

# **Panoche Drainage District | Firebaugh, CA**

Financial Statements

For the Year Ended February 28, 2023



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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Panoche Drainage District  
Firebaugh, California

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

#### ***Opinions***

We have audited the accompanying financial statements of Panoche Drainage District (the District) as of and for the year ended February 28, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of February 28, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will

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always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

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

Management has omitted the management's 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 opinions on the basic financial statements are not affected by this missing information.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Price Page & Company*

Clovis, California  
March 8, 2024

## **BASIC FINANCIAL STATEMENTS**

**PANOCHÉ DRAINAGE DISTRICT | FEBRUARY 28, 2023**

## Statement of Net Position

**ASSETS**

## Current assets:

Cash and investments	\$	892,126
Accounts receivable, net of allowance of \$66,597		145,085
Grants receivable		3,322,612
Interest receivable		809
Prepaid expense		83,905
Note receivable - current portion		<u>92,711</u>

Total current assets 4,537,248

## Noncurrent assets:

Note receivable		296,724
Capital assets, net of accumulated depreciation		<u>48,652,885</u>

Total other assets 48,949,609

Total assets \$ 53,486,857

**LIABILITIES**

## Current liabilities:

Accounts payable and accrued expenses	\$	727,941
Retainage payable		378,665
Accounts payable to Panoche Water District - related party		4,186,143
Advance from Panoche Water District - related party		2,310,143
Current portion of notes payable to Panoche Water District - related party		<u>354,583</u>

Total current liabilities 7,957,475

## Noncurrent liabilities:

Notes payable to Panoche Water District - related party		<u>138,099</u>
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Total liabilities 8,095,574

**NET POSITION**

Net investment in capital assets		48,652,885
Unrestricted		<u>(3,261,602)</u>

Total net position 45,391,283

Total liabilities and net position \$ 53,486,857

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

**PANOCHÉ DRAINAGE DISTRICT | FOR THE YEAR ENDED FEBRUARY 28, 2023**

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

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Operating revenues:	
Drainage assessment fees	\$ 3,447,430
Delinquent accounts charges	7,935
Other District reimbursements	149,610
Fresno and Madera Counties property assessments	<u>271,705</u>
Total operating revenues	<u>3,876,680</u>
Operating expenses:	
SL&DM water authorities' fees	1,624,613
Contract labor and benefits	104,202
Utilities	14,594
Depreciation	1,054,023
Chemicals	7,514
SJRIIP participation	1,176,930
Repairs and maintenance	132,367
Supplies and small tools	12,556
Professional fees	159,119
Wires, structures and gates	2,560
Other	10
Insurance	36,822
Dues and subscriptions	19,640
Laboratory	1,504
Bad debt expense	<u>34,233</u>
Total operating expenses	<u>4,380,687</u>
Operating income (loss)	<u>(504,007)</u>
Nonoperating revenues (expenses):	
Grant revenue	2,528,032
Interest income	2,853
Interest expense	<u>(16,106)</u>
Total nonoperating revenues (expenses)	<u>2,514,779</u>
Change in net position	2,010,772
Net position, beginning	<u>43,380,511</u>
Net position, ending	<u>\$ 45,391,283</u>

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

**PANOCHÉ DRAINAGE DISTRICT | FEBRUARY 28, 2023**

## Statement of Cash Flows

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<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers and others	\$ 3,528,773
Payments to suppliers	<u>(1,664,962)</u>
Net cash provided by (used for) operating activities	<u>1,863,811</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(2,167,495)
Grants received	559,143
Payments on notes payable - related party	(346,642)
Interest paid on notes payable - related party	<u>(16,106)</u>
Net cash provided by (used for) capital and related financing activities	<u>(1,971,100)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest revenue	<u>2,188</u>
Net cash provided by (used for) by investing activities	<u>2,188</u>
Net increase (decrease) in cash	(105,101)
Cash and investments, beginning of year	<u>997,227</u>
Cash and investments, ending of year	<u>\$ 892,126</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ (504,007)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	1,054,023
Bad debt expense	34,233
(Increase) decrease in accounts receivable	(347,907)
(Increase) decrease in prepaid expense	3,546
Increase (decrease) in accounts payable - related party	(226,220)
Increase (decrease) in cash advance - related party	<u>1,850,143</u>
Net cash provided by (used in) operating activities	<u>\$ 1,863,811</u>

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



## NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**A. Financial Reporting Entity**

Panoche Drainage District (the District) was created in 1957. It operates pursuant to the California Drainage District Act 1903 (Water Code, App. 8). The Drainage District Act of 1903 provides for the organization and government structure of special districts whose sole purpose is to drain agricultural lands. The District encompasses approximately 45,000 acres located in northwestern Fresno and Merced counties. The District manages subsurface drainage and stormwater for land within its borders.

**B. 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 based on 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.

**C. Budgetary Procedures**

The District operates under a budget approved by the Board of Directors. The budget is prepared by staff 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: First, staff prepares a draft budget after analysis of the prior year's revenues and expenditures and formulation of projections for the future year's activities. Staff then presents the draft budget and recommended service fee to the Board for review and comment, which may result in revisions to the draft budget and additional review. After all the Board's comments are adequately addressed, the Board will take action to approve a budget and resultant Drainage Service Fee rates. 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.

**D. 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.

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

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

**Receivables**

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

**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, plants 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 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.

**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 Drainage service fees collected from customers, Fresno County property taxes and charges for services. Nonoperating revenues and expenses consist of those revenue and expense items that are related to grants, 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* – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

**E. Estimates**

Presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 INVESTMENTS**

Unrestricted cash and investments as of February 28, 2023 consisted of the following:

Cash in Fresno County Treasury	\$	424,372
Cash in bank		281,608
Local Agency Investment Fund (LAIF)		<u>186,146</u>
Total cash and investments	\$	<u>892,126</u>

**A. Custodial Credit Risk**

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

The District's deposits as of February 28, 2023, 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.

**B. Investments Authorized**

The District strives to maintain the level of investment of idle funds as near to 100 percent 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; and 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 to assess the probable course of interest rates.

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

**C. 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, 2023 balance was \$186,146.

**D. 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 because 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 , 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, 2023 balance was \$424,372.

**E. Credit Rate Risk**

*Credit rate 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, 2023, the LAIF managed by the State of California and the Fresno County investment pool were not rated.

**F. 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 percent or more of total District investments.

**G. 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 | FEBRUARY 28, 2023**

## Notes to the Basic Financial Statements

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at February 28, 2023:

Drainage service charges	\$	171,415
Other drainage activities charges		40,267
Allowance for doubtful accounts		<u>(66,597)</u>
 Total accounts receivable, net	 \$	 <u>145,085</u>

**NOTE 4 – CAPITAL ASSETS**

Following is a summary of activity affecting capital assets for the year ended February 28, 2023:

	Balance March 1, 2022	Additions	Deletions	Balance February 28, 2023
Nondepreciable assets:				
SJRIIP land	\$ 30,723,660	\$ -	\$ -	\$ 30,723,660
Construction in progress	<u>2,931,957</u>	<u>2,528,032</u>	<u>-</u>	<u>5,459,989</u>
Total nondepreciable assets	<u>33,655,617</u>	<u>2,528,032</u>	<u>-</u>	<u>36,183,649</u>
Depreciable assets:				
SJRIIP land improvements	20,267,248	-	-	20,267,248
Buildings and improvements	1,761,414	-	-	1,761,414
Equipment	1,567,495	-	-	1,567,495
GDMIP land improvements	<u>787,606</u>	<u>-</u>	<u>-</u>	<u>787,606</u>
Total capital assets, being depreciated	<u>24,383,763</u>	<u>-</u>	<u>-</u>	<u>24,383,763</u>
Less accumulated depreciation	<u>(10,860,504)</u>	<u>(1,054,023)</u>	<u>-</u>	<u>(11,914,527)</u>
Total capital assets, being depreciated, net	<u>13,523,259</u>	<u>(1,054,023)</u>	<u>-</u>	<u>12,469,236</u>
Total capital assets	<u>\$ 47,178,876</u>	<u>\$ 1,474,009</u>	<u>\$ -</u>	<u>\$ 48,652,885</u>

Depreciation expense for the year ended February 28, 2023 was \$1,054,023.

**PANOCHÉ DRAINAGE DISTRICT | FEBRUARY 28, 2023**

Notes to the Basic Financial Statements

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

Following is a summary of accounts payable and accrued expenses as of February 28, 2023:

Accounts payable vendors	\$ 153,996
Accounts payable GBA	561,945
Deposit from sublease	<u>12,000</u>
Total accounts payable and accrued expenses	<u>\$ 727,941</u>

**NOTE 6 – RELATED PARTY**

The District is governed by a five-member Board of Directors elected by divisions. The District, which has no employees, utilizes staff of the Panoche Water District and outside contractors to meet its administrative, operational, and maintenance needs. The Panoche Water District is a separate Special District organized to furnish irrigation water to a portion of the District’s land in Fresno and Merced counties.

The District reimburses Panoche Water District for the cost of providing the District with personnel and other services. The total amount charged to the District by Panoche Water District for the year ended February 28, 2023 was \$261,920 in total. As of February 28, 2023, the amount due to related party is summarized as follows:

Accounts payable	\$ 4,186,143
Notes payable	492,682
Cash advance from PWD	<u>2,310,143</u>
Total	<u>\$ 6,988,968</u>

Effective February 2024, \$716,524 of the account payable balance was converted to a note payable with 3% interest payable over 60 months.

**NOTE 7 – NOTES PAYABLE – RELATED PARTY**

Following is a summary of noncurrent (long-term) liabilities for the year ended February 28, 2023:

Note payable to Panoche Water District, with monthly payment of \$17,419 including principal and interest at 1.75%, maturity March 2024.	\$ 207,059
Note payable to Panoche Water District, with monthly payment of \$12,810 including principal and interest at 3%, maturity February 2025.	<u>285,623</u>
Total long-term debt	492,682
Less: Amounts due within one year	<u>(354,583)</u>
Total long-term debt, due after one year	<u>\$ 138,099</u>

**NOTE 7 – NOTES PAYABLE – RELATED PARTY** (Continued)

Total maturities on long-term debt were as follows at February 28, 2023:

2024	\$	354,583
2025		<u>138,099</u>
Total	\$	<u>492,682</u>

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

**A. Litigation**

The District understands that 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) are no longer actively investigating the District’s general financial and accounting controls. The investigation, which had been primarily focused on the Panoche Water District, was concluded in 2021 with a settlement between the Water District and the United States. The Water District has adopted and implemented written policies and adopted an Ethics & Compliance Program, which the Drainage District also utilizes, to address these issues, and the Drainage District does not have information sufficient to conclude with certainty whether claims or litigation against either District or any individuals will result or, if any claims were asserted, the likely outcome or the range of the Drainage District’s liability.

The District understands it is no longer under active 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 does not anticipate that the government has additional claims under the grant suspension that are probable of assertion.

The District understands the previous audit by the OIG as reported in previous District audits has been closed due to Reclamation and the District having resolved the OIG audit findings and OIG’s concurrence as to the remaining findings.

The Drainage District understands that the 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.

Finally, and as reported previously, in 2018, the United States Environmental Protection Agency (USEPA) issued a Notice of Suspension to Panoche Water District and Panoche Drainage Districts, 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.



**NOTE 9 – 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, property 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, property 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 10 – SUBSEQUENT EVENTS**

Management has evaluated and concluded that there are no subsequent events that have occurred from February 28, 2023 through the date the financials were available to be issued at March 8, 2024, that would require disclosure or adjustment.



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

To the Board of Directors  
Panoche 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 statements of Panoche Drainage District (the District) as of and for the year ended February 28, 2023, 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 8, 2024.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

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

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

tel 559.299.9540  
fax 559.299.2344

**Purpose of This Report**

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

*Price Page & Company*

Clovis, California  
March 8, 2024

## **FINDINGS AND QUESTIONED COSTS**

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

**Financial Statements**

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weaknesses identified?	<u>          </u> Yes	<u>    X    </u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>    X    </u> No	
Noncompliance material to financial statements noted?	<u>          </u> Yes	<u>    X    </u> No	

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

**PANOCHÉ DRAINAGE DISTRICT | FOR THE YEAR ENDED FEBRUARY 28, 2023**

Summary Schedule of Prior Audit Findings

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**FINANCIAL STATEMENT FINDINGS**

None reported.