Santa Nella County Water District™

ANNUAL FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED

JUNE 30, 2022 AND 2021

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SANTA NELLA COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Santa Nella County Water District
Santa Nella, California

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Santa Nella County Water District (the District) as of and for the years ended June 30, 2022 and 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 Santa Nella County Water District, as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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, and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 Santa Nella County Water 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

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 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 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.

Other Information

Management is responsible for the other information included in the annual report. The other information, as listed in the table of contents, does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2023, 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.

Sacramento, California
February 14, 2023

Management's discussion of the Santa Nella County Water District's (the District) financial condition and activities as and for the year ended June 30, 2022 is intended to serve as an introduction to the District's basic financial statements and should be read in conjunction with the audited financial statements that follow this section.

Explanation of Financial Statements

The District's financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. The statement of net position provides information about assets and obligations of the District at a specific point in time. The statement of revenues, expenses, and changes in net position provides information regarding the District's operations during the fiscal year. The statement of cash flows provides information about the District's cash receipts and disbursements during the fiscal year.

Financial Statement Summary

The following is a condensed presentation of assets, liabilities and net position as of June 30, 2022:

	2022	2021	Change	%
Assets:				
Current Assets	$ 1,748,258	$ 1,574,796	$ 173,462	11 %
Restricted Assets	1,350,638	1,370,356	(19,718)	(1)%
Capital Assets	14,790,151	14,632,189	157,962	1 %
Deferred Outflows of Resources	85,710	98,658	(12,948)	(13)%
Total Assets	17,974,757	17,675,999	298,758	
Liabilities:				
Current Liabilities	763,799	708,237	55,562	8 %
Long-Term Liabilities	2,094,673	3,021,247	(926,574)	(31)%
Deferred Inflows and Resources	152,550	5,039	147,511	2,927 %
Total Liabilities	3,011,022	3,734,523	(723,501)	
Net Position:	14,963,735	13,941,476	1,022,259	7 %
Total Liabilities & Net Position	$ 17,974,757	$ 17,675,999	$ 298,758	

Current Assets

Current assets increased by $173,462 or 11% due to an upswing in Construction in Progress (CIP). The District has multiple capital improvement projects underway, including the MHP Metering Project, Santa Nella/Volta Water Quality Improvement and Consolidation Project, the Remote Meter Read Project, and the CVP Water Contract Partial Assignment. Some of the projects are fully grant funded and $852,960 in grant monies was received during the fiscal year for reimbursed project expenditures. Accounts Receivable Trade reduced slightly as the governor's COVID-19 executive orders expired on December 31, 2021. The District began informing customers through billing notices that beginning July 1, 2022, the District would be implementing late fees and shut-off procedures for unpaid past due accounts. Customers were encouraged to bring their accounts current and/or enter into long-term payment arrangements and delinquent customers started making regular payments toward their past due accounts. Accounts Receivable, SLWD Assessments, increased by 35% due to continued unpaid assessment billings, mostly from landowners with undeveloped land. The District will be seeking a remedy to cover the unpaid assessment billings in the future. There was an increase in water revenue due to a water rate increase that was effective July 1, 2021.

Restricted Assets

Restricted Assets decreased by $19,717 or 1% due to capital project expenditures for the MHP Metering Project and Santa Nella/Volta Water Quality Improvement Project. All other restricted fund accounts remained relatively the same as in the prior year, although there was a decrease in the Fair Market Value (FMV) of investments due to negative unrealized gains. Investment income was also $2,207 or 19% less than in the prior year due to decrease in investment interest payments. Investment funds deposited with Wells Fargo Investments are comprised of Certificate of Deposit's with interest rates ranging from 0.60% for short term investments (1 year or less) to 3.55% for long term investments (2 to 5 years). Approximately one-half of the funds are short term investments in the event the District must liquidate funds for capital improvements and/or construction costs.

Non-Current Assets

Capital Assets increased by $157,962 or 1% due to capital improvements reclassified as assets and the increase in accumulated depreciation and CIP projects underway. Projects included the MHP Metering Project, Santa Nella/Volta Water Quality Improvement and Consolidation Project, the Remote Meter Read Project, and the CVP Water Contract Partial Assignment, as previously mentioned.
The table below shows the activity of Restricted Assets for the fiscal year:

	WF impact Fees		Wtr Constr	Swr Constr	Debt Res	Wells Fargo Investments		
Restricted Assets	Water	Sewer	Water	Sewer	Sewer	Water	Sewer	Total
Beginning Balance - 7/1/2021	$ 321,130	$ 50,369	$ 208,297	$ 35,286	$ 134,265	$ 563,671	$ 57,339	$ 1,370,357
Add:								
Deposits	-	-	545,214	-	-	-	-	545,214
Transfer to Debt Service Pmt - Sewer	-	-	-	133,800	-	-	-	133,800
Net Increase FMV Investment	-	-	-	-	-	(26,149)	(1,494)	(27,643)
Interest/Investment Income	67	10	-	65	28	8,129	1,210	9,509
Less:								
Construction Costs	-	-	(546,666)	-	-	-	-	(546,666)
Debt Service Payment - Sewer	-	-	-	(133,781)	-	-	-	(133,781)
Bank Fees	(20)	(17)	-	(100)	(15)	-	-	(152)
Ending Balance - 6/30/2022	321,177	50,362	206,845	35,270	134,278	545,651	57,055	1,350,638

Liabilities and Net Position

Current liabilities increased by $55,562, or 8% due to increases in Accounts Payable-Projects, Deposits Payable, including Developer Administrative Deposits, and Accrued Liabilities. As stated above, the District has several CIP projects underway. There was an increase of $24,564 or 41% in Accounts Payable Trade due to the rising costs of goods, supplies, fuel, energy and other Operation and Maintenance (O&M) costs necessary to provide the service. Utility deposits also increased during the fiscal year due to the increase in water and sewer user fees. The Parkway Project continues to deposit funds during the fiscal year as the District and developer continue to work toward the construction of a proposed sub-division. The District expended $88,435 for the grant funded CalOES generator project, leaving $211,575 in grant monies deferred into the next fiscal year.

Long-term liabilities decreased by $926,574, or 41%, due to payments made toward existing debt and an adjustment to capital debt obligation for the SLWD Assessment annual debt service payment. Debt service payments were made on the Clean Water State Revolving Fund obligation for the Sewer Enterprise fund (WWTP Phase 1B Improvement Project) and SLWD Assessments annual capital debt obligation.

Net position increased by $1,022,259 or 7%, and is primarily attributed to grant funds received on multiple CIP projects. Even though investment income decreased, there was an increase in operating revenue due to water and sewer rate increases and increases in Ad Valorem Property Tax revenue as compared to the prior year.

Deferred Outflows/Inflows of Resources

The District recognized its proportionate share of Net Pension Liability, Pension Expense, and Pension Deferred Outflows and Inflows of Resources for the fiscal year ending June 30, 2022 as required by GASB 68. The District purchased valuation reports for the Classic and PEPRA plans. The valuation reports enabled the District to meet the requirements of GASB 68. The District expended $700.00 in fiscal year 2021-22 to purchase the valuation report for each plan. This purchase will be required in each fiscal year. Note 8, Pension Plan, describes in detail the plan types and all pertinent information required under GASB 68.

Operating Revenues and Expenses

The following is a condensed presentation of revenues and expenses for the fiscal years ended June 30, 2022 and June 30, 2021:

	2022	2021	Change	%
Revenue & Expenses:				
Operating revenue	$ 1,736,760	$ 1,616,037	$ 120,723	7 %
Operating expenses	(1,669,671)	(1,709,664)	39,993	(2)%
Non-Operating Net	102,210	75,839	26,371	
Other Revenue	852,960	240,898	612,062	
Change in Net Position	$ 1,022,259	$ 223,110	$ 799,149	

Operating revenues increased in both Enterprise Funds. Revenues increased by 10.29% in the Water Enterprise Fund due to an increase in water user rates. Sewer Enterprise Fund revenue increased by 3.84% as compared to the prior year as there was an uptick in water usage for commercial businesses because most of the businesses opened back up after the COVID-19 pandemic restrictions were lifted. The District still generated enough sewer revenue in the Sewer Enterprise Fund to meet the debt service requirement for the Wastewater Treatment Plant Phase 1B improvement project.

Even though there were increases in O&M costs, as stated above, the overall operating expenses decreased by $39,993 or 2% due to an adjustment made to Pension Expense. Annual expenses increased in the Water Enterprise Funds due to the debt service payment made toward the SLWD Assessment annual capital debt obligation. Depreciation increased due to the addition of capital improvements.

Net Non-Operating Revenues and Expenses

Non-Operating net increased due to the changes in non-operating revenues. There was a payment of $56,248 in insurance proceeds for the replacement of the electrical unit and other pertinent equipment for the Northeast Lift Station. The lift station was damaged by a car accident and an insurance claim was filed. The District was not at fault and all costs to repair the lift station was covered under the insurance claim. The insurance company is subrogating the matter with the parties that caused the car accident. Investment interest and dividend income, as well as unrealized gain in fair market value investments, were lower when compared to the prior year. Interest expense on the debt service payment was lower than in the prior year.

Net Gain (Loss)

The District does not budget for depreciation or include grant revenue in budget reports. The following table represents the Net Gain (Loss) for the District's budgeted revenue and expenses that does not include depreciation or grant funds. This table is for reference only to show net gain or loss in relation to the District's annual budget:

Enterprise Funds	**Water**	**Sewer**
Fiscal Year 2021 - 2022		
Operating Revenue		
Municipal and industrial water sales	$ 837,035	$ -
Wastewater user fees	-	899,725
Total Operating Revenue	837,035	899,725
Operating Expenses		
General and Administrative	332,576	332,901
Transmission and Distribution	300,704	266,810
Water Supply	79,267	-
Total Operating Expenses	712,547	599,711
(does not include depreciation)		
Non-Operating Revenues (expenses)		
Income	30,771	106,372
Expenses	-	(34,933)
Total Non-Operating Revenues (expenses)	30,771	71,439
Debt Service Payments	43,780	98,317
Net Gain (Loss) before restricted revenue sources and depreciation	$ 111,479	$ 273,136

Request for Information

This report is designed to provide Santa Nella County Water District's elected officials, landholders, customers and creditors a general overview of the District's finances and to demonstrate its accountability for the revenues it receives. If you have any questions about this report or need additional information, please contact Santa Nella County Water District, Attn: Amy Montgomery, 12931 S. Hwy 33, Santa Nella, CA 95322.

SANTA NELLA COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 1,056,454	$ 1,013,458
Cash and cash equivalents-restricted (Note 2)	906,696	815,771
Investments (Note 2)	222,115	221,540
Investments-restricted (Note 2)	443,942	554,585
Receivables:		
Accounts	251,215	245,152
Taxes	2,997	2,105
Interest	409	165
Grants	174,511	51,043
Material and supply inventory	5,212	5,313
Prepaid expenses and other assets	35,345	36,020
Total current assets	3,098,896	2,945,152
Non-current assets		
Capital assets net of accumulated depreciation (Note 3)	14,790,151	14,632,189
Total non-current assets	14,790,151	14,632,189
TOTAL ASSETS	17,889,047	17,577,341
DEFERRED OUTFLOWS OF RESOURCES		
Changes in net pension liability (Note 7)	85,710	98,658
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 17,974,757	$ 17,675,999

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

SANTA NELLA COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2022 AND 2021

	2022	2021
LIABILITIES		
Current liabilities		
Accounts payable	$ 252,593	$ 90,913
Accrued liabilities	13,175	18,805
Accrued interest payable	6,852	7,384
Deposits payable	126,173	106,032
Deferred revenue	211,575	300,000
Current portion of long-term liabilities (Note 4)	153,431	185,103
Total current liabilities	763,799	708,237
Noncurrent liabilities		
Long-term liabilities, less current portion (Note 4)	1,923,933	2,675,282
Net pension liability (Note 7)	170,740	345,965
Total noncurrent liabilities	2,094,673	3,021,247
TOTAL LIABILITIES	2,858,472	3,729,484
DEFERRED INFLOWS OF RESOURCES		
Changes in net pension liability (Note 7)	152,550	5,039
NET POSITION		
Net investment in capital assets	12,729,552	11,782,147
Restricted for:		
Impact fees	974,246	992,508
Debt reserve	134,278	134,265
Construction	242,114	243,583
Unrestricted	883,545	788,973
Total net position	14,963,735	13,941,476
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 17,974,757	$ 17,675,999

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

SANTA NELLA COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
OPERATING REVENUE		
Municipal and industrial water sales	$ 837,035	$ 750,891
Wastewater user fees	899,725	865,146
Total operating revenue	1,736,760	1,616,037
OPERATING EXPENSES		
General & administrative	650,715	693,325
Transmission & distribution	567,514	546,535
Water supply	79,267	101,376
Depreciation	372,175	368,428
Total operating expenses	1,669,671	1,709,664
OPERATING INCOME (LOSS)	67,089	(93,627)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	10,404	12,793
Interest expense	(34,933)	(37,437)
Miscellaneous	58,072	19,932
Rents & leases	1,500	1,500
Property taxes	94,810	93,128
Unrealized gain(loss)	(27,643)	(9,025)
Loss on disposal of capital assets	-	(5,052)
Total non-operating revenues, net	102,210	75,839
NET INCOME (LOSS) BEFORE RESTRICTED REVENUE SOURCES	169,299	(17,788)
LEGALLY RESTRICTED REVENUE SOURCES		
Grant revenue (Restricted Use)	852,960	240,898
Total legally restricted revenues	852,960	240,898
CHANGE IN NET POSITION	1,022,259	223,110
TOTAL NET POSITION, BEGINNING OF YEAR	13,941,476	13,718,366
TOTAL NET POSITION, END OF YEAR	$ 14,963,735	$ 13,941,476

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

SANTA NELLA COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,750,838	$ 1,514,948
Payments to suppliers for goods and services	(695,844)	(811,315)
Payments to employees for services	(584,910)	(474,775)
NET CASH PROVIDED BY OPERATING ACTIVITIES	470,084	228,858
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous income	58,072	19,932
Property taxes received	93,917	92,672
Rents received	1,500	1,500
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	153,489	114,104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,045,743)	(364,397)
Grant revenue for capital purposes	641,067	571,722
Principal paid on long-term liabilities	(142,097)	(171,002)
Interest paid on long-term liabilities	(35,525)	(37,956)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(582,298)	(1,633)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	10,160	13,300
Investment purchases	-	(97,235)
Proceeds from maturities of investments	82,486	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	92,646	(83,935)
NET INCREASE IN CASH AND CASH EQUIVALENTS	133,921	257,394
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,829,229	1,571,835
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,963,150	$ 1,829,229
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 1,056,454	$ 1,013,458
Cash and cash equivalents-restricted	906,696	815,771
Total cash and cash equivalents	$ 1,963,150	$ 1,829,229

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

SANTA NELLA COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 67,089	$ (93,627)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	372,175	368,428
(Increase) decrease in current assets:		
Accounts receivable	(6,063)	(102,680)
Deferred outflow of resources	12,948	18,382
Material and supply inventory	101	(226)
Prepaid expenses	675	15,986
Increase (decrease) in current liabilities:		
Accounts payable	30,472	10,722
Accrued liabilities	(5,630)	2,463
Compensated absences	5,890	2,409
Deposits payable	20,141	1,591
Deferred inflow of resources	147,511	(13,685)
Net pension liability	(175,225)	19,095
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 470,084	$ 228,858
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Unrealized gain/(loss) on investments	$ (27,643)	$ 13,771
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 34,933	$ 37,437
Purchase of fixed assets in exchange for note payable	$ -	$ 1,553,960

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Santa Nella is an unincorporated community with a population of 1981 and located on the west side of Merced County. The community began as a mobile home park during construction of the San Luis Dam and Forebay facilities. On July 27, 1965, the Santa Nella County Water District (the "District") was formed as the District responsible for treatment and distribution of water supply and the collection, treatment and disposal of wastewater. The District includes 1,191 acres at the present time and future development would include 4,681 acres. The District has six employees including a General Manager and is governed by a five-member board. The water and sewer operations and maintenance were outsourced to a private contractor, Environmental Management Services in 2008 and returned to District operations in 2012. The District is regulated by the State Health Department, the County Health Department and the California Regional Water Quality Control Board.

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards in the United States. The more significant of the District's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criteria used in determining the inclusion of a component unit in the reporting entity for financial reporting purposes are: (1) appointment of voting majority of the component unit board, (2) ability to impose its will, (3) financial benefit or burden, and (4) fiscal dependency. Based upon the application of these criteria the District has no component units.

B. Measurement Focus, Basis of Accounting and Presentation

The financial statements of Santa Nella County Water District have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Measurement Focus

The statements of net position and the statements of revenues, expenses and changes in net position, are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the statements of net position and statements of revenues, expenses and changes in net position, business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with Santa Nella County Water District's principal ongoing operational activities. Charges to customers represent Santa Nella County Water District’s principal operating revenues and include water and sewer fees. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the statements of revenues, expenses, and changes in net position.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, Santa Nella County Water District may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. Santa Nella County Water District's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain indirect costs are included in program expenses reported for individual functions and activities.

Non-exchange transactions, in which the Santa Nella County Water District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

C. Budget

Annual budgets are adopted on a cash basis which is not consistent with generally accepted accounting principles. The budget is approved and adopted each year by the District's Board of Directors. The budget is used to estimate annual revenues and expenses and is amended only upon board approval.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, Santa Nella County Water District considers cash and investments, and deposits in financial institutions (including deposited cash) having an original maturity of three months or less to be cash and cash equivalents.

The District holds cash with Merced County and investments with State of California Local Agency Investment Fund (LAIF). The related cash held by Merced County is presented by risk category in total in Merced County's June 30, 2022 and 2021 Annual Comprehensive Financial Report.

E. Investments

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

GASB Statement No. 72, Fair Value Measurement and Application, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statement of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

F. Post-Employment Health Care Benefits

The District provides no post retirement health care benefits to employees who retire.

G. Unearned Revenues

Unearned revenue consists of amounts collected before revenue recognition criteria are met. The unearned items consist of water and sewer fees which have been prepaid by users.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Inventories

Inventories are valued at the lower of cost or market, using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The June 30, 2022 and 2021 inventory quantities were determined by estimate.

I. Capital Assets

Capital assets are stated at cost, net of accumulated depreciation, except for the portion acquired by contribution, which are recorded at fair value at the time received. The capitalization threshold for all capital assets is $5,000. Depreciation is based on the estimated useful lives of the assets, which range from five to forty years, using the straight-line method. Net interest costs are capitalized on projects during the construction period. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	5 to 40 years
Furniture and Equipment	5 to 20 years

The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

J. Compensated Absences

Vested or accumulated vacation is recorded as an expense and liability as benefits accrue to the employee.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Capital Grants

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital grants are required to be included in the determination of net income which resulted in an increase in net revenue of $852,960 and $240,898 for the years ended June 30, 2022 and 2021, respectively.

M. Net Position

Net position represents the residual interest in Santa Nella County Water District's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position is presented in three broad components: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets, includes capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net position is restricted when constraints are imposed by the third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. Operating losses outside of depreciation are funded by operating and capital reserves.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Estimates

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

O. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

P. Comparative Data and Reclassifications

Comparative data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

Q. Capacity Charges/Impact Fees

Capacity charges/impact fees are paid by new customers prior to connecting to the District's system. Such charges are periodically adjusted based upon changes in construction costs and other factors, and are intended to compensate the District for a new customer's equitable share of current and future system capacity. Impact fees are, except in rare circumstances, nonrefundable and are recorded as nonoperating revenues when collected.

R. Pensions

For the purposes of measuring the net liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Santa Nella County Water District's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

S. Implementation of Government Accounting Standards Board Statements

<u>Governmental Accounting Standards Board Statement No. 87</u>

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. There were no significant financial impact to the District as a result of implementation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires interest costs incurred before the end of a construction period to be recorded as an expenditure in the applicable period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. There were no significant financial impact to the District as a result of implementation.

Government Accounting Standards Board Statement No. 92

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. There was no significant financial impact to the District as a result of implementation.

Government Accounting Standards Board Statement No. 93

In March 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The primary objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). There was no significant financial impact to the District as a result of implementation.

Government Accounting Standards Board Statement No. 97

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans and Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a partial component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The District has not determined what impact, if any, this pronouncement will have on the financial statements. There were no significant financial impact to the District as a result of implementation.

T. Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2022 or later and may be applicable for the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 91

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligation*s. The purpose of this statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2023.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 94

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The District has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this statement are effective for the District's fiscal year ending June 30, 2023.

Government Accounting Standards Board Statement No. 96

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and requires not disclosures regarding a SBITA. The District has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this statement are effective for the District's fiscal year ending June 30, 2023.

Governmental Accounting Standards Board Statement No. 99

In April 2022, GASB issued Statement No. 99, Omnibus 2022. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for guarantees. The District has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this statement related to leases, PPPs and SBITAs are effective for the District's fiscal year ending June 30, 2023 and the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for the District's fiscal year ending June 30, 2024.

Governmental Accounting Standards Board Statement No. 100

In June 2022, GASB issued Statement No. 100, Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for the District's fiscal year ending June 30, 2024.

Governmental Accounting Standards Board Statement No. 101

In June 2022, GASB issued Statement No. 101, Compensated Absences. The primary objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for the District's fiscal year ending June 30, 2025.

NOTE 2: CASH AND INVESTMENTS

Cash and investments reported in the accompanying financial statements as of June 30, 2022 and 2021 are as follows:

	2022	2021
Cash and cash equivalents	$ 1,056,454	$ 1,013,458
Restricted cash and cash equivalents	906,696	815,771
Investments	222,115	221,540
Restricted investments	443,942	554,585
	$ 2,629,207	$ 2,605,354

Cash and investments were carried at fair value as of June 30, 2022 and 2021 and consisted of the following:

	2022	2021
Cash on hand	$ 691	$ 691
Cash in banks	1,962,459	1,828,538
Total cash	1,963,150	1,829,229
LAIF	222,115	221,540
Certificates of deposit	443,942	554,585
Total investments	666,057	776,125
Total cash and investments	$ 2,629,207	$ 2,605,354

A. Cash Deposits

At June 30, 2022 and 2021, the bank balance of the District's deposits was $1,825,239 and $1,756,271, respectively. The total amounts of which was collateralized or insured with securities held by the pledging financial institutions in the District's name as discussed below.

The California Government Code requires banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

B. Investments

The District is authorized by State statutes and in accordance with the District's Investment Policy (Policy) to invest in the following:

- Securities issued or guaranteed by the Federal Government or its agencies
- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Risk Disclosures

Interest Rate Risk- Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally an investment with a longer maturity date has a greater sensitivity of its fair value to be subject to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity. At June 30, 2022, the District had the following investment maturities:

		Remaining Maturity	
Investment Type	**Fair Value**	**12 months or less**	**1-5 years**
LAIF	$ 222,115	$ 222,115	$ -
Certificates of deposit	443,942	16,967	426,975
Total	$ 666,057	$ 239,082	$ 426,975

At June 30, 2021, the District had the following investment maturities:

		Remaining Maturity	
Investment Type	**Fair Value**	**12 months or less**	**1-5 years**
LAIF	$ 221,540	$ 221,540	$ -
Certificates of deposit	554,585	379,115	175,470
Total	$ 776,125	$ 600,655	$ 175,470

Credit Risk- State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO's). It is in the District's policy to limit its investments in these investment types to the top rating issued by NRSRO's, including raters Standard & Poor's and Moody's Investors Services.

Presented below is the minimum rating required by (where applicable) the California Government Code, The District's Investment Policy, or debt agreements, and the actual rating as of June 30, 2022 and 2021 for each type of investment type:

Investments	**Credit Quality Ratings**
Certificates of deposit	Not Rated
Local Agency Investment Fund	Not Rated

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 California Government Code requires banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits. The District may waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

D. Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

The following tables set forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2022.

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 443,942	$ -	$ 443,942
Total assets at fair value	$ -	$ 443,942	$ -	$ 443,942

The following tables set forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2021.

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 554,585	$ -	$ 554,585
Total assets at fair value	$ -	$ 554,585	$ -	$ 554,585

E. Restricted Cash

The total restricted cash on the statement of net position is comprised of the following items as of June 30, 2022 and 2021:

Depository	Purpose	June 30, 2022	June 30, 2021
Wells Fargo	Restricted for Water Impact Fees	$ 321,177	$ 321,130
Wells Fargo	Restricted for Sewer Impact Fees	50,362	50,368
Wells Fargo	Restricted for Water Construction	206,845	208,297
Wells Fargo	Restricted for Sewer Construction	35,269	35,286
CA Bank & Trust	Restricted for Debt Service	134,278	134,265
Fidelity Investments	Restricted for Water Impact Fees	158,258	60,129
Fidelity Investments	Restricted for Sewer Impact Fees	507	6,296
	Total	$ 906,696	$ 815,771

F. Restricted Investments

The total restricted investments on the statement of net position are comprised of the following items as of June 30, 2022 and 2021:

Depository	Purpose	June 30, 2022	June 30, 2021
Fidelity Investments	Restricted for Water Impact Fees	$ 387,393	$ 503,542
Fidelity Investments	Restricted for Sewer Impact Fees	56,549	51,043
	Total	$ 443,942	$ 554,585

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

G. Investment in State Investment Pool

The District is a voluntary participant in the 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 reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis. The investment balances of $222,115 and $221,540 at June 30, 2022 and 2021, respectively, are not subject to valuation on a recurring basis.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	July 1, 2021	Additions	Retirements/ Transfers	Adjustments	June 30, 2022
Capital assets not being depreciated					
Land	$ 619,432	$ 15,000	$ -	$ -	$ 634,432
Work in progress	8,836,569	1,134,116	(105,778)	-	9,864,907
Right-of-Use Water Asset	1,522,649	-	-	(652,811)	869,838
Total capital assets not being depreciated	10,978,650	1,149,116	(105,778)	(652,811)	11,369,177
Capital assets being depreciated					
Buildings	11,558,266	30,826	62,611	-	11,651,703
Furniture and equipment	380,060	3,006	(18,084)	-	364,982
Total capital assets being depreciated	11,938,326	33,832	44,527	-	12,016,685
Less: accumulated depreciation					
Buildings	(7,954,017)	(317,461)	-	-	(8,271,478)
Furniture and equipment	(330,770)	(54,714)	61,251	-	(324,233)
Total accumulated depreciation	(8,284,787)	(372,175)	61,251	-	(8,595,711)
Capital assets, net of accumulated depreciation	$ 14,632,189	$ 810,773	$ -	$ (652,811)	$ 14,790,151

See Note 4 for information on the adjustment to the Right-of-Use Water Asset.

NOTE 3: CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended June 30, 2021 was as follows:

	June 30, 2020	Additions	Retirements/ Transfers	June 30, 2021
Capital assets not being depreciated				
Land	$ 619,432	$ -	$ -	$ 619,432
Work in progress	8,508,550	383,205	(55,186)	8,836,569
Right-of-Use Water Asset	-	1,522,649	-	1,522,649
Total capital assets not being depreciated	9,127,982	1,905,854	(55,186)	10,978,650
Capital assets being depreciated				
Buildings	11,517,331	1,449	39,486	11,558,266
Furniture and equipment	365,955	14,105	-	380,060
Total capital assets being depreciated	11,883,286	15,554	39,486	11,938,326
Less: accumulated depreciation				
Buildings	(7,611,717)	(349,748)	7,448	(7,954,017)
Furniture and equipment	(312,090)	(18,680)	-	(330,770)
Total accumulated depreciation	(7,923,807)	(368,428)	7,448	(8,284,787)
Capital assets, net of accumulated depreciation	$ 13,087,461	$ 1,552,980	$ (8,252)	$ 14,632,189

Depreciation expense for the years ended June 30, 2022 and 2021 totaled $372,175 and $368,428, respectively.

NOTE 4: LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2022:

	Balance at July 1, 2021	Additions	Reductions	Adjustments	Balance at June 30, 2022	Current Portion
Water Related						
SLWD	$ 1,478,634	$ -	$ (43,780)	$ (646,814)	$ 788,040	$ 43,780
Compensated Absences	10,056	9,143	(6,013)	-	13,186	4,130
Sewer Related						
SWRCB Loan	1,364,024	-	(98,317)	-	1,265,707	100,873
Compensated Absences	7,671	11,144	(8,384)	-	10,431	4,648
Total Long-Term Liabilities	$ 2,860,385	$ 20,287	$ (156,494)	$ (646,814)	$ 2,077,364	$ 153,431

NOTE 4: LONG-TERM LIABILTIES (CONTINUED)

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2021:

	Balance at June 30, 2020	Additions	Reductions	Balance at June 30, 2021	Current Portion
Water Related					
SLWD	$ -	$ 1,553,811	$ (75,177)	$ 1,478,634	$ 77,823
Compensated Absences	8,664	9,888	(8,496)	10,056	4,605
Sewer Related					
SWRCB Loan	1,459,849	-	(95,825)	1,364,024	98,317
Compensated Absences	6,654	11,108	(10,091)	7,671	4,358
Total Long-Term Liabilities	$ 1,475,167	$ 1,574,807	$ (189,589)	$ 2,860,385	$ 185,103

State Water Resources Control Board Loan

On September 10, 2013, the District received project funds in the amount of $4,020,026 from the Clean Water State Revolving Fund (CWSRF) for a sewer plant upgrade to comply with water quality effluent limitations under the Waste Discharge Requirements (WDR) Order No. 88-104. The project consisted of improvements to increase capacity within existing permit limitations, provide storage and lift the self-imposed sewer connection moratorium. The terms of the agreement include Contingent Principal Forgiveness of 50%, which is dependent on the District's performance under the obligations of the agreement, and repayment of the project funds (less the 50 percent principal forgiveness) at an interest rate of 2.6% per annum over 20 years. The loan is payable annually in the amount of $133,781 every year through April 15, 2033.

Debt covenants for the loan agreement with the State Water Resources Control Board include a requirement for the District to maintain net income of at least 1.25 times its total annual debt service. The District did meet this requirement for the fiscal years ended June 30, 2022 and 2021. The State Water Resources Control Board maintains the right to demand full repayment of the loan; however demand on the loan has not been exercised.

The loan is paid annually and the future debt service payment is as follows:

For the Year Ending June 30th	State Water Resources Control Board Principal	Interest	Total
2023	$ 100,873	$ 32,908	$ 133,781
2024	103,496	30,285	133,781
2025	106,186	27,595	133,781
2026	108,947	24,834	133,781
2027	111,780	22,001	133,781
2028-32	604,034	64,871	668,905
2032-33	130,391	3,390	133,781
	$ 1,265,707	$ 205,884	$ 1,471,591

NOTE 4: LONG-TERM LIABILTIES (CONTINUED)

San Luis Water District

Santa Nella County Water District (the "District") purchases raw surface water from the San Luis Water District (SLWD) because they hold the federal CVP contract. SLWD had an “interim water contract” with the United States Bureau of Reclamation (Reclamation) that was renewed annually or bi-annually. In 2016, Congress passed the Water Infrastructure Improvements for the Nation Act (WIIN Act), which allowed federal CVP contractors to convert their “interim water contract” to a permanent water contract. One of the conditions was that the contractor had to pay their capital debt in full. Capital debt is each contractor’s share of the infrastructure that makes the CVP project possible, for example, the San Luis Reservoir, Delta-Mendota, San Luis (CA Aqueduct) Canals, Forebay, and pump stations that convey CVP water from the north of the state to the south of the state. SLWD's proportionate share was approximately $36 million, with the District's share of roughly $1.5 million. During the year ending June 30, 2022, the District amended the agreement with SLWD resulting in a reduction of the District's share of $646,814.

SLWD sold bonds to raise the funds needed to pay their capital debt in full and gave their customers the option of paying their share of SLWD capital debt in full, or over 20 years. The District elected to pay the debt over 20 years. The District would bill “landowners” that had transferred their water allocation to the District their portion of the capital debt (based on land acreage). This plan was included in the Water Rate Study adopted by the Board of Directors in July 2020 after a Proposition 218 Public Hearing.

In order to bill “landowners” and keep the SLWD Assessment revenue separate from the regular water usage revenue, the District built a database of landowners only and created a separate account to track the revenue. The District paid SLWD in September 2020 for year 1 of the 20 year plan, and subsequently billed landowners according to the rate schedule adopted by the Board in July 2020. Future payments in the amount of $43,780 are due annually through September 2040.

For the Year Ending June 30th	San Luis Water District Principal
2023	$ 43,780
2024	43,780
2025	43,780
2026	43,780
2027	43,780
2028-32	218,900
2033-37	218,900
2038-39	131,340
	$ 788,040

NOTE 5: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage of, and destruction to assets; errors and omissions; injuries to contractors; and natural disasters. The District purchases insurance policies to cover the various risks it might have.

NOTE 6: NON-DISTRICT OBLIGATION - IMPROVEMENT DISTRICT 1985-1

The District established an Improvement District in 1985 which issued limited obligation debt secured solely by the assessed parcels. The District has no obligation for debt repayment out of the general resources of the District. All of the Improvement District's debt is noncommitment debt secured solely by the revenue stream from taxes assessed on parcels that benefit from infrastructure improvements financed by the Improvement District. The bonds are not a debt or liability of Santa Nella County Water District, or the State of California and will be payable solely from the resources generated by the Improvement District. The remaining outstanding debt obligation was $1,865,000 and $2,110,000 as of June 30, 2022 and 2021, respectively.

NOTE 7: PENSION PLAN

General Information about the Plan

All qualified permanent full and part-time District employees working at least 1,000 hours per year are eligible to participate in the District's cost-sharing multiple-employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Active members belonging to the Classic Plan are required to contribute 7% of their annual covered salary. Active members belonging to the PEPRA plan are required to contribute 6.75% of their annual covered salary. The District makes the contributions required of the Classic employees on their behalf and for their account.

The Plan's provisions and benefits in effect at June 30, 2022, is summarized as follows:

Hire Date	Classic Prior to January 1, 2013	PEPRA On or after January 1, 2013
Benefit Formula	2.0% at 55	2.0% at 62
Social Security Coverage	No	No
Full/Modified	Full	Full
Benefit Vesting Schedule	Five Years Schedule	Five Years Schedule
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	55	62
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.5%	1.0% to 2.5%
Required Employee Contribution Rates	7.00%	6.75%
*Required Employer Contribution Rates	23.52%	8.58%

*Employer Contribution rates include the employer normal cost rate and the unfunded accrued liability contribution.

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the Plan for the years ended June 30, 2022 and 2021 were $57,888 and $53,963, respectively.

NOTE 7: PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2022 and 2021, the District reported a net pension liability of $170,740 and $345,965, respectively for its proportionate share of the net pension liability of the Plan.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2022, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2022 and 2021 was as follows:

Proportion - June 30, 2021	0.00318 %
Proportion - June 30, 2022	0.00316 %
Change - Increase (Decrease)	(0.00002)%

For the years ended June 30, 2022 and 2021, the District recognized pension expense of $43,122 and $77,754, respectively. At June 30, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 57,888	$ -	$ 53,963	$ -
Difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contribution	7,964	-	15,482	-
Changes in assumptions	-	-	-	2,468
Differences between expected and actual experience	19,147	-	17,829	-
Adjustment due to differences in proportions	711	3,503	1,106	2,571
Net differences between projected and actual earnings on plan investments	-	149,047	10,278	-
Total	$ 85,710	$ 152,550	$ 98,658	$ 5,039

$57,888 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	
2023	$ (22,415)
2024	(27,417)
2025	(33,707)
2026	(41,189)
Total	$ (124,728)

NOTE 7: PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2021 and 2020 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Miscellaneous
Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Salary Increases	Varies by entry age and service	Varies by entry age and service
Investment Rate of Return	7.15% net of pension plan investment expenses; includes inflation	7.15% net of pension plan investment expenses; includes inflation
Mortality (1)	Derived using CalPERS membership data for all funds	Derived using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using the Society of Actuaries 90 percent scale MP 2016. For more details on this table, please refer to the 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent.The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

NOTE 7: PENSION PLAN (CONTINUED)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)

(1) An expected inflation of 2.00% used for this period
(2) An expected inflation of 2.92% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2022	2021
1% Decrease	6.15 %	6.15 %
Net Pension Liability	$ 372,654	$ 534,049
Current Discount Rate	7.15 %	7.15 %
Net Pension Liability	$ 170,740	$ 345,965
1% Increase	8.15 %	8.15 %
Net Pension Liability	$ 3,822	$ 190,558

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8: CONTINGENCIES

Public Health Emergency

The World Health Organization declared the worldwide coronavirus (COVID-19) outbreak a public health emergency on January 30, 2020 and officially declared it as a pandemic as of March 11, 2020. Management has performed an evaluation of certain financial statement line items such as investments, accounts receivable, accounts payable, and accrued expenses to determine whether valuation or impairment adjustments should be made. Management has determined that the amounts reported on the financial statements are properly valued as of June 30, 2022. However, since the duration and full effects of the COVID-19 outbreak are yet unknown there could be future negative impacts to the financial condition of the District.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2023, which is the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA NELLA COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2022
LAST 10 YEARS*

	Measurement Period							
	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.00316 %	0.00318 %	0.00319 %	0.00324 %	0.00330 %	0.00354 %	0.00387 %	0.00387 %
Proportionate share of the net pension liability	$ 170,740	$ 345,965	$ 326,870	$ 307,727	$ 321,408	$ 285,627	$ 242,789	$ 241,084
Covered payroll	$ 351,914	$ 330,085	$ 334,185	$ 289,727	$ 306,561	$ 272,929	$ 272,462	$ 219,195
Proportionate share of the net pension liability as a percentage of covered payroll	48.52 %	104.81 %	97.81 %	106.21 %	104.84 %	104.65 %	89.11 %	109.99 %
Plan fiduciary net position as a percentage of the total pension liability	75.10 %	75.10 %	75.26 %	75.26 %	73.31 %	74.06 %	78.40 %	79.82 %

Notes to Schedule:

Changes in assumptions

For the measurement period June 30, 2018, the CalPERS Board adopted new mortality assumptions for plan participants participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increases and overall payroll growth are reduced from 3.00 percent to 2.75 percent.

For the measurement period ended June 30, 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, the discount rate remained at 7.65 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.50 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expenses). In 2014, amounts reported were based on the 7.50 percent discount rate.

* Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

SANTA NELLA COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2022
LAST 10 YEARS*

	Fiscal Year-End							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 57,888	$ 53,963	$ 58,833	$ 51,183	$ 44,952	$ 44,101	$ 44,417	$ 45,064
Contributions in relation to the actuarially determined contributions	(57,888)	(53,963)	(58,833)	(51,183)	(44,952)	(44,101)	(44,417)	(45,064)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 358,938	$ 351,914	$ 330,085	$ 334,185	$ 289,727	$ 306,561	$ 272,929	$ 272,462
Contributions as a percentage of covered payroll	16.13 %	15.33 %	17.82 %	15.32 %	15.52 %	14.39 %	16.27 %	16.54 %

* Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

SUPPLEMENTARY INFORMATION

SANTA NELLA COUNTY WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

	Enterprise Funds		
	Water	**Sewer**	**Total**
OPERATING REVENUE			
Municipal and industrial water sales	$ 837,035	$ -	$ 837,035
Wastewater user fees	-	899,725	899,725
Total operating revenue	837,035	899,725	1,736,760
OPERATING EXPENSES			
General & administrative	317,814	332,901	650,715
Transmission & distribution	300,704	266,810	567,514
Water supply	79,267	-	79,267
Depreciation	45,965	326,210	372,175
Total operating expenses	743,750	925,921	1,669,671
OPERATING INCOME (LOSS)	93,285	(26,196)	67,089
NON-OPERATING REVENUES (EXPENSES)			
Interest income	8,647	1,757	10,404
Interest expense	-	(34,933)	(34,933)
Miscellaneous	868	57,204	58,072
Rents & leases	-	1,500	1,500
Property taxes	47,405	47,405	94,810
Unrealized loss	(26,149)	(1,494)	(27,643)
Total non-operating revenues, net	30,771	71,439	102,210
NET INCOME BEFORE RESTRICTED REVENUE SOURCES	124,056	45,243	169,299
LEGALLY RESTRICTED REVENUE SOURCES			
Grant revenue (Restricted Use)	747,104	105,856	852,960
Total legally restricted revenues	747,104	105,856	852,960
CHANGE IN NET POSITION	$ 871,160	$ 151,099	1,022,259
TOTAL NET POSITION, BEGINNING OF YEAR			13,941,476
TOTAL NET POSITION, END OF YEAR			$ 14,963,735

SANTA NELLA COUNTY WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	Enterprise Funds		
	Water	**Sewer**	**Total**
OPERATING REVENUE			
Municipal and industrial water sales	$ 750,891	$ -	$ 750,891
Wastewater user fees	-	865,146	865,146
Total operating revenue	750,891	865,146	1,616,037
OPERATING EXPENSES			
General & administrative	349,145	344,180	693,325
Transmission & distribution	309,067	237,468	546,535
Water supply	101,376	-	101,376
Depreciation	52,486	315,942	368,428
Total operating expenses	812,074	897,590	1,709,664
OPERATING LOSS	(61,183)	(32,444)	(93,627)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	10,998	1,795	12,793
Interest expense	-	(37,437)	(37,437)
Miscellaneous	1,027	18,905	19,932
Rents & leases	-	1,500	1,500
Property taxes	46,564	46,564	93,128
Unrealized gain/loss	(8,056)	(969)	(9,025)
Loss on Disposal of Fixed Assets	-	(5,052)	(5,052)
Total non-operating revenues, net	50,533	25,306	75,839
NET LOSS BEFORE RESTRICTED REVENUE SOURCES	(10,650)	(7,138)	(17,788)
LEGALLY RESTRICTED REVENUE SOURCES			
Grant revenue (Restricted Use)	217,741	23,157	240,898
Total legally restricted revenues	217,741	23,157	240,898
CHANGE IN NET POSITION	$ 207,091	$ 16,019	223,110
TOTAL NET POSITION, BEGINNING OF YEAR			13,718,366
TOTAL NET POSITION, END OF YEAR			$ 13,941,476

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
Santa Nella County Water District
Santa Nella, 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 the Santa Nella County Water District (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Santa Nella County Water District's basic financial statements and have issued our report thereon dated February 14, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Nella County Water District's internal control over financial reporting (internal control) as a basis for designing 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 Santa Nella County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Nella County 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 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 Santa Nella County 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 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*.

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.

Mann Urrutia Nelson CPAs

Sacramento, California
February 14, 2023