

Western Canal Water District

Nelson, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

December 31, 2022 and 2021



Western Canal Water District

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Western Canal Water District
Nelson, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Western Canal Water District (the District), as of and for the years ended December 31, 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 accompanying financial statements present fairly, in all material respects, the financial position of the District as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and the state regulations governing special districts.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); the California State Controller's *Minimum Audit Requirements for California Special Districts*; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter—Effect of Adopting New Accounting Standard

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

INDEPENDENT AUDITORS' REPORT

(Continued)

Responsibilities of Management for the Financial Statements

The District's 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, as well as the accounting systems prescribed by the California State Controllers' Office and state regulations governing special districts; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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 GAAS, the California State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *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.

INDEPENDENT AUDITORS' REPORT

(Continued)

In performing an audit in accordance with GAAS, the California State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards* we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

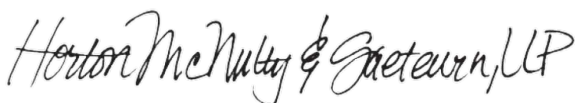
Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Board of Directors Listing is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

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



September 14, 2023
Chico, California

FINANCIAL SECTION

Basic Financial Statements

Western Canal Water District
STATEMENTS OF NET POSITION

December 31	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,260,189	\$ 5,151,426
Accounts receivable:		
Water	23,969	30,194
Standby charges	44,880	33,980
Other	84	423
Lease receivable - current	12,385	9,528 *
Prepaid expenses	5,529	9,192
Total Current Assets	3,347,036	5,234,743
Investments	2,212,969	1,196,831
Nondepreciated capital assets	996,123	898,806
Depreciated capital assets - net	11,081,088	11,095,148
Lease receivable - long-term portion	1,307,848	1,320,232 *
Other asset	130,057	130,057
TOTAL ASSETS	\$ 19,075,121	\$ 19,875,817
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued expenses	\$ 62,686	\$ 40,378
Advances from customers	47,760	35,876
Total Current Liabilities	110,446	76,254
Total OPEB liability	135,096	152,638
TOTAL LIABILITIES	245,542	228,892
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources from lease receivable	1,320,233	1,329,760 *
Deferred inflows of resources from OPEB	8,998	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,329,231	1,329,760
Net Position		
Investment in capital assets	12,077,211	11,993,954
Unrestricted	5,423,137	6,323,211
Total Net Position	17,500,348	18,317,165
TOTAL LIABILITIES AND NET POSITION	\$ 19,075,121	\$ 19,875,817

* As restated for implementation of GASB Statement No. 87.

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

Western Canal Water District

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended December 31	2022	2021
Operating Revenues		
Irrigation	\$ 724,599	\$ 730,809
Winter water	86,794	363,778
Standby fees	618,361	611,919
Total Operating Revenues	1,429,754	1,706,506
Operating Expenses		
Accounting	9,825	6,975
Advertising and promotion	2,619	182
Consulting and engineering	74,635	72,783
Depreciation	212,320	187,959
Dues and subscriptions	28,737	37,406
Employee benefits - health savings account	26,075	28,700
Equipment rental	146	124
Gas, oil, and fuel	57,178	40,893
Insurance:		
Health and workers' compensation	252,226	289,073
Other employee benefits	5,661	5,409
Property and liability	42,672	38,385
Legal	107,239	81,744
Miscellaneous	26,627	13,260
Northern California Water Association	131,891	122,640
Repairs and maintenance:		
Buildings	9,898	6,764
Canals	51,222	55,846
Vehicles and equipment	46,916	49,524
Pension expense	91,844	92,001
OPEB expense (benefit)	(8,544)	152,638
Salaries and wages	860,504	846,288
Supplies:		
Office	8,431	11,208
Operating and maintenance	11,185	7,812
Taxes - payroll	64,358	64,185
Telephone, radio, and computer	37,508	40,665
Travel and meetings	21,504	11,742
Utilities	6,003	11,682
Total Operating Expenses	2,178,680	2,275,888
Balance Forward	\$ (748,926)	\$ (569,382)

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

Western Canal Water District

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Continued)

Years Ended December 31	2022	2021
Balance Brought Forward	\$ (748,926)	\$ (569,382)
Other Operating Revenues (Expenses)		
Miscellaneous	26,552	25,536
Coldwater impact payments	605,201	487,907
Coldwater impact payments to landowners	(364,136)	(316,897)
Coldwater reimbursements	(381,602)	-
Contracted construction	2,388	5,946
Contracted construction labor and materials	-	(1,112)
Lease income	9,528	76,633
Consulting and engineering:		
Sustainable Groundwater Management Act	(4,723)	(25,089)
Environmental impact report	(22,168)	-
Sites Reservoir Project expenses	(5,000)	(5,000)
Total Other Operating Revenues (Expenses)	(133,960)	247,924
Net Operating Loss	(882,886)	(321,458)
Nonoperating Revenues		
Interest income	130,443	33,261
Net decrease in the fair value of investments	(83,907)	(30,957)
Gain on disposal of capital assets	19,533	22,567
Total Nonoperating Revenues	66,069	24,871
Change in Net Position	(816,817)	(296,587)
Total Net Position - Beginning of Year	18,317,165	18,613,752
Total Net Position - End of Year	\$ 17,500,348	\$ 18,317,165

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

Western Canal Water District
STATEMENTS OF CASH FLOWS

Years Ended December 31	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Service fees	\$ 2,080,971	\$ 2,462,863
Payments to suppliers	(1,283,321)	(933,410)
Payments to/on behalf of employees	(1,443,241)	(1,326,618)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(645,591)	202,835
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(313,613)	(166,073)
Proceeds from sale of capital assets	37,569	32,731
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(276,044)	(133,342)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in investments	(1,100,045)	(197,386)
Interest received	130,443	33,261
NET CASH USED IN INVESTING ACTIVITIES	(969,602)	(164,125)
Net Change in Cash and Cash Equivalents	(1,891,237)	(94,632)
Total Cash and Cash Equivalents - Beginning of Year	5,151,426	5,246,058
Total Cash and Cash Equivalents - End of Year	\$ 3,260,189	\$ 5,151,426
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (882,886)	\$ (321,458)
Adjustments to reconcile operating loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	212,320	187,959
Net changes in assets and liabilities:		
Accounts receivable	(4,336)	207,131
Lease receivable	9,528	(1,329,760) *
Prepaid expenses	3,663	7,609
Accounts payable and accrued expenses	22,308	15,752
Advances from customers	11,884	(46,796)
Total OPEB liability	(17,542)	152,638
Deferred inflows of resources from lease	(9,528)	1,329,760 *
Deferred inflows of resources from OPEB	8,998	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (645,591)	\$ 202,835

* As restated for implementation of GASB Statement No. 87.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity Western Canal Water District (the District) operates under an elected Board of Directors. The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Implementation of New Accounting Standard The District adopted the provisions of GASB Statement No. 87, *Leases*, as of January 1, 2022. This statement improves 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 as inflows of resources or outflows of resources recognized 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. This statement has been applied as of January 1, 2021, the beginning of the earliest period presented, resulting in an initial lease receivable and deferred inflows of resources for lease of \$1,406,146. The implementation did not affect net position.

Basis of Accounting The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resource measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net position.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, established financial reporting requirements for all state and local governments. The District has adopted the financial reporting provisions of GASB Statement No. 34, but has elected not to present management's discussion and analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Use of Estimates The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments Cash and cash equivalents includes demand deposits as well as short-term investments with an original maturity of three months or less at the date of acquisition.

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The District is generally authorized, under state statute and local resolutions, to invest in demand deposits with financial institutions, savings accounts, certificates of deposit, U.S. Treasury securities, federal agency securities, state of California notes or bonds, notes or bonds of agencies within the state of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the Local Agency Investment Fund (LAIF) of the state of California.

The District reports its investments in external investment pools at market value and the related realized and unrealized gains and losses in the statement of revenues and expenses. Investments in certificates of deposits and investments with remaining maturities of 90 days or less at the date of the financial statements are reported at amortized cost.

The District participates in LAIF, an investment pool managed by the state of California. As of December 31, 2022 and 2021, the LAIF pool included structured notes and asset-backed securities which total 1.62% and 0.67% of the total portfolio, respectively. These structured notes and asset-backed securities are subject to market risk as to change in interest rates. As of December 31, 2022 and 2021, the fair value of LAIF is 98.14% and 99.74% of the carrying value, respectively, and is deemed to not represent a material difference. There are no LAIF funds invested in derivatives as of December 31, 2022 and 2021. LAIF has oversight by the Local Investment Advisory Board (LIAB), which consists of five members as designated by statute. The Chairman of the LIAB is the State Treasurer or his designated representative. The District is considered to be a voluntary participant in the LAIF investment pool. LAIF has a weighted-average maturity of less than one year as of December 31, 2022 and 2021.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments was (\$83,907) and (\$30,957) during the years ended December 31, 2022 and 2021, respectively.

Accounts Receivable Accounts receivable consists primarily of amounts due from landowners and government agencies. The allowance method is used to account for potential uncollectible accounts receivable. The District does not obtain security for its accounts receivable; however, the District does have a policy for termination of water deliveries to landowners with past due accounts. Consequently, no allowance is deemed necessary.

Lease Receivable At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Lease receivables and deferred inflows of resources are reported in the statement of net position.

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Key estimates and judgments include how the District determines the discount rate it uses to discount the expected lease receipts to present value, the lease term, and lease receipts. The District uses the following key estimates and assumptions:

- The District uses its incremental borrowing rate as the discount rate for leases.
- The term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources from lease receivable if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Prepaid Expenses Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses.

Capital Assets Capital assets are defined by the District as assets that have an original cost or value of \$2,500 or more and an estimated useful life in excess of one year. Capital assets are recorded at cost while equipment contributed to the District is recorded at fair market value as of the date of donation. Maintenance and repair costs are expensed as incurred unless they extend the useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful life of the assets. The estimated lives range from 3 to 12 years for moveable equipment and from 20 to 200 years for water delivery equipment and structures.

Other Asset On January 17, 2017, the District entered into an agreement to become a member of the Sites Project Joint Exercise of Powers Agreement. The agreement requires the member districts to provide funding for the Sites Reservoir Project (the Project), based on the member's percentage of participation. The District held a 1.02% interest in the Project. The Project is in the conceptual stage, and there are no assurances that the reservoir will be constructed or that any water supplies will be developed as a result of participation in the Project. Upon completion of all phases of the Project, the District would have had a first right, based on the District's percentage of participation, to the water supply and storage capacity of the reservoir. As of February 26, 2019, the District withdrew from the Project. The District will receive the remaining investment paid for water rights back as the Project cash flow allows. As of both December 31, 2022 and 2021, the District expects to receive \$130,057 back from the Project. The District's annual membership cost is now \$5,000, which was expensed.

Compensated Absences Vested or accumulated sick leave and vacation pay are recorded as an expense and liability, respectively, as the benefits accrue to employees. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvested accumulated rights to receive sick pay benefits. Compensated absences are included in accounts payable and accrued expenses on the statement of net position.

Advances From Customers Advances from customers represent payments received from District customers in advance of water delivery.

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Deferred Outflows/Inflows of Resources In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), which will only be recognized as an outflow of resources (expense) in the future. District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the statement of net position. District contributions subsequent to the measurement date, if any, will be amortized during the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time.

Differences between projected and actual earnings on OPEB plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the statement of net position. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan.

Unearned lease revenue under the terms of a lease agreement with a third party is reported as deferred inflows of resources in the statement of net position. This amount is amortized over the term of the lease agreement, including any options to extend the lease.

Net Position The District's net position is classified as follows:

Investment in Capital Assets: The District's total investment in capital assets, net of accumulated depreciation.

Restricted Net Position: Resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position: All remaining net position not listed above.

Classification of Revenues The District's revenue is classified as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Activities that have the characteristics of exchange transactions, such as service fees.

Nonoperating Revenues: Activities that have the characteristics of nonexchange transactions, such as interest income and gain on sale of capital assets.

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

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. NATURE OF OPERATIONS

The District was formed on December 31, 1984, as a political subdivision of the state of California, pursuant to the provisions of Division 13 of the *California Water Code*. The District was organized for the purchase and operation of an irrigation water delivery system previously owned by Pacific Gas & Electric Company and services growers within its boundaries.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following is a summary of cash, cash equivalents, and investments:

December 31	Fair Value	
	2022	2021
Cash and Cash Equivalents		
Petty cash/cash awaiting deposit	\$ 9,562	\$ 124,155
Deposits (1)	31,278	24,035
Investments That Are Not Securities (2)		
Local Agency Investment Fund (LAIF)	3,144,055	4,846,717
Money market mutual fund	75,294	156,519
Subtotals	3,260,189	5,151,426
Investments		
U.S. government securities	1,917,957	583,096
Negotiable certificates of deposit	295,012	613,735
Subtotals	2,212,969	1,196,831
Total Cash, Cash Equivalents, and Investments	\$ 5,473,158	\$ 6,348,257

(1) **Deposits** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

(2) **Investments That Are Not Securities** A “security” is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Collateral for Deposits

Under the *California Government Code*, California banks and savings and loan associations are required to secure deposits made by state or local governmental units by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the total amount deposited by the 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.

Western Canal Water District
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

Custodial Credit Risk – Investment Securities

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investment policy does not limit the holding of investment securities by counterparties. The District’s investments in U.S. government securities and certificates of deposit were exposed to custodial credit risk as follows:

December 31	Fair Value	
	2022	2021
Uninsured and unregistered, with securities held by the counterparty or by the counterparty's trust department or agent, but not in the District's name	\$ 1,917,957	\$ 583,096

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to “prime” quality of the highest ranking, or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District’s investment policy further limits the type of investments to savings accounts, money market mutual funds, obligations of the U.S. government or agencies, certificates of deposit, and LAIF. The District’s investments in LAIF and money market mutual funds are unrated. The District’s investment securities were rated as follows:

December 31	Moody	
	2022	2021
AAA	\$ 1,917,957	\$ 583,096
Not rated	295,012	613,735
Totals	\$ 2,212,969	\$ 1,196,831

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the state investment pool:

No more than 40% may be invested in eligible commercial paper and no more than 10% may be invested in the outstanding commercial paper of any single issuer.

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Interest Rate Risk – Investments

California Government Code, Section 53601, limits the District’s investment to maturities of five years. The District has a formal investment policy that allows for maturities in excess of five years. Investments grouped by maturity date are as follows:

December 31, 2022	Less Than One Year	One to Five Years	Six to Ten Years	Over Ten Years
U.S. government securities	\$ -	\$ 1,756,363	\$ 161,594	\$ -
Negotiable certificates of deposit	-	295,012	-	-
Totals	\$ -	\$ 2,051,375	\$ 161,594	\$ -

December 31, 2021	Less Than One Year	One to Five Years	Six to Ten Years	Over Ten Years
U.S. government securities	\$ -	\$ 295,146	\$ 287,950	\$ -
Negotiable certificates of deposit	302,547	311,188	-	-
Totals	\$ 302,547	\$ 606,334	\$ 287,950	\$ -

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. The District holds no assets with level 3 inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

- LAIF is valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active;
- Money market funds are interest-bearing deposit accounts that are valued daily; and
- Debt and fixed income securities are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value. Each bond series has a unique set of variables including coupon payment, number of payments, interest rate, and the maturity value. These factors are used to determine the estimated market value and can be determined daily.

Western Canal Water District
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

The following table sets forth by level, within the fair value hierarchy, the District's investments at fair value:

December 31, 2022	Level 1		Level 2	
LAIF	\$	-	\$	3,144,055
Money market mutual fund		75,294		-
U.S. government securities		-		1,917,957
Negotiable certificates of deposit		295,012		-
Totals	\$	370,306	\$	5,062,012

December 31, 2021	Level 1		Level 2	
LAIF	\$	-	\$	4,846,717
Money market mutual fund		156,519		-
U.S. government securities		-		583,096
Negotiable certificates of deposit		613,735		-
Totals	\$	770,254	\$	5,429,813

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. CAPITAL ASSETS

Capital asset activity is as follows:

December 31, 2022	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciated Capital Assets				
Canal system	\$ 692,918	\$ -	\$ -	\$ 692,918
Little Dry Creek siphon	160,649	-	-	160,649
Construction in progress	45,239	97,317	-	142,556
Total Nondepreciated Capital Assets	898,806	97,317	-	996,123
Depreciated Capital Assets				
Little Dry Creek siphon	1,047,063	-	-	1,047,063
Butte Creek siphon	8,856,834	-	-	8,856,834
535 check structure	419,783	-	-	419,783
1190 check structure	526,764	-	-	526,764
Nelson check structure	903,738	-	-	903,738
875 control gates	574,866	-	-	574,866
Buildings	423,799	92,069	-	515,868
Equipment	2,405,038	44,308	-	2,449,346
Autos and trucks	459,767	79,919	70,411	469,275
Total Depreciated Capital Assets	15,617,652	216,296	70,411	15,763,537
Totals at Historical Cost	16,516,458	313,613	70,411	16,759,660
Less: Accumulated Depreciation				
Canal improvements	1,857,748	106,093	-	1,963,841
Buildings	423,461	12,777	-	436,238
Equipment	1,896,655	47,442	-	1,944,097
Autos and trucks	344,640	46,008	52,375	338,273
Total Accumulated Depreciation	4,522,504	212,320	52,375	4,682,449
Total Depreciated Capital Assets - Net	11,095,148	3,976	18,036	11,081,088
Capital Assets - Net	\$ 11,993,954	\$ 101,293	\$ 18,036	\$ 12,077,211

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

December 31, 2021	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciated Capital Assets				
Canal system	\$ 692,918	\$ -	\$ -	\$ 692,918
Little Dry Creek siphon	160,649	-	-	160,649
Construction in progress	-	45,239	-	45,239
Total Nondepreciated Capital Assets	853,567	45,239	-	898,806
Depreciated Capital Assets				
Little Dry Creek siphon	1,047,063	-	-	1,047,063
Butte Creek siphon	8,856,834	-	-	8,856,834
535 check structure	419,783	-	-	419,783
1190 check structure	526,764	-	-	526,764
Nelson check structure	903,738	-	-	903,738
875 control gates	574,866	-	-	574,866
Buildings	423,799	-	-	423,799
Equipment	2,366,043	47,897	8,902	2,405,038
Autos and trucks	440,689	72,937	53,859	459,767
Total Depreciated Capital Assets	15,559,579	120,834	62,761	15,617,652
Totals at Historical Cost	16,413,146	166,073	62,761	16,516,458
Less: Accumulated Depreciation				
Canal improvements	1,751,654	106,094	-	1,857,748
Buildings	423,208	253	-	423,461
Equipment	1,855,599	44,614	3,558	1,896,655
Autos and trucks	356,681	36,998	49,039	344,640
Total Accumulated Depreciation	4,387,142	187,959	52,597	4,522,504
Total Depreciated Capital Assets - Net	11,172,437	(67,125)	10,164	11,095,148
Capital Assets - Net	\$ 12,026,004	\$ (21,886)	\$ 10,164	\$ 11,993,954

5. RETIREMENT PLANS

The District established a money purchase pension plan as of October 1, 1987, covering employees who have attained age 21 and have been employed for two months. Assets are accumulated in a trust which meets the criteria in paragraph 4 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District has no rights to these monies; therefore, plan assets and liabilities are not reported on the District's financial statements. The District makes contributions to the plan equal to 11% of annual base salary on behalf of its covered employees. Participants must work at least 1,000 hours during the plan year. All regular full-time employees of the District are eligible to participate after they have met the plan entry requirements and become fully vested after six years of service. The District's Board of Directors establishes and may amend benefit terms. The District's contributions, which are recognized as expense, for the years ended December 31, 2022 and 2021, were \$89,984 and \$90,076, respectively.

The District also offers employees a deferred compensation plan created in accordance with *Internal Revenue Code*, Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years, with the District matching 20% of the employee's contribution up to \$10 per two-week pay period. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the "exclusive benefit of governmental plan participants." Consistent with this provision, the District has no rights to these monies; therefore, plan assets and liabilities are not reported on the District's financial statements. The District's Board of Directors establishes and may amend benefit terms. The District's contributions, which are recognized as expense, for the years ended December 31, 2022 and 2021, were \$1,860 and \$1,925, respectively.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

On October 19, 2021, the District's Board of Directors implemented a single-employer defined benefit healthcare plan (the Plan), which is administered by the District. The Plan provides postretirement medical, dental, and vision coverage to eligible employees who retire at age 59½ or older and who completed at least 25 years of service. Spousal coverage may be purchased at the retiree's expense. The Plan does not issue a separate stand-alone financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

For retirees who have reached age 59½ and completed at least 25 years of service, the District contributes 50% of the least cost plan with no health savings account contribution for medical, dental, and vision. A retiree must enroll in the plan they wish to retire into during the Open Enrollment period prior to retirement. Benefits cease once the retiree reaches Medicare eligibility.

Western Canal Water District
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

Employees Covered

Employees covered by the benefit terms of the Plan for years ended December 31, 2022 and 2021, consisted of:

Inactive Plan members or beneficiaries currently receiving benefit payments	1
Active Plan members	10
Total	11

Contributions

The contribution requirements of Plan members and the District are established and amended by the District's Board of Directors. Currently, the District's policy is to contribute to the Plan on a pay-as-you-go basis. For the years ended December 31, 2022 and 2021, the District contributed \$12,205 and \$-0-, respectively, representing premium payments on behalf of retired employees.

Total OPEB Liability

The total OPEB liability of the Plan is measured as of December 31, 2022 and 2021, using an actuarial valuation as of December 31, 2021. For the measurement date December 31, 2022, the actuarial valuation as of December 31, 2021 was rolled forward to December 31, 2022, using standard update procedures. Standard actuarial procedures were used to project/discount from valuation to measurement dates. The December 31, 2022 and 2021, total OPEB liability was based on the actuarial methods and assumptions as shown below.

Actuarial Assumptions

The following actuarial assumptions were applied to all periods included in the measurements, unless otherwise specified:

Years Ended December 31	2022	2021
Valuation date	December 31, 2021	December 31, 2021
Measurement date	December 31, 2022	December 31, 2021
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Salary increases	3.00%	3.00%
Consumer price inflation	2.75%	2.75%
Healthcare cost trend rate	5.50% ⁽¹⁾	5.50% ⁽¹⁾

(1) For fiscal years 2021-2023, 5.20% for 2024-2069, and 4.00% for 2070 and later years.

Mortality is based on Mortality Rates from CalPERS Experience Study (2000-2019). Actuarial assumptions used in the December 31, 2021, valuation were based on a review of plan experience during the period December 31, 2020, to December 31, 2021.

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Discount Rate

The discount rate used to measure the total OPEB liability for the years ended December 31, 2022 and 2021, was 4.05% and 1.84%, respectively. The discount rate is based a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the Plan are as follows:

Years Ended December 31	2022	2021
Total OPEB Liability		
Service cost	\$ 3,155	\$ 523
Interest	2,755	463
Changes of assumptions	(11,247)	-
Benefit payments - including refunds of employee contributions	(12,205)	-
Net Change in Total OPEB Liability	(17,542)	986
Total OPEB Liability - Beginning of Year	152,638	151,652 ⁽¹⁾
Total OPEB Liability - End of Year	\$ 135,096	\$ 152,638
Covered-employee payroll	\$ 859,829	\$ 846,047
District's total OPEB liability as a percentage of covered-employee payroll	15.71%	18.04%

(1) Retiree Benefit Policy approved October 19, 2021. Plan commenced November 1, 2021.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

For the year ended December 31, 2022, the following presents the District's total OPEB liability calculated using the discount rate of 4.05%, as well as the District's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (3.05%) or one percentage point higher (5.05%) than the current rate:

	1% Decrease (3.05%)	Current Discount Rate (4.05%)	1% Increase (5.05%)
December 31, 2022			
Total OPEB liability	\$ 140,251	\$ 135,096	\$ 129,891

For the year ended December 31, 2021, the following presents the District's total OPEB liability calculated using the discount rate of 1.84%, as well as the District's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (0.84%) or one percentage point higher (2.84%) than the current rate:

	1% Decrease (0.84%)	Current Discount Rate (1.84%)	1% Increase (2.84%)
December 31, 2021			
Total OPEB liability	\$ 158,277	\$ 152,638	\$ 146,868

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

For the years ended December 31, 2022 and 2021, the following presents the District's total OPEB liability calculated using the healthcare cost trend rate of 5.50%, as well as the District's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (4.50%) or one percentage point higher (6.50%) than the current rate:

	1% Decrease (4.50%)	Health Cost Trend Rates (5.50%)	1% Increase (6.50%)
December 31, 2022			
Total OPEB liability	\$ 127,183	\$ 135,096	\$ 143,546

	1% Decrease (4.50%)	Health Cost Trend Rates (5.50%)	1% Increase (6.50%)
December 31, 2021			
Total OPEB liability	\$ 144,330	\$ 152,638	\$ 161,514

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the years ended December 31, 2022 and 2021, the District recognized OPEB expense (benefit) of (\$8,544) and \$152,638, respectively.

At December 31, 2022, the District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 8,998

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31	
2023	\$ (2,249)
2024	(2,249)
2025	(2,249)
2026	(2,251)
Total	\$ (8,998)

At December 31, 2021, the District had no deferred outflows or inflows of resources related to OPEB.

Western Canal Water District
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

7. LEASE RECEIVABLE

In January 2019, the District (lessor) entered into an agreement with a third party (lessee), to lease a portion of the District's property, including air space above such property, for the placement of the lessee's communications equipment. The lease agreement was for a term of twenty years, after which time the lease would renew for another five years on written notice of intent by the lessee. The lease contract ends in 2043.

Each year, the lease payments increase by the greater of 3% or the applicable Consumer Price Index factor. For the years ended December 31, 2022, and 2021, the District recognized \$9,528 and \$76,633 in lease income, respectively, and \$69,148 and \$-0- in interest income, respectively.

Future expected minimum payments are as follows:

Year Ended December 31	
2023	\$ 81,037
2024	\$ 83,468
2025	\$ 85,972
2026	\$ 88,551
2027	\$ 91,207
2028-2032	\$ 498,760
2033-2037	\$ 578,199
2038-2042	\$ 670,291
2043	\$ 146,361

8. RISK MANAGEMENT

The District has obtained general liability, auto liability, public officials' liability, workers' compensation, property coverage, fidelity coverage, and employee health insurance through the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA), a joint powers authority of the California public water agencies.

December 31, 2022 and 2021	JPIA Pooled Amount	Commercial Insurance Additional Coverage
General, auto, and public officials' liability	\$ 5,000,000	\$ 55,000,000
Workers' compensation	\$ 2,000,000	\$ 4,000,000
Property coverage	\$ 100,000	\$ 500,000,000
Fidelity	\$ 100,000	\$ -

Western Canal Water District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Each member's share of pooled insurance costs depends on the losses of all members. In addition, the cost to a member district will also depend on the loss experience of that district. Districts with a consistent record of costly claims will pay more than districts with a consistent record of less serious claims activity. Settled claims resulting from the risks identified above have not exceeded insurance coverage in the past three years. No significant reductions in insurance coverage from the prior year have been made.

A representative of each member district, appointed by the board of directors of that district, serves on the board of directors of the JPIA. The board of directors is responsible for deciding the risks the JPIA will underwrite, monitoring the costs of claims, and arranging financial programs. Each member of the board of directors has an equal vote in matters concerning the JPIA.

The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPIA. Separately issued financial statements can be requested from the JPIA.

9. CONTINGENCIES

Water Rights

The District is closely monitoring water rights issues throughout the state of California. These issues include the Bay/Delta investigations by the State of California Water Resources Control Board and the development of ordinances or regulations by the County of Butte affecting groundwater use and/or its substitution for transferred surface water. Each of these issues has the potential to impact the District's available water supply. It is not possible at this time to determine the outcome or impact, if any, on the District's operations.

10. SUBSEQUENT EVENTS

Equipment Purchase

In March 2023, the District purchased a backhoe at a total cost of \$137,338. The District received a trade-in credit of \$44,500, for a net cash paid of \$92,838.

Contract Commitment

In April 2023, the District entered into a contract for \$424,579 for design services and the completion of environmental compliance documentation in relation to the Front Slides Gates Replacement Project (the Project). No construction related to the Project has commenced as of the date of this report. Completion of the Project is estimated in January 2025.

Required Supplementary Information

Western Canal Water District

SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Years Ended December 31	2022		2021	
Total OPEB Liability				
Service cost	\$	3,155	\$	523
Interest		2,755		463
Changes of assumptions		(11,247)		-
Benefit payments - including refunds of employee contributions		(12,205)		-
Net Change In Total OPEB Liability		(17,542)		986
Total OPEB Liability - Beginning of Year		152,638		151,652 ⁽¹⁾
Total OPEB Liability - End of Year	\$	135,096	\$	152,638
Covered-employee payroll	\$	859,829	\$	846,047
District's total OPEB liability as a percentage of covered-employee payroll		15.71%		18.04%

(1) Retiree Benefit Policy approved October 19, 2021. Plan commenced November 1, 2021.

See the accompanying note to the required supplementary information.

Western Canal Water District
SCHEDULE OF DISTRICT'S CONTRIBUTIONS - OPEB

Years Ended December 31	2022		2021	
Contractually required contribution	\$	12,205	\$	-
Contributions in relation to the contractually required contribution		(12,205)		-
Contribution Deficiency (Excess)	\$	-	\$	-
Covered-employee payroll	\$	859,829	\$	846,047
Contributions as a percentage of covered-employee payroll		1.42%		0.00%

See the accompanying note to the required supplementary information.

Western Canal Water District

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. TOTAL OPEB LIABILITY

Changes in Benefit Terms

The District implemented the initial benefit terms during the measurement period ended December 31, 2021. There were no significant changes of benefit terms during the measurement period ended December 31, 2022.

Changes in Assumptions

There were no significant changes of assumptions during the measurement periods ended December 31, 2022 and 2021. The plan was first approved by the District's Board of Directors on October 19, 2021.

Assets to Pay Related Benefits

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 as of December 31, 2022 and 2021.

OTHER REPORT SECTION

INDEPENDENT AUDITORS' 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
Western Canal Water District
Nelson, California

We have audited, 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, the financial statements of Western Canal Water District (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 14, 2023.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' 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

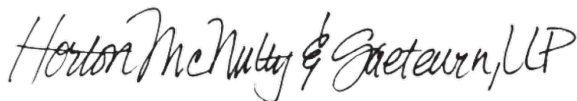
(Continued)

Compliance and Other Matters

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

Purpose of This Report

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



September 14, 2023
Chico, California

OTHER SUPPLEMENTARY INFORMATION SECTION

Western Canal Water District

BOARD OF DIRECTORS LISTING

December 31, 2022

Name	Office	Term Expires
Greg Johnson	President	2025
Eric Larrabee	Vice President	2023
Correen Davis	Director	2023
Bryce Lundberg	Director	2023
Josh Sheppard	Director	2025

Manager

Ted Trimble