elected to change its fiscal year end from June 30, 2019 to February 28, 2019.

NOTE 11 – SUBSEQUENT EVENTS

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

Management has evaluated and concluded that there are no other subsequent events that have occurred from February 28, 2019 through the date the financials were available to be issued at August 3, 2020, that would require disclosure or adjustment.

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SUPPLEMENTARY INFORMATION

**PANOCHÉ DRAINAGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

<u>Federal Grantor and Program Title</u>	<u>CFDA Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Direct Award:			
Bureau of Reclamation			
San Luis Unit, Central Valley Project	15.527	R16AC00087 *	\$ <u>1,080,977</u>
Total San Luis Unit, Central Valley Project			<u>1,080,977</u>
Total U.S. Department of the Interior			<u>1,080,977</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,080,977</u>

**Denotes a major program per Uniform Guidance.*

**PANOCHÉ DRAINAGE DISTRICT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Panoche Drainage District (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included in the schedule. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Basis of Accounting

The accompanying SEFA is presented using the accrual basis of accounting, which is described in Note 1 of the District's basic financial statements.

Relationship to Basic Financial Statements

Federal award expenditures agree or can be reconciled with the amounts reported in the District's basic financial statements.

Indirect Cost Rate

The District has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

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OTHER AUDITOR'S REPORTS

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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 Drainage 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 of Panoche Drainage District (the "District"), as of and for the eight-month period ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 3, 2020.

Internal Control Over Financial Reporting

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

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 the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-02 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the management's responses following the schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
August 3, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Panoche Drainage District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the eight-month period ended February 28, 2019. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on San Luis Unit, Central Valley Project

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on San Luis Unit, Central Valley Project for the eight-month period ended February 28, 2019.

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Report on Internal Control over Compliance

Management of the Panoche Drainage District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Price Pange & Company

Clovis, California
August 3, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PANOCHÉ DRAINAGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? X Yes _____

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance _____ Yes X No

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.527	San Luis Unit, Central Valley Project
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	_____ Yes <u> X </u> No

**PANOCHÉ DRAINAGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2019-001 Financial Close and Reporting Process (Significant Deficiency)

Condition:

The District did not properly record receivables, revenues, expenses, and capital assets 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, revenues and net position were initially materially misstated. Specifically, the misstatements were as follows:

- Prepaid expenses – overstated by \$322,880.
- Expenses – SJRIP – dues – understated by \$322,880
- Revenue – SJRIP PRJ – crops and rent – overstated by \$56,579
- Accounts receivable – drainage – SJRIP – overstated by \$56,579.
- Depreciation expense – overstated by \$399,594
- Accumulated depreciation – overstated by \$399,594.
- Account receivable – grant – understated by \$142,759
- Rabo Bank cash account – overstated by \$142,759.

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 DRAINAGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-002 **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.

SECTION III – FEDERAL AWARDS FINDINGS

None reported.

**PANOCHÉ DRAINAGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2019**

FINANCIAL STATEMENT FINDINGS

Finding 2018-001 Financial Close and Reporting Process (Significant Deficiency)

Condition:

The District did not properly record all payables, receivables, revenues, expenses, and capital assets 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, revenues and net position were initially materially misstated. Specifically, the misstatements were as follows:

- Revenue – Fresno County Property – Overstated by \$66,635
- Accounts Receivable – Drainage – Understated by \$66,635
- Revenue – SJRIP – Understated by \$143,936
- Accounts Receivable – SJRIP – Understated by \$143,936

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.

Current Status as of February 28, 2019:

Not implemented. See Finding 2019-001.

FEDERAL AWARDS FINDINGS

None reported.



PANOCHÉ DRAINAGE DISTRICT

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CORRECTIVE ACTION PLAN For eight-months ending 2/28/2019

The Panoche Drainage District is in receipt of the findings with regards to the annual audit for the eight-months ending 2/28/2019. Below is the corrective action plan submitted by the Panoche Drainage District in response.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	This is noted and agreed. The management continues to develop and implement an 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. A significant amount of the identified errors was due to the change in fiscal year, resulting in an unusual eight (8) month reporting period for this particular audit. The errors include some accounts being reported as annual instead of being restricted to the eight (8) month period. In response to this audit recommendation, Management will further review and refine the APPM procedures to improve the year-end checklist to help identify and alleviate occurrence of such errors in future.	Ongoing	John Paul Otollo
2019-002	This is noted and agreed. The management continues to develop and implement an Accounting Policies and Procedures Manual (APPM), which was last reviewed and adopted by the Board in December 2018. Management's focus has been on ensuring that the STORM billing system provides accurate and timely bills to the District's customers. This system is separate from SAGE accounting system that provides the financial reports. Though the systems are integrated, the process of exporting data from STORM to SAGE is cumbersome and step intensive. In response to this audit recommendation, Management will further review and refine the APPM procedures to create a monthly closing checklist that details the steps of performing monthly reconciliation between the SAGE accounting system and the STORM billing system and cross-train staff in the performance of these steps.	Ongoing	John Paul Otollo

Signature: 
General Manager


Controller

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

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

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