

VANDALIA WATER DISTRICT
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2021

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VANDALIA WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2021

This section of the annual financial report presents our discussion and analysis of Vandalia Water District's financial performance during the fiscal years that ended on December 31, 2021. Please read it in conjunction with the District's financial statements which immediately follow this section.

Discussion of the Basic Financial Statements

The District operations are accounted for as a proprietary fund. A proprietary fund is a governmental enterprise fund type where accounts are maintained in a similar manner as a business operating in the private sector. The District maintains its accounts on the accrual basis of accounting where, revenues are recognized when earned and expenses are recognized when incurred. The measurement focus of the financial statements is the determination of changes in net position, financial position and changes in cash flows.

Overview of the Financial Statements

The financial statements presented in this annual report include the activities of Vandalia Water District using the reporting model as prescribed by Governmental Accounting Standards Board Statement Number 34 (GASB 34). The report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information, if any. The District's financial statements include (1) Statement of Net Position (2) Statement of Revenues, Expenses and Changes in Net Position and (3) Statement of Cash Flows. The Statement of Net Position provides information about assets and obligations of the District as of December 31, 2021. The Statement of Revenues, Expenses and Changes in Net Position provides information regarding the District's operations for the year ended December 31, 2020. The Statement of Cash Flows reports cash resources and uses from or for operating activities, capital and related financing activities, and investing activities for the year then ended. The basic financial statements also include notes that further explain some of the information presented in the financial statements and provide more detailed data.

Condensed Comparative Financial Statement

CONDENSED BALANCE SHEET

| | <u>2021</u> | <u>2020</u> |
|---|------------------|------------------|
| Current Assets | 955,443 | 565,330 |
| Pre-Paid Expenses | 5,930 | 0 |
| Property, Plant & Equipment, Net | 763,694 | 421,334 |
| Other Assets | 29,405 | 34,842 |
| Total Assets | <u>1,754,472</u> | <u>1,021,507</u> |
| | | |
| Current Liabilities | 75,140 | 161,663 |
| Deferred Income | 111,959 | 0 |
| Non-Current Liabilities | 651,667 | 0 |
| Total Liabilities | <u>838,766</u> | <u>161,663</u> |
| | | |
| Invested in Capital Assets, Net of Related Debt | 763,695 | 367,119 |
| Unrestricted | 152,011 | 492,725 |
| Total Net Assets | <u>915,706</u> | <u>859,844</u> |
| | | |
| Total Liabilities and net assets | <u>1,754,472</u> | <u>1,021,507</u> |

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | | |
|---------------------------------------|---------------|----------------|
| Total operating revenues | 482,733 | 469,270 |
| Total operating expenses | (537,458) | (528,891) |
| Operating Income(Loss) | (54,725) | (59,621) |
| Non-operating revenue(expense) | 110,588 | 55,724 |
| Net Increase (decrease) in net assets | <u>55,863</u> | <u>(3,897)</u> |

**VANDALIA WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2021**

Condensed Comparative Financial Statement, continued

The District is in a very healthy financial condition. The District has more than sufficient current assets to cover all liabilities. The District pumped more groundwater in 2021, due to it being relatively drier than the year before. The District also received grant money for the year. Therefore, District revenues increased by 13% in 2021. Operating expenses were up as well due to the increase in pumping costs and interest expense. Overall, the District saw a net increase in net assets of \$55,863.

Budget Variances

| | 2021 BUDGET | ACTUAL EXPENSE | VARIANCE |
|-----------------------------|------------------------|---------------------------|------------------|
| Transmission & Distribution | 327,315 | 374,135 | (46,820) |
| Capital Improvements | 180,000 | 404,343 | (224,343) |
| Administration & General | 191,638 | 173,486 | 18,152 |
| TOTAL | 698,953 | 951,964 | (253,011) |

The District budgets for expenditures only. The District does use a projected cash flow analysis, which estimates revenues, as a tool when preparing the budget. The District does not budget for Depreciation. Depreciation expense for the year was \$29,707. Generally, the District was over budget in 2021.

There was a negative variance for Transmission and Distribution and Capital Improvements. This was due to the District incurring more costs associated with pumping groundwater than was originally anticipated and the costs of capital projects running higher than expected.

Lower Tule River Irrigation District Management Contract

On December 28th, 2018, the District entered into a five-year agreement with Lower Tule River Irrigation District (LTRID) to provide management, administration, operations and maintenance services to the District, beginning on January 1, 2019. The District will benefit greatly from this relationship, as LTRID can provide the District with enhanced resources and expertise.

LTRID spent the first year studying the District's distribution system and identifying areas where upgrades could be made in order to enhance water deliveries to landowners. Management has identified several projects that would benefit the District.

Capital Projects

During 2020, the District began installing variable frequency drives (VFD's) and a new efficient pumps on the system. The VFD's enable the District to regulate the water pressure in the system, which will lead to an increase in efficiency and a decrease in electricity and labor costs. The District also was awarded a grant from The United States Bureau of Reclamation to install a Supervisory Control and Data Acquisition (SCADA) system. The SCADA system will lead to greater water delivery efficiency and reduce labor costs significantly by allowing for automation of the system. Phase 1 of the SCADA system upgrade was completed in 2021.

**VANDALIA WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2021**

Capital Projects (Continued)

The District has a long term capital improvement plan to; expand the SCADA system (Phase II and Phase III), install a structure, pump and filtration system to direct deliver Tule River water into the distribution system, upgrade the meters on all of the wells and update the electrical distribution system. During 2021, the District completed financing plan and loan to implement the capital improvement plan. All of the capital improvements listed above were in varying stages of progress as of the end of 2021.

Overall Analysis

Water Supply

The District receives its water supply through a Tule River pre-1914 water right. The District takes delivery of water through water rights holdings on the Tule River. The Tule river runoff is stored in Success Reservoir and the District takes deliveries from the reservoir as needed. The District supply is delivered to 2 well fields to replenish and support groundwater levels to the District wells used to make irrigation deliveries to the landowners.

Pricing

The Board of Directors sets the price of water. The Board sets the price based on the following criteria:

1. Hydrologic conditions
2. Seasonal considerations
3. District annual budget

The 2021 water rate set by the Board was \$155 per acre-foot.

The factors materially affecting District operations or water supply availability during the year were hydrology, reservoir operations and weather.

In 2014, the state of California passed the Sustainable Groundwater Management Act. The Act calls for regulation and management of groundwater pumping for the first time in the history of the state. In 2017, the District joined other entities in the Tule Basin, forming the Eastern Tule Groundwater Sustainability Agency, tasked with developing a Groundwater Sustainability Plan to comply with the Act.

Success Dam Remediation and Reservoir Enlargement Projects

In 2004, the United States Army Corps of Engineers began to work towards the eventual remediation of Success Dam and the safety issues related to potential seismic issues. In 2006, the Corps spent considerable resources on foundation exploration and design, as well as, preliminary environmental review. Based on foundation exploration done at the time, the Corps decided to build a new earthen dam at the existing site. The 2006 federal budget included the amount requested by the Corps for continuing the project. The President's 2007 Budget included \$25 million for the project. However, changes in Congress resulted in a 2007 Budget not being adopted. As a result, Congress did not take up the Energy and Water Appropriations Bill, which means the entire Fiscal Year of 2007 was being funded under a Continual Resolution which mandated spending at the 2006 levels.

**VANDALIA WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2021**

Overall Analysis (Continued)

Success Dam Remediation and Reservoir Enlargement Projects (Continued)

The estimated project cost as of 2006 was \$400 million dollars. The local share of the project would be 1.94% of the final cost. Lower Tule will be responsible for repayment of 51.5% of the 1.94%. The Corps also restricted the lake level at 30% of normal capacity until further notice.

Over the course of 2006, the earthen embankment dam alternative emerged as the preferred alternative. During 2007, the total project remediation budget costs were estimated at \$471,500,000, which is more than 10 times the original estimated remediation costs included in the 1999 Evaluation Report. The estimated benefits do not include loss of life considerations; future benefits associated with the congressionally approved Tule River CA project (10 ft spillway raise project), or hydropower energy production benefits. With a remediation cost of \$471.5M and benefits currently estimated at \$302M, the corresponding benefit to cost ratio was 0.64.

During 2007, the project benefits were updated. This work included revised topography, flood routing, and project-impacted properties, and modified deformation analysis. The benefit cost ratio was revised and included updated project benefits. That work was done in the summer of 2008. The construction schedule at the time called for work to begin in 2011 with completion in 2014.

In 2008 the Corps provided an updated schedule that showed a completed Record of Decision and Letter Report by the summer of 2009 with a project completion in 2014. In March of 2009 the Corps provided a seasonal variance to the storage restriction level to Elevation 630, which provides 40,900 acre-feet of storage and conservation space.

In 2010 neither the Letter Report nor the environmental documents were completed. The Federal Appropriation for the remediation in 2010 was \$500,000.00. There was no federal appropriation for 2011 as the Federal Government continuing funding through Continuing Resolutions instead of approved budget bills and appropriations. The maximum allowable storage for 2010 was allowed for Elevation 630 which is roughly 40,900 acre-feet.

In August of 2011 the Corps submitted a draft remediation plan to their Senior Oversight Group for review. The Senior Oversight Group remanded the plan back to the Corps District office (Sacramento) for modification. In January of 2012, the Corps District office met to review the Baseline Risk Assessment using the criteria suggested by the Senior Oversight Group. In April of 2012, the Corps announced the raising of the storage restriction to elevation 640 which equates to a storage level of 56,000 acre-feet.

The Corps reviewed the Baseline Risk Assessment through 2012 and planned to submit a final report to Corps Headquarters in 2012. The final report included a storage restriction for 2013 and remediation measures for the Success Dam. The 2013 operating restriction will be in place until the remediation measures are complete.

The Corps held a stakeholder briefing in October 2012 and a Risk Assessment team meeting in January 2013 at which time they concluded that both the seepage and seismic concerns did not fall within a target zone that would require mitigation. The Corps will be issuing a final report in 2013 that will include those findings along with a final recommendation for an operating restriction.

**VANDALIA WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2021**

Overall Analysis (Continued)

Success Dam Remediation and Reservoir Enlargement Projects (Continued)

That final report was issued to the Senior Oversight Group in July/August of 2013. The report was subsequently remanded back to the Corps District office for further changes. After further analysis, the District received notice in 2016 that the Operating Restriction would be lifted and full storage again allowed.

In 2017, District staff, in conjunction with the other Tule River interests are renewed the process of reengaging the Corps. on the Success Reservoir Enlargement Project, which would include raising and widening the spillway by 10 feet and enlarging the reservoir capacity from 82,000 acre-feet to 110,000 acre-feet. During 2018, the SREP was fully funded (\$74 million) through the Bipartison Budget Act of 2018. Design and environmental work is currently being done with an anticipated construction schedule of 2020-2024.

During 2020, construction of Phase 1 of the project, relocation of the access road around the spillway, began. Phase 1 was completed in 2021. Construction on Phase 2, construction of the new spillway structure, is expected to begin in the summer of 2022 and completed by 2024.

Contacting the District's Financial Management

This financial report is designed to provide our landowners, water users, local residents, cooperating governmental agencies and creditors with a general overview of the District's finances and to demonstrate the District's accountability for and proper stewardship and use of the monies it receives. If you have any questions about this report or need additional financial information, contact the District's administrative office at (559) 686-4716 357 E Olive Avenue, Tipton, California 93272.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Vandalia Water District
Porterville, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Vandalia Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Vandalia Water District as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

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 Vandalia Water 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 opinion. 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 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 judgement 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 judgement 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 Vandalia Water 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 Vandalia Water 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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2022, on our consideration of Vandalia Water District's internal control over financial reporting and on our tests of its compliance with certain provision 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 Vandalia Water District's internal control over financial reporting and compliance.

Pine, Pedroncelli & Aguilera, Inc

Visalia, California
July 12, 2022

**VANDALIA WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

ASSETS

| | |
|---|----------------------|
| Cash and Cash Equivalents | \$ 911,928 |
| Water Accounts Receivable | 41,472 |
| Other Receivables | 2,043 |
| Capital Assets: | |
| Nondepreciable | 337,785 |
| Depreciable, Net | 425,909 |
| Success Power Project/Campbell-Moreland Ditch Co. | <u>29,405</u> |
| Total Assets | <u>1,748,542</u> |

DEFERRED OUTFLOWS OF RESOURCES:

| | |
|---|--------------|
| Deferred Outflow of Resources - Prepaid Insurance | <u>5,930</u> |
|---|--------------|

| | |
|--|--------------|
| TOTAL DEFERRED OUTFLOW OF RESOURCES | <u>5,930</u> |
|--|--------------|

LIABILITIES

| | |
|------------------|----------------|
| Accounts Payable | 8,287 |
| Accrued Expenses | 795 |
| Note Payable | <u>717,725</u> |

| | |
|-------------------|---------|
| Total Liabilities | 726,807 |
|-------------------|---------|

DEFERRED INFLOWS OF RESOURCES:

| | |
|--|----------------|
| Deferred Inflow of Resources - Prepayments | <u>111,959</u> |
|--|----------------|

| | |
|---|----------------|
| TOTAL DEFERRED INFLOW OF RESOURCES | <u>111,959</u> |
|---|----------------|

NET POSITION

| | |
|---|----------------|
| Invested in Capital Assets, Net of Related Debt | 763,695 |
| Unrestricted | <u>152,011</u> |

| | |
|---------------------------|--------------------------|
| TOTAL NET POSITION | <u><u>\$ 915,706</u></u> |
|---------------------------|--------------------------|

The accompanying notes are an integral part of these financial statements.

**VANDALIA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

| | |
|--|--------------------------|
| Operating Revenues: | |
| Water Sales | \$ 369,239 |
| Standby Charges and Penalties | <u>113,494</u> |
| Total Operating Revenues | <u>482,733</u> |
| Operating Expenses: | |
| Utilities | 201,218 |
| Outside Management, Administration and Labor | 236,721 |
| Repairs and Maintenance | 15,926 |
| Supplies | 16,156 |
| Insurance | 15,462 |
| Legal and Professional | 12,546 |
| Office Supplies | 2,116 |
| Dues and Subscriptions | 7,289 |
| Miscellaneous | 317 |
| Depreciation | <u>29,707</u> |
| Total Operating Expenses | <u>537,458</u> |
| Operating Loss | <u>(54,725)</u> |
| Non-Operating Revenues (Expenses): | |
| Intergovernmental Revenue | 75,000 |
| Management Services | 13,125 |
| Property Tax Revenue | 24,775 |
| Rental Income | 12,154 |
| Investment Income | 1,754 |
| Interest Expense | (12,420) |
| Director's Fees | <u>(3,800)</u> |
| Non-Operating Revenues (Expenses), Net | <u>110,588</u> |
| Change in Net Position | 55,863 |
| NET POSITION, Beginning of the Year | <u>859,843</u> |
| NET POSITION, End of the Year | <u><u>\$ 915,706</u></u> |

The accompanying notes are an integral part of these financial statements.

**VANDALIA WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|---------------|
| Change in Net Position | \$ 55,863 |
| Adjustments to Reconcile Change in Net Position to Net | |
| Cash Flows from Operating Activities: | |
| Depreciation | 29,707 |
| (Increase) Decrease in Operating Assets: | |
| Accounts Receivable | 20,316 |
| Prepaid Insurance | (493) |
| Increase (Decrease) in Operating Liabilities: | |
| Accounts Payable | (40,773) |
| Accrued Expenses | 795 |
| Unearned Revenue | (645) |
| | <u>64,770</u> |
| Net Cash Provided by Operating Activities | <u>64,770</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---------------------------------------|------------------|
| Acquisition of Equipment | (222,325) |
| Construction in Progress | (149,742) |
| | <u>(372,067)</u> |
| Net Cash Used by Investing Activities | <u>(372,067)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|---|----------------|
| Proceeds From Long-Term Debt | 750,000 |
| Principal Payments on Long-Term Debt | (32,275) |
| | <u>717,725</u> |
| Net Cash Provided by Financing Activities | <u>717,725</u> |

| | |
|----------------------|---------|
| Net Increase in Cash | 410,428 |
|----------------------|---------|

| | |
|----------------------------|----------------|
| Cash - Beginning of Period | <u>501,500</u> |
|----------------------------|----------------|

| | |
|-----------------------------|---------------------------------|
| CASH - END OF PERIOD | \$ <u><u>911,928</u></u> |
|-----------------------------|---------------------------------|

The accompanying notes are an integral part of these financial statements.

**VANDALIA WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

SUPPLEMENTARY INFORMATION:

| | |
|---------------|------------------|
| Interest Paid | \$ <u>12,420</u> |
|---------------|------------------|

Non-Cash Financing Activity:

| | |
|---|------------|
| Cost of Property and Equipment Acquisitions | \$ 372,067 |
| Less Financed Acquisitions | <u>-</u> |

| | |
|--|-------------------|
| Net Cash Paid for Property and Equipment | \$ <u>372,067</u> |
|--|-------------------|

The accompanying notes are an integral part of these financial statements.

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

1. Summary of Significant Accounting Policies

Organization of the District

Vandalia Water District (the District) is a California Special District. In November 2008, the Governor of California signed Senate Bill 1276 which converted the Vandalia Irrigation District to the Vandalia Water District. The conversion was effective January 1, 2009.

Reporting Entity

The District does not have a relationship with any other related activities, organizations or functions of government which should be included in the financial reporting of the District as required by GASB Statement No. 14, "The Financial Reporting Entity".

Basis of Accounting

The District, as an enterprise fund (a business-type activity), accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is based upon determination of operating income, changes in net assets, financial position, and cash flows. The District's enterprise fund financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The District's operating revenues are those that result from providing services and producing and delivering goods, and include all other revenues that do not result from transactions defined by GASB Statement No. 9 as capital and related financing, non-capital financing, or investing activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of Tulare bills and collects the taxes for the District.

Cash Equivalents and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. This includes bank accounts and deposits with the Tulare County Treasury and the Local Agency Investment Fund (LAIF).

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. Donated capital assets are reported at estimated fair value at the time received. Repairs and maintenance, which are not considered betterments and do not extend the useful life of property, plant and equipment, are charged to expense as incurred. When property, plant and equipment are retired or otherwise disposed of, the asset and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in income.

Depreciation is calculated on the straight-line method over estimated useful lives which range from five to fifty years.

Net Position

Net position comprise the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

Invested in capital assets, net of related debt - This component of net positions 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 improvement of those assets.

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 "invested in capital assets, net of related debt".

Accounts Receivable

The District deems all accounts receivable collectible; accordingly, no allowance for doubtful accounts is reported. If amounts become uncollectible, they will be charged to operations when the determination is made.

Lower Tule River Irrigation District

Vandalia Water District (VWD), on behalf of Vandalia Water District and Campbell-Moreland Ditch Company, has entered into a water exchange agreement with Lower Tule River Irrigation District (LTRID) whereby certain water in excess of VWD's storage entitlement based on the terms of its "storage agreement" with Tule River Association, may be transferred to LTRID for its beneficial use within the Tule River Basin. For each 2.75 acre feet delivered to LTRID a credit of 1 acre foot is credited to an exchange account for VWD. This exchange account will be permitted to reach a total of 3,000 acre feet. Based on the terms of the agreement, VWD can request the return the amount of up to 500 acre feet per year subject to certain limitations. The terms of the agreement can be modified by mutual consent.

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

1. Summary of Significant Accounting Policies (Continued)

Management's Review

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through July 12, 2022, the date the financial statements were available to be issued.

2. Cash and Investments

Cash and investments as of December 31, 2021 are classified in the accompanying financial statements as follows:

Deposits:

| | |
|---------------------------|------------|
| Cash on Hand and in Banks | \$ 105,391 |
|---------------------------|------------|

Pooled Funds:

| | |
|-------------------------------------|----------------|
| Cash in County Treasury | 13 |
| Local Agency Investment Fund (LAIF) | <u>806,524</u> |

| | |
|----------------------------|-------------------|
| Total Cash and Investments | \$ <u>911,928</u> |
|----------------------------|-------------------|

Investments Authorized by the District's Investment Policy

The District invests funds in accordance with the laws of the State of California, California Government Code Sections 53600 through 53609.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk in market rate changes that could adversely affect the fair value of an investment. The District has no investment policy for interest rate risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of December 31, 2021, the District's investment in LAIF was unrated.

Concentration of Credit Risk

The District has no investment policy for concentration of credit risk.

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

2. Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institutions, 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 custodial risk for investments is the risk that in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment in State Investment Pool

The District is a voluntary participant in the State Treasurer's Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is classified as a cash equivalent in the accompanying financial statements.

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

3. Capital Assets

A schedule of changes in capital assets for the year ended December 31, 2021 is shown below:

| | <u>Balance 01/01/21</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/21</u> |
|--|-----------------------------|--------------------|--------------------|-----------------------------|
| Nondepreciable Capital Assets: | | | | |
| Land and Land Rights \$ | 108,682 | \$ - | \$ - | \$ 108,682 |
| Construction in Progress | <u>79,360</u> | <u>253,902</u> | <u>104,159</u> | <u>229,103</u> |
| Total Nondepreciable Capital Assets | <u>188,042</u> | <u>253,902</u> | <u>104,159</u> | <u>337,785</u> |
| Depreciable Capital Assets: | | | | |
| Storage Rights | 53,175 | - | - | 53,175 |
| Land Improvements | 5,748 | - | - | 5,748 |
| Vehicles | 8,354 | - | - | 8,354 |
| Machinery and Equipment | 1,073,181 | 222,324 | - | 1,295,505 |
| Office Equipment | 5,811 | - | - | 5,811 |
| Buildings and Improvements | <u>59,586</u> | <u>-</u> | <u>-</u> | <u>59,586</u> |
| Total Depreciable Capital Assets | <u>1,205,855</u> | <u>222,324</u> | <u>-</u> | <u>1,428,179</u> |

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

3. Capital Assets (Continued)

| | Balance 01/01/21 | Additions | Deletions | Balance 12/31/21 |
|-----------------------------------|---------------------|------------|-----------|---------------------|
| Accumulated Depreciation | | | | |
| Storage Rights | \$ 53,175 | \$ - | \$ - | \$ 53,175 |
| Land Improvements | 5,748 | - | - | 5,748 |
| Vehicles | 8,354 | - | - | 8,354 |
| Machinery and Equipment | 849,073 | 28,982 | | 878,055 |
| Office Equipment | 5,811 | - | - | 5,811 |
| Buildings and Improvements | 50,402 | 725 | - | 51,127 |
| Total Accumulated Depreciation | 972,563 | 29,707 | - | 1,002,270 |
| Net Depreciable Capital Assets | 233,292 | 192,617 | - | 425,909 |
| Total Capital Assets, Net | \$ 421,334 | \$ 446,519 | \$ - | \$ 763,694 |

4. Success Power Project/Campbell-Moreland Ditch Company

The District participates in a joint powers authority (JPA) organized to develop hydroelectric power for use by public agencies; the JPA is not a component unit of the District. The District owns shares of stock in the Campbell-Moreland Ditch Company which is a source of water supply for the District; Campbell-Moreland Ditch Company is not a component unit of the District. The District's investment in these assets is carried at cost:

| | |
|---------------------------------|-----------|
| Success Power Project | \$ 22,820 |
| Campbell-Moreland Ditch Company | 6,585 |
| | \$ 29,405 |

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

5. Note Payable

Note Payable consisted of the following at December 31, 2021:

Payable to Citizens Business Bank in 20 annual principal installments commencing June 18, 2021 and due each June and December plus interest payable semi-annually at 3.10%. Final principal payment due June 2031. Original loan was for \$750,000. Secured by the District's revenues.

| | |
|----------------------|-------------------|
| | \$ 717,725 |
| Less Current Portion | <u>(66,058)</u> |
| LONG-TERM PORTION | <u>\$ 651,667</u> |

Scheduled principal repayments of long-term debt for the next five years are as follows:

| | |
|---------------------|-------------------|
| 2022 | \$ 66,058 |
| 2023 | 68,122 |
| 2024 | 70,250 |
| 2025 | 72,445 |
| 2026 and Thereafter | <u>440,850</u> |
| TOTAL | <u>\$ 717,725</u> |

6. Rental Income

On December 1, 2019 the District entered into two lease agreements for the lease of pasture land and rental property on a month-to-month and annual basis. Total lease revenue for the year ended December 31, 2021 was \$12,154. Minimum future lease payments to be received in the aggregate and for each of the next five years are as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|-----------------|
| 2022 | \$ 2,800 |
| 2023 | - |
| 2024 | - |
| 2025 | - |
| 2026 | <u>-</u> |
| | <u>\$ 2,800</u> |

**VANDALIA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

7. Jointly Governed Organizations

The District is a member of the Deer Creek and Tule River Authority. The Deer Creek and Tule River Authority (DCTRA) is comprised of eight special districts for the purpose of affecting more efficient operation and management of their activities. DCTRA is governed by a board of directors consisting of representatives from each member district.

8. Related Party Transactions

Campbell-Moreland Ditch Company (C-MDC)

The District owns shares of C-MDC and holds one seat on the C-MDC board of directors. The District runs all of their surface water allocated to them down the Campbell-Moreland ditch under an annual agreement.

The District invoices C-MDC for supervision costs provided. Supervision costs for the year ended December 31, 2021 was \$13,125.

The District and C-MDC share costs of general liability insurance, dues for the Ag Discharge Waiver program, dues paid to Deer Creek and Tule River Authority, and dues paid to the Tule River Association.

9. Risk Management

The District has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; wrongful acts; injuries to employees; and employee health and life. Payments of premiums for these policies are recorded as expenses of the District. Insurance settlements have not exceeded insurance coverage in any of the past three years. There are no significant reductions in coverage compared to the prior years.

10. Retirement Plan

On August 11, 2021, the District's board of directors approved to terminate the Vandalia Water District 403(b) defined contribution plan.

OTHER INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors
Vandalia Water District
Porterville, 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 the business-type activities of Vandalia Water District (the District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Vandalia Water District basic financial statements, and have issued our report thereon dated July 12, 2022.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vandalia Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Vandalia Water 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

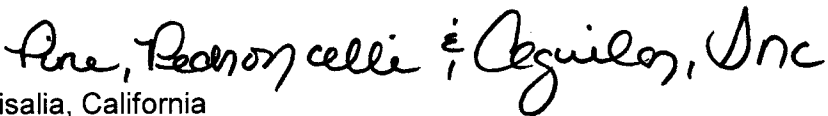
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vandalia Water 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 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*.

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.


Visalia, California
July 12, 2022

FINDINGS AND RECOMMENDATIONS

**VANDALIA WATER DISTRICT
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Finding #2021-1

During the review of documentation and inquiries, we found that the District had made a donation of \$500 to Fresno State Foundation in memory of an individual. We also found that the donation was not discussed or approved by the board of directors. Pursuant to Government Code Section 8314(a) it is unlawful for any elected state or local officer, including any state or local appointee, employee, or consultant, to use or permit others to use public resources for a campaign activity, or personal or other purposes which are not authorized by law.

Recommendation

We recommend that the District implement policies and procedures to ensure that all uses of the District's funds have been approved by the Board of Directors and are in compliance with California Government Code. In addition, we recommend that the District consult with its legal representatives for further implications.

Response

Even though this particular disbursement was not specifically discussed and approved, it was listed in the financial reports for the month which was reviewed and unanimously approved in the board meeting. Going forward, the District will make sure to specifically identify such transactions within the Board meeting and minutes. In addition, procedures will be implemented to ensure that the applicable Government Code Section is reviewed for allowability.

**VANDALIA WATER DISTRICT
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Finding #2021-2

California Government Code Section 53952 states that the governing board of a special district may establish a revolving fund in an amount not to exceed \$1,000 to be used to make change and pay small bills directly. In addition, this account may not exceed 110 percent of one-twelfth of the District's adopted budget for the fiscal year. At December 31, 2021, the District's reconciled balance in the Bank of Sierra checking account exceeded the maximum allowed by \$41,320.

Recommendation

We recommend that the District implement procedures to insure that the balance in the Bank of Sierra checking account does not exceed the maximum allowed. If the limit is exceeded, the District should transfer funds to their Tulare County treasury account or the State Treasurer's Local Investment Pool (LAIF) account to reduce the balance. In addition, we recommend that the District consult with their legal representatives for alternatives pursuant to California Government Code Section 61052 and 61053.

Response

The District will adopt procedures to limit our general checking account fund to 1/12th of the operating budget for any given year and transfer any excess funds to the District's Tulare County Treasury account. As the District analyzes short-term cash need on a daily basis this will be an additional item to monitor. The District will establish the new year cash balance limit during the annual budget process so that the limit is communicated.