

Independent Review Tumalo Irrigation District (TID)

This document summarizes my review of :

1. TID's main Policies and Procedures
2. The 2020 through 2025 Financials (“actuals” as captured in both P&L and Balance Sheet)
3. The Planning Processes (Budget and Strategic plan)
4. The 2020 through 2024 External Audits

My main objective is to make an independent assessment of the organization before I join the board on January 13th 2026.

Assumptions/Disclaimers

- This document is based on publicly available information. TID's employees have been transparent and willing to cooperate to all my data requests.
- I am writing this report from the perspective of a Patron, not a (future) Board member.
- My review both has a financial and operational scope. *Financial audits* make an assessment of the company's books compared to accounting standards. *Operational audits* provide an opinion of the organization's governance and how efficiently it is run. I am following procedures which during my corporate life were used to perform due diligence on acquisition targets.
- I spent 30 years in Finance, with specialization in following sub-disciplines : Chief Financial Officer, VP Global Financial Planning & Analysis and VP Internal Audit. My educational background is : BS in Economics, Law Degree, and professional designations as a CFA (Chartered Financial Analyst) and CIA (Certified Internal Auditor).
- All of my experience is with publicly listed ‘for profit’ multi-billion \$ multinationals. I come from an highly regulated environment which was under a lot of regulatory and compliance scrutiny. I have no experience in the non-profit sector, which does not seem to be held to the same rigorous standards nor have the same litigation risk.
- I ask for your indulgence with my phrasing; while I am fluent in English, it remains my third tongue.
- My report is written on an ‘exception basis’, which means that while a lot of what I looked at might be perfectly fine, I will only point out the areas in need of improvement. Areas in need of improvement are flagged as “**Observations**”, which flag discrepancies compared to prevailing law or best practices. All of them are followed up by “**Recommendations**”, which are a personal suggestion on how to remediate, in most cases based on my extensive corporate experience. Having said that, I realize that as a (future) board member I will have to seek buy-in from all other directors and obtain a quorum if I want any of my recommendations to materialize.
- None of what follows should be interpreted as criticism against any TID Employee or Board Member. As mentioned, I come from a very regulated environment and the only intention of this document is to serve as a road-map to help bring the organization to the next level.

Sincerely,

Yves Teirlynck (yves_teirlynck@yahoo.com)

1. Review of TID’s main Policies and Procedures

A review of TID’s main policies and Procedures reveals the following picture :

	Implemented, functioning as intended
	Implemented, not functioning as intended
	Not available / Non-existing

Company Wide

Bylaws		Recently updated. Might need a couple of updates/clarifications (see observation #1)
Delegation of Authority		Not available (see observation #2)
Procurement Policy		Not available (see observation #3)
Budget Process		Implemented, but not aligned with previous year’s actual performance or strategic plan (obs # 15)
Strategic Planning Process		No evidence of a recent strategic plan (see observation #16)

HR Related

Job Descriptions		All positions are covered by Job Descriptions. All 'Admin' positions are in need of an update. Field is OK.
Annual Objectives		Not available (see observation #4)
Annual Mid-Year Review		Not implemented (see observation #4)
Annual Performance Review		Mentioned on p20 of Personnel Manual. Process lacks consistency and maturity. (see observation #4)
Performance Improvement Process		Not implemented (see observation #4)
Compensation Policy		p25 discusses a compensation 'philosophy'. Lacks guidance (see observation #5)
Bonus policy		p29 personnel manual (see observation #5)
Oregon Paid Leave Policy		
Vacation/Holidays		
Sick Leave		
Health Insurance/Dental		
Life Insurance		
Substance Abuse		
Leave of Absence		
Whistle Blower Policy		

Finance

Chart of Accounts		Needs to be updated. See observation #12
Accounting Policy		US GAAP
Segregation of Duties		Not always possible due to size of organization
Petty Cash Policy		
Expense Note Policy		

Observation # 1 : Bylaws (last changed August 2025)

- Section B : The ‘Chair’ is referred to as somebody who holds the powers of a CEO (Chief Executive Officer). For somebody with a corporate background this is confusing, since a CEO is actually in charge of all operational and day to day activities of a company, while (the Chair of) the Board has a strategic role. Furthermore, Oregon law vests management and contracting authority in the board as a body, not in any single director or the Chair. Board action must occur at a duly noticed public meeting with a quorum and a majority vote. The Chair’s role is to preside over these meetings and to sign documents that the board has approved. Positioning the Chair as the CEO could lead to a misconception of excessive powers held by 1 individual.
- Section C : “The board shall operate based on a Budget”; “The Board shall pass a Budget at the Annual Meeting”. Oregon law considers TID exempt from having a Budget, see observation #15 later on in this document.
Furthermore, the Budget section in the Bylaws elaborates on the Vouchers and Petty Cash processes. These are day to day activities which are not part of any Budget process.

3. Section D : Special Funds. This entire section lacks specific definitions and guardrails. As can be read in observation #7 later on in the document, this has resulted in critical activities which are at the core of water delivery (e.g. repairs to infrastructure, bank accounts which fund critical activities,...) to be labeled 'special' and isolated from the rest of our activities, subject to discretionary Board decisions and only in need of 2 director's signatures to trigger payments out of said funds.

Recommendation : Update Bylaws. Make sure to align with prevailing State and Federal Law. Clearly define guardrails as to the Board's authority.

Observation # 2 : Delegation of Authority : Non-existing. A delegation of authority (DOA) document is a formal written instrument—often in the form of a policy, letter, matrix, or table—that outlines how decision-making power and responsibilities are transferred from a higher-level authority (such as Board of Directors or District Manager) to lower-level individuals or positions within an organization, government agency, or institution. Key Purposes : 1] Clarifies authorized actions — It specifies who can approve purchases, sign contracts, commit resources, execute agreements, or make other binding decisions, often with limits (e.g., dollar amounts, time periods, or types of transactions). 2] Establishes internal controls — Prevents unauthorized actions, reduces risks, and ensures accountability while allowing efficient operations. 3] Delegates authority, not ultimate responsibility — The delegator (e.g., the Board or District Manager) typically retains overall accountability, even if tasks are passed down.

Recommendation : Roll out Delegation of Authority in order to strengthen internal control environment. Make this a living document, subject to periodical reviews.

Observation # 3: Purchasing Policy. There is no clearly nor consistently applied procurement policy. A purchasing policy is a formal set of guidelines, rules, and procedures that an organization establishes to govern the acquisition of goods, services, and supplies from external sources. It serves as a framework to ensure that all purchasing activities are conducted efficiently, ethically, transparently, and in alignment with the organization's strategic goals, budget constraints, and legal requirements. This policy can be a sub-set of the above mentioned Delegation of Authority.

During my review I could not identify a solid Purchasing Policy nor any other form of compensating control. Following process serves as a proxy :

- Checks need to be signed by 2 different board members;
- A 'voucher' list is being sent around for approval during every Board Meeting, but I have never witnessed any of the expense items being challenged.

Recommendation : Develop/improve current procurement process and policy : clearly define purpose, scope, and roles; establish approval thresholds and processes (3-way match); promote transparency and accountability; incorporate ethics and conflicts of interest; encourage competition and best value (competitive bids); provide training and clear communication; review and update regularly.

Observation # 4 : Performance Review Cycle. While a small section of the Personnel Manual discusses Performance Evaluations, TID's process lacks maturity and cannot be considered a tool that can bring the organization to the next level. The current process is based on a review versus a job description which is often outdated or was created to advertise an vacant position. The current process fails to help the employee understand his/her performance, strengths and opportunities. Furthermore, no clear link is created between the employee's performance and the organization's goals, which can have different nuances from one year to the next.

Recommendation : Develop a Performance Review Cycle which incorporates best practices such as :
1] setting *annual objectives* for the individual employee, aligned with the organization's overall goals;
2] providing the opportunity for a *Mid-Year check-in* where progress against objectives is discussed with the manager; 3] conducting a *Year-end review* after the year has been closed and performance can be measured against original and measurable objectives. Seek 360 degree feedback from superiors, subordinates and customers (patrons) 4] A *Performance Improvement Plan* can be used to set measurable milestones for employees who are struggling to meet both their own and/or the organization's objectives and as such may be terminated from the organization.

Observation # 5 : Compensation Policy. The section included in the Personnel Manual that discusses Compensation is too vague to have an impact on the organization's goals. It is closer to a philosophy or aspiration, rather than a tool that can bring the organization to the next level. A well-designed compensation policy is essential for attracting, motivating, and retaining talent while aligning employee efforts with organizational goals. It promotes fairness, ensures legal compliance, and supports business objectives.

Recommendation : Beef up the current Compensation Policy and incorporate following HR best practices : fairness and equity; competitiveness; alignment with organizational goals and values; seamless integration with the Performance Review cycle as discussed above; transparency; legal compliance; comprehensive total rewards (aside from salary also includes all other benefits, which can be substantial); regular review. A benchmark exercise with other small sized (quasi-governmental) organizations whose internal controls are at a higher maturity level is recommended.

2. Review of TID’s 2020 – 2025 Financial Statements

At the time of review, all fiscal years through 2024 had been ‘closed’ and subject to an external audit which gave them a clear bill of health. For 2025 I was able to review ‘actual numbers’ through the month of October. The financial statements subject to review are the following : 1] Profit & Loss Statement (“P&L”); 2] Balance Sheet; 3] Statement of Cash Flow

Observation # 6 : The Board and Management **primarily focus on the P&L**, both during their monthly reviews of the financials and during the budget process. As we will see during subsequent observations, omission of the balance sheet may lead to (unintended) inaccuracies.

Recommendation : Educate TID leadership on all aspects of the financial statements. Start to focus more on the Balance sheet and as a minimum conduct quarterly Balance Sheet and Cash Flow reviews.

2.1 Profit and Loss Statement (“P&L”) See **Exhibit 1**

A profit and loss (P&L) statement, also known as an income statement, is a financial statement that summarizes a company's revenues, costs, expenses, and profits/losses for a specified period. It provides information about a company’s ability to generate revenues, manage costs, and make profits. However, since we are dealing with a quasi-governmental organization, there is no ‘for profit objective’, resulting in a designation as a “no surplus” type of quasi-governmental organization. Here’ a quick comparison between a ‘for profit’ and ‘non-profit’ organization :

For Profit Company	Not For profit, such as TID
+ Revenue	+ Revenue (mainly patron’s fees)
- <u>Cost of Goods</u>	- <u>Cost of Goods (we have none)</u>
= Gross Profit	= Gross Profit
- Overhead Expenses	- Overhead Expenses (mainly employee and infrastructure cost)
- Other Income & Expenses	- Other Income & Expenses (not related to running an irrigation district)
= Profit	= No Profit (Should be close to zero)

Exhibit 1 attached to this document shows all P&Ls from 2018 through 2024. I have added additional perspective by showing percentages and annual growth rates.

Observation # 7 : About 97% of the Irrigation District’s Income comes from charges to its patrons. While the charges for water delivery on a cost per acre basis have historically been relatively stable, the past couple of years have shown a **considerable growth in charges for ‘special projects’**. The intent of these charges, which now total to more than \$200K/year or in excess of 15% of TID’s total income, is to build a reserve fund to cover future major repairs, replacements, projects and capital improvements without relying on sudden special assessments or loans that burden members. Unfortunately, **from an accounting point of view, this has not been implemented correctly**. The amounts associated with building such reserves were booked as income, but never moved to the liability side of the balance sheet where these funds should have been set-up as a ‘provision’. This has resulted in all of this extra income to flow to the P&L’s bottom line profit. During year-end close this extra profit is moved to Retained Earnings (Equity) on the Balance Sheet. **Exhibit 3** provides some more perspective on how these reserves should be established, including the correct bookings in the accounting system.

Recommendation : The collection of any extra income geared toward establishing reserve funds needs to be stopped immediately and should not be a 2026 Budget item. A total of \$1.3Mio in such reserve funds has already been collected since 2019, which basically covers an entire Fiscal Year's cost structure. All of this money is sitting on the Balance Sheet in Cash and Retained earnings. The main questions are :

1. how do we move the money *where it belongs* on the Balance Sheet ?
2. and more importantly : *what is the correct amount* ? Before we can even make a correction and book the required provision on the balance sheet, the Board first needs to determine the organization's funding needs and goals, supported by an expert's assessment (see exhibit 3).

This cannot go on forever :

- any special provision for future major repairs needs to be established according to the rules and boundaries as defined in US GAAP (generally accepted accounting principles);
- potential coverage by either insurance or grants also needs to be part of the equation;
- these charges for special assessments have put extra burden on our patrons and need to be implemented with due consideration for their personal finances;
- TID is not a for profit organization, we cannot keep on bringing \$200K to the bottom line on an annual basis.

Furthermore, TID has recently performed some major repairs/restorations to both Stidle Dam (+/- \$600K spread over 3 years) and the Tumalo Diversion (+/- \$100K since September this year). The majority of these costs have been expended during the year in which they occurred, and as such should reduce the amount of any required provision.

Observation #8 : As part of both the 2021 and 2022 assessments, TID collected **special assessments associated with the "Stop the Pipe" lawsuit**. These funds ended up not being used and as such need to be returned to the patrons. Similar to the observation above, **no legal provision was established** and the extra assessment was booked as regular income, ultimately flowing to Profit on the P&L and ending up as Cash and Retained earnings on the Balance Sheet. According to US GAAP (more guidance in **Exhibit 4**), a special "litigation provision" should have been established on the liability side of the Balance Sheet. The rules surrounding such legal provision, which require periodical testing and immediate reversal once the threat of increased legal costs goes away, would have allowed TID to reimburse their patrons several months ago.

Recommendation : Reimburse patrons immediately. Since the special assessments were treated as regular income and were gaining interest with the rest of TID's cash position, the reimbursement should include interest covering the period from collection till reimbursement.

Observation #9 : TID is the beneficiary of **2 loans granted by the DEQ** (Dept of Environmental Quality). One of the loans runs through 2031 (total interest, including service fee = 3.38%) , while the other one runs through 2040 (@2.68%). The patrons pay for these loans through a separate line item on their annual bill. With the recent change back to Quantitative Easing and continued interest rate cuts in the foreseeable future, it really does not make sense to have the patrons pay for loans (all the way through 2040) which we do not need to run our business and which are more expensive compared to market rates. Moreover, as explained in observation 10 below, the organization has been sitting on a big cash reserve for years now. There really is no need to have the patrons fund unnecessary loans.

Recommendation : Pay off loans. Remove these line items from the annual patron's assessment.

Observation #10 : **Interest on Cash in Bank Accounts**. TID has historically been sitting on large cash balances (currently close to \$3mio). While investing options are limited by law, the organization did not look into maximizing return on these idle cash balances and kept them in a 0.25% interest

bearing account. Below is a quick calculation of the missed opportunity to generate an incremental \$426,000 in interest income had the moneys been invested in US Treasury 3 month rolling T-Bills. It is especially the lack of investment during the period of quantitative tightening (post COVID) where interests spiked above 5% which results in the bulk of the missed opportunity. Disclaimer : our idle cash has been invested in an appropriately insured money market account since September 2025 and is now generating acceptable returns.

TID Balance Sheet (in thousands of \$)					In thousands of dollars							
	Cash	LT Cash	Total Cash	Movements	Deduct \$200K current operations	Official Treasury term I-rate	US Treasury short realized	Minus 0.25% that was	Applied I-rate	Principal used for calculation	Q Interest	Total cumulative missed opportunity
03/2022	\$407	\$2,070	\$2,477		\$2,277	0.90%	-0.25%	0.65%	\$2,277	\$4	\$4	
06/2022	\$273	\$2,149	\$2,422	-\$55	\$2,222	2.60%	-0.25%	2.35%	\$2,226	\$13	\$17	
09/2022	\$316	\$2,176	\$2,492	\$70	\$2,292	4.15%	-0.25%	3.90%	\$2,309	\$23	\$39	
12/2022	\$98	\$2,071	\$2,169	-\$323	\$1,969	4.92%	-0.25%	4.67%	\$2,008	\$23	\$63	
03/2023	\$610	\$2,207	\$2,817	\$648	\$2,617	5.31%	-0.25%	5.06%	\$2,680	\$34	\$97	
06/2023	\$197	\$2,452	\$2,649	-\$168	\$2,449	5.51%	-0.25%	5.26%	\$2,546	\$33	\$130	
09/2023	\$157	\$2,353	\$2,510	-\$139	\$2,310	5.57%	-0.25%	5.32%	\$2,440	\$32	\$163	
12/2023	\$112	\$2,050	\$2,162	-\$348	\$1,962	5.50%	-0.25%	5.25%	\$2,125	\$28	\$190	
03/2024	\$382	\$3,517	\$3,899	\$1,737	\$3,699	5.53%	-0.25%	5.28%	\$3,889	\$51	\$242	
06/2024	\$216	\$2,301	\$2,517	-\$1,382	\$2,317	5.43%	-0.25%	5.18%	\$2,559	\$33	\$275	
09/2024	\$240	\$2,381	\$2,621	\$104	\$2,421	4.72%	-0.25%	4.47%	\$2,696	\$30	\$305	
12/2024	\$222	\$2,253	\$2,475	-\$146	\$2,275	4.32%	-0.25%	4.07%	\$2,580	\$26	\$331	
03/2025	\$485	\$2,306	\$2,791	\$316	\$2,591	4.33%	-0.25%	4.08%	\$2,922	\$30	\$361	
06/2025	\$492	\$2,343	\$2,835	\$44	\$2,635	4.73%	-0.25%	4.48%	\$2,996	\$34	\$395	
09/2025	\$198	\$2,968	\$3,166	\$331	\$2,966	4.00%	-0.25%	3.75%	\$3,361	\$32	\$426	

Recommendation : Keep on looking for opportunities to maximize return on idle cash. When dealing with local and/or regional banks, make sure to investigate ‘mark to market’ risk associated with any long terms Bonds on their balance sheet.

Observation # 11 : Personnel Cost has grown exponentially since 2022, at a pace which is not sustainable. While during the period 2022→2025 total headcount has been reduced from 8 to 6, the total loaded cost per employee has increased from +/--\$100K to +/--\$140K. We are now paying slightly more for a smaller organization of 6 employees, compared to the 2021 legacy organization of 8.

Name	Title	Hired	Last day	Seniority	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Budget	2026 Prelim. Budget					
Ken	District Manager	04/18/91	05/31/21	30.2	\$122,149	\$124,347	1.8%									
					Bonus :	\$5,000	0.0%									
Robert	Field Supervisor	11/01/79	07/31/22	46.6	\$79,067	\$76,419	1.8%	\$79,477	4%							
Steve	Ditch Rider	01/01/87	11/05/21	34.9	\$61,194	\$62,296	1.8%									
Michael	Ditch Rider	05/01/05	05/08/22	17.0	\$55,432	\$56,430	1.8%	\$59,488	5%							
Ryan	Maintenance	06/02/14	12/03/21	3.5	\$48,776	\$49,982	2.5%									
Deborah	Office Assistant	02/26/16	07/31/22	6.4	\$39,000	\$40,040	2.7%	\$41,600	4%							
Langston	Ditch Rider	01/03/22	03/31/22	0.2				\$48,880								
Brent	Ditch Rider	01/03/22	02/06/23	1.1				\$45,240								
Hayden	Ditch Rider	08/08/22	07/09/24	1.9				\$55,640	23%							
Mason	Ditch Rider	04/24/23	11/29/24	1.6				\$57,866		\$59,592	3%					
Chris	Assistant DM	05/15/17	05/31/21	4.0	\$79,626	\$84,834	6.5%	\$52,000		\$53,560	3%					
Chris	District Manager	06/01/21		4.0			\$110,000	30%	\$125,000	14%	\$135,000	8%				
					Bonus :	\$5,000	100%	\$10,000	0%	TBD	2%	\$142,526	3%			
April	Office Manager	04/24/14		11.0	\$70,096	\$75,150	7.2%	\$81,661	9%	\$90,147	10%	\$99,632	6%	\$102,621	3%	
					Bonus :			\$90,147	10%	\$94,266	5%	\$99,632	6%	\$102,621	3%	
Margaret	Office Assistant	08/01/22		3.0			\$47,840	\$57,866	21%	\$59,592	3%	\$64,064	8%	\$66,144	3%	
Matt	Field Supervisor	04/11/22		3.0			\$45,760	\$68,994	51%	\$72,842	6%	\$78,416	8%	\$84,864	8%	
Cord	Ditch Rider	07/31/24		1.0				\$56,160		\$62,400	11%	\$62,400	11%	\$72,592	16%	
Eric	Ditch Rider	01/22/25		0.0				\$62,400		\$62,400		\$62,400		\$72,592	16%	
Plug					\$6,486	-\$55,979	-\$128,269	-\$4,872	\$2,324	\$63,960	TBD	TBD	TBD	TBD	TBD	
Total Salary Expenses					\$562,826	\$518,521	-7.9%	\$483,477	-7%	\$512,640	6%	\$543,335	6%	\$569,247	5%	TBD
Health/Life/Dental Ins.					\$202,579	\$198,466	\$145,553	\$171,592	\$164,204	\$190,000	\$176,183					
Less Employee Contribution					-\$10,110	\$0	\$0	\$0	\$0	\$0	\$0					
Payroll Taxes					\$43,186	\$39,721	\$37,099	\$39,360	\$41,031	\$50,867	\$49,538					
Workers' Compensation					\$8,272	\$8,287	\$6,043	\$5,929	\$9,366	\$9,000	\$8,000					
Retirement-Employer Contribution					\$16,633	\$14,981	\$9,629	\$11,865	\$12,760	\$16,956	\$16,513					
Total Other Payroll Expenses					\$260,560	\$261,455	0.3%	\$198,324	-24.1%	\$228,747	15.3%	\$227,361	-0.6%	\$266,823	17.4%	TBD
Total Payroll					\$823,386	\$779,976	-5.3%	\$681,801	-12.6%	\$741,387	8.7%	\$770,696	4.0%	\$836,070	8.5%	TBD
# of Employees					8.00	8.00	6.17	6.75	6.92	6.00	6.00					
Cost/Employee					\$102,923	\$97,497	\$110,562	\$109,835	\$111,426	\$139,345	TBD					

Recommendation :

- Benchmark local roles and responsibilities against irrigation districts or quasi-governmental organizations of similar size. Look at ‘total comp’ (salary, healthcare plan, other insurance,

401K match, personal use of company vehicle, etc...). Also take into account seniority with the company, experience and level of education.

- Tie compensation and salary increases to measurable objectives (see observation #4)
- Beef up performance review and compensation processes (see observation #5)
- Make sure that any salary or other indirect compensation commitments/decisions do not reside in the hands of a single person. Example : when the ‘field’ crew was permanently reduced from 4 to 3 headcount, a commitment was made to spread part of the eliminated position’s salary over the 3 remaining employees since there was an assumption of increased productivity. Intuitively this does not make sense since the entire Field crew have non-exempt status and are entitled to either overtime pay or 1.5 times recovery in case they work in excess of their 40 hour work week.
- Take into account total rewards, not just salary. Educate both Management and the Board on the long term effects of these decisions.
- Strengthen associated internal controls by capturing this critical process in the delegation of authority document.

Observation # 11 : Zero Surplus (Non Profit) Entity. TID, a quasi-governmental organization, is not in the business to make a loss nor a profit. The organization’s purpose is to deliver water to its patrons, who also fund most (97%) of its income. Said funding and the associated annual assessment (per account) is determined by a Budget. While most budgets for the period under review (2020→2024) were neutral and were in line with the ‘no profit’ objective, the organization did make substantial profit once the books for every single one of these years were closed. In other words, the ‘actuals’ differ substantially from the Budget. This is confirmed when we look at the Balance Sheet and see a ever increasing Cash and Retained Earnings position. What is the reason ? The bulk of these surpluses are primarily driven by the ‘special project’ line items, which total about \$200K per year.

Recommendation : The organization needs to revamp its Budget process and the associated membership assessment calculation. The recommendations as included in Observations 1, 7 and 11 should be part of this Budget Process re-design.

Observation # 12 : The organization’s **Chart of Accounts** and the resulting **Financial Reporting** is challenging to understand, even for a finance professional such as myself.

A chart of accounts (COA) is a list of all financial accounts used by an organization, organized by categories such as assets, liabilities, equity, revenue, and expenses. It serves as an index for recording transactions in the general ledger, helping to maintain organized financial records and facilitate reporting.

The main issue in the current reporting is that infrastructure maintenance (dams, canals, diversions, fish screens,...) is all over the map on the expense side of the P&L. As mentioned above, some of the moneys collected to build a provision for future infrastructure repairs are actually booked under **“Other” Income & Expense**, which should only reflect items that are *not related* to our core irrigation business (e.g. interest income on bank accounts, income from cell phone tower leases,...).

Recommendation : Start a Chart of Accounts clean-up exercise. Take into account the enhanced reporting capabilities which we want to achieve :

- Make a distinction between accounts related to running an irrigation district and other, unrelated activities
- Create reporting capabilities which allow the Board to make the right decisions and which allow the Patron to understand what he/she is truly paying for.
- Isolate items that should not impact the water patron at all (e.g. government grants and their associated depreciation cost), etc...

2.2 Balance Sheet - See [Exhibit 2](#)

Some of the effects of the observations made under the P&L section above can also be noticed on the Balance Sheet. An example is the continued annual growth of both the Cash and Retained Earning position (the result of extra profit in the P&L) which I won't repeat under this section.

Observation # 13 : Depreciation. Both US GAAP and TID's accounting policy require major repairs and restorations/renovations which extend the useful life of an asset to be depreciated. An expendable repair refers to a cost incurred to restore an asset to its original condition without extending its useful life or improving its functionality. These costs are typically classified as repairs and maintenance expenses and are expended immediately on the income statement.

TID's accounting policy :

Capital Assets

Capital assets, which include property, plant and equipment are stated at historical cost. The District defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost of \$500 or more. Additions or improvements that significantly extend the useful life of an assets, or that significantly increase the capacity of an assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Depreciation of capital assets has been recognized and reflected in the basic financial statements. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20
Canals and ditches	20 to 65
Equipment and vehicles	5 to 10

A review of all depreciation between 2020 and 2024 revealed some inconsistency as it pertains to our water delivery infrastructure (canals, pipes and dams). While all projects funded by grants were depreciated correctly, the depreciation approach to infrastructure projects funded by the patrons was inconsistent and non-existing as of 2022. Let's use the \$607K in Steidl Dam restoration costs between 2021 and 2024 as an example. This involved consultancy and the involvement of outside construction companies. There was also substantial investment behind the automation of some of the dam gates. While the \$189K cost associated with fiscal year 2021 was depreciated correctly, the remaining >\$400K spent in 2022 through 2024 was expended to the P&L, thus substantially impacting those year's P&Ls (showing less profit). In a 'for profit' corporation, this could cause all kinds of IRS issues. **Recommendation** : start applying the depreciation policy consistently. As it pertains to current fiscal 2025, we have some major repairs associated with Tumalo Diversion which are still booked as an expense in the regular P&L. All of the costs associated with the restoration and extension of useful life of this asset need to be added to its base on the balance sheet and depreciated over the remaining life of the asset.

Observation # 14 : Year-end closing of the books.

- TID's accountant is being helped by the external auditor during the annual close of the books (and on other occasions throughout the year). I have noticed the external auditor's material participation in bookings related to : depreciation of assets, setting up prepaids, providing final retained earnings bookings,...While TID's accountant should have a CPA type of resource to help with critical accounting activities, using the external auditor is in conflict with his independence as an auditor and should be stopped immediately. External auditors play a critical role in verifying the accuracy of a company's financial statements but must maintain independence to ensure objectivity. Their involvement in the year-end closing process is strictly limited to avoid impairing this independence. Generally, auditors cannot perform tasks that constitute management functions, such as executing or authorizing transactions, preparing source documents, or making journal entries. This means they are prohibited from directly closing the books, as that would involve auditing their own work. The CPA who helps our accountant should be different from the CPA who audits our books. This should not result in any extra cost since total man-hours should be the same.
- In order to safeguard our assets, the organization is in need of a year-end inventory count. In addition, we need to consider asset tagging where possible.
- While only a requirement under IFRS and not under US GAAP, the organization should consider reflecting the value of the 540 acres of land it owns near Research Road on the balance sheet. This land is currently for sale and is a major asset which could create substantial income for the district. Appraisals after its re-zoning indicate a value between \$15mio and \$20 mio, which is too material to be missing from our balance sheet.

Recommendation : BoD to assess the risk associated with the above matters and take corrective action.

3. Planning Processes

3.1 Budget

The District is organized under the provision of Oregon Revised Statute 545, and is *exempt from Local Budget Law*. However, the District does adopt a budget to determine the annual operation and maintenance charges necessary to operate the District.

As explained in section 2.1 (“P&L”), TID has a simple operational model since it is a ‘non-surplus’ organization. Since there is no ‘profit’ requirement, the organization needs to collect enough income (97% of the income comes from the patron’s assessments) to cover its costs. Managing the organization’s finances (P&L) is further simplified due to the fact that all the Patron’s assessments are collected by the middle of the year (first installment due by March 1st, second installment due by July 1st).

Observation # 15 : Budget Process. The current Budget Process is sub-optimal and raises serious concerns about it’s accuracy and the resulting assessments to the Patrons. More specifically :

- The Budget process is disconnected from other Financial processes :
 - The budget for the next year is established during the 4th quarter of the current year. It takes the prior year’s budget as a starting point and to a certain extent also takes into account the current year’s actual numbers through the month of September.
 - The Prior Year’s budget is not a good starting point. We can notice a trend of Budgeting exercises which plan for non-surpluses (zero profit), but upon closing of the books end up with a profit of up to \$200,000. As such, we keep on building new budgets on historical budgets which do not necessarily reflect a non-profit operation.
 - The current year’s ‘year to date’ actuals are also a flawed comparison. As we know, our 2 main costs in the P&L are personnel cost and infrastructure maintenance cost. While the personnel cost can be spread evenly throughout the year, most of the infrastructure projects take place outside of the Irrigation Season (Mid-September → Mid-April). While some of these activities are regular maintenance and can easily be estimated, several of them are larger in nature and should be treated as non-recurring or ‘one-time’ events. In order to have a clean starting point for any budget exercise, such ‘one-timers’ first need to be removed from the prior year actual numbers. In the case of TID this is not an easy task, since some of these major repairs or renovations have not been capitalized as is required by US GAAP, but rather have been expended over several accounts in the P&L (some of them even moved into ‘other income and expense’).
 - There is no Strategic Plan or Capital Improvement Plan which is an essential input to any Budget exercise. Such Strategic Plan or Capital Improvement Plan would allow us to easily identify one-time events during the Budgeting exercise. See Observation #16 later on.
- Management of a Budget where 97% of the income is collected by mid-year and the irrigation activities are stopped in September is too easy and does not include any challenge for TID Management. Under this framework, with all income collected by mid-year, water delivery stopped by the end of Q3, and no specific activities mandated by a capital improvement plan, it means that the 4th quarter of the year offers ample opportunity to balance spend against remaining budget. All cards are stacked in favor of TID as an organization, not its patrons.
- The organization’s Bylaws mandate the Budget to be signed off at the Annual Meeting during the second week of January. This raises following issues :

- This is the same meeting during which the new directors are sworn in. This means that 2 years out of 3, there will be two new directors (out of a total of five) who have to vote on a budget they were not part of creating;
- This timeline is way before the prior fiscal year is closed (usually the books are closed somewhere in March), so there is no full visibility to prior year's 'actuals'.
- Concerns about the accuracy of the annual assessment : all of the above, especially 1] the discretionary ability to perform capital improvement projects at will (expended in the P&L as 'repairs', rather than being capitalized on the Balance Sheet) and 2] the opaque 'special project' assessments in the annual assessment, result in a budget with what seems to be a lot of padding and hardly any challenge for TID Management.

Recommendation : Redesign the budget process based on following principles :

- Adopt a philosophy where TID needs to be challenged, both in terms of quality of services and cost containment/reduction.
- Tie the organization's compensation (salary increases/bonuses) to the above philosophy.
- The budget needs to be challenging for the organization.
- Step away from the comfort zone of collecting all the Revenue up-front and subsequently filling in with Cost.
- Stop the continued build of sinking funds and/or any other special project reserves. Refer to observation #7.
- Change Bylaws as it pertains to signing off on the complete annual assessment during the first week of January. This is unfair to any new directors joining the organization on that same day.
- Charge patrons for the actual cost of the organization. Suggestion for Budget 2027 :

Date	Action
Q4 2026	Start building <i>draft</i> budget for 2027
Dec 31, 2026	Official end of the 2026 fiscal year
Second week January : Annual Meeting	The Board, including 1 or 2 new Directors who joined that same day, approve the first installment of the Patron's 2027 assessment. The amount equals half of the <i>draft</i> budget developed during Q4 of the prior year.
Remainder Q1	The Board, including the new Director(s) keep on developing a <i>final</i> Budget
March 1 2027	Payment Due Date First Installment
March 2027	Official closing of the 2026 Books. This number needs to be compared to the 2026 Budget. Any under or overspend will go into the next step.
April 2027 Board Meeting	The Board approves the second installment for 2027, determined as follows : +Final Budget 2027 - What was already charged as the First Installment + or – the difference between the 2026 Actuals versus 2026 Budget
April 2027	Second Installment is sent out, hopefully including any cost savings versus 2026 Budget. This assures that the Patron only pays for what he received as services. Additionally, these should be data inputs that make it into the organization's Performance Review and Compensation Cycles.
July 1 2027	Payment Due Date Second Installment

3.2 Strategic Plan / Long Term Capital Improvement Plan

Strategic planning or corporate planning is an activity undertaken by an organization through which it seeks to define its future direction and makes decisions such as resource allocation aimed at achieving its intended goals. The exercise typically covers a period 3 to 5 years into the future.

Observation # 16 : While TID is not required to conduct a periodical **Strategic Planning** exercise, not by ORS nor its own Bylaws, the organization would greatly benefit from adopting this critical process, more specifically for :

- Capital Improvement Planning : a long(er) term capital plan is critical for several associated planning processes :
 - would provide input to the Budget Process (1 year out) and create visibility to non-recurring (one-time) projects which require extra investment, both from a financial and resource point of view;
 - would help plan for additional (temporary) Headcount needs in case of spikes in activity (e.g. in case of overlap between a Piping and another infrastructure major maintenance project).
- Organizational Headcount size : with the current organization having been reduced from 8 to 6 employees, but personnel cost remaining at the same pre-reduction levels, we need to be agile in our headcount planning and try to avoid any addition of full-time employees. A clear view into upcoming major projects or other critical events for our organization would allow us to conduct pre-emptive planning to avoid further expansion of the personnel cost component, which constitutes over 60% of our total cost.

Recommendation : Adopt a Strategic Planning process, define in our Bylaws.

Observation # 17 : The lack of strategic planning surrounding both infrastructure and headcount was also noticed when analyzing the 2020 → 2025 actual numbers. More specifically :

- The vacuum on the long range capital planning side seems to be filled by an outside consultant (“Black Rock” represented by Kevin Crew). The organization is spending thousands of dollars on this consultant on an annual basis. Kevin Crew seems to be involved in major projects and regular repairs alike. This raises concerns about his role in TID’s operation, more specifically whether he is involved in putting out bids, selecting vendors, whether TID always gets the best value for their money, possible conflict of interest, etc...
- On the personnel side, we see part of our already reduced organization being asked to perform free of charge activities for water district umbrella organizations such as OWRC. Donating our employees’ time to organizations who at the same time charge us substantial annual membership dues does not make sense in an environment of constrained resources. We need to avoid at all cost that such commitments would become a trigger for any future headcount additions.

Recommendation :

1. Fully understand the role of Black Rock consulting and their potential involvement in any of our capital planning and infrastructure related purchasing activities.
2. Make any free of charge involvement in water district umbrella organizations subject to Board approval and/or financial x-charges.

4. Review of External Audits

The 2020 through 2024 external audit reports were subject to review.

An external audit is an independent assessment of a company's financial information and records. It is usually conducted by a certified public accountant (CPA) or a firm that specializes in external audits. The purpose of an external audit is to provide assurance to stakeholders, that the company's financial statements are accurate and in compliance with relevant laws and regulations. In the case of TID, the audit needs to be performed by a CPA who is licensed to conduct Government Audits. TID's auditor is part of a Beaverton based CPA firm which serves several of the Central Oregon Irrigation Districts. Mr. Richard Winkel spends about 1 day a year at the TID offices. Each year, he issues a package consisting of 3 separate audit reports :

1. The Independent External Auditor's Report (comparable to what happens for any other public or governmental entity);
2. A report on internal control over financial reporting in accordance with Government Auditing standards;
3. A report on compliance for each major (grants) program (uniform guidance).

Following are some of my observations after looking at 5 years of such audit report packages.

Observation # 18 :

- During a period of 5 years and a total of 15 individual audit reports, **no observations** or recommendations for improvement were made;
- Every **report** from every single fiscal year was based on the **same template**. Entire pages were copied from 1 year to the next, with the only difference being the reported numbers;
- The **scope** of the audit seems to be **extremely limited**. Basically, the only objective seems to be to provide reasonable assurance whether the financial statements are free of *material* misstatements. No opinions are provided on internal controls, compliance or any matter which would fall under operational auditing (= how efficiently the organization is run).
- The auditor claims to be **independent**. This is a questionable statement since there seems to be material participation in TID's accounting operations, esp. during year-end (see obs. #14).
- The Beaverton based **auditor is not familiar with our organization**, operation nor infrastructure.
- One of the **compensating controls** for lack of familiarity with an organization is the '**Manager's Discussion and Analysis**', a key part of each and every audit report. Unfortunately, this critical report has been limited to a 1 page template which again is being copied from one year to the next, just with different numbers. No insights into the business or any of our strengths, weaknesses, threats, opportunities are provided.
- Even when taking into account the very limited scope of the audit (absence from material misstatements in the financials), I have following **concerns** :
 - The fact that all depreciation booked since 2022 has been limited to what was received via grants, ignoring any major repairs or restorations which were funded with patron's dues. See observation # 13
 - The fact that the part of the membership dues which are assessed for future e.g. major repairs or litigation costs never made it as a provision on the balance sheet. See observations # 7 and 8.

- The fact that the auditor each and every year writes half a page on the rules surrounding investing cash, but fails to point out that we were missing out on earning quite some interest during the entire period under review (see observation #10)
- All in all, while I am aware of the legal requirement to conduct such audits, I question the Value Add and Return on Investment on an annual spend of between \$12K and \$14K in audit fees.

Recommendation :

1. Change auditor. Preferably try to find somebody local or at least a resource who is willing to get to know us better and is able to challenge the organization; focus on reliable assurance.
2. Find a local CPA resource who helps the local TID accountant with closing the fiscal year and/or other ad hoc requests. This needs to be a resource different from the external auditor in order to guarantee the latter's independence.

5. Some Final Generic Observations & Recommendations

Observation & Recommendation # 19 : In view of all the Finance and HR related observations above, it might be a good idea to establish both a **Finance and HR sub-committee**, each reporting directly to a Board member. In an ideal world we staff the sub-committees with Patrons who are subject matter experts. Such Committees could perform the ground work on some of the observations as pointed out earlier in this document, and run finished products by the entire Board for final approval.

Observation & Recommendation # 20 : A lot of our **external 'paid for' resources** (e.g. external auditor, attorney, engineer,...) have been on board for years and seem to accept the current status quo. Furthermore, they all seem to work for several of the other Central Oregon irrigation districts, ultimately making any competitive benchmarking exercise less valuable. It might be a good idea to perform a **competitive bidding** for some of these roles and get some new perspectives on board, preferable by players who do not currently serve any of the other irrigation districts.

Exhibit 1 : Historical P&L

TUMALO IRRIGATION DISTRICT																									
	Account #	ACTUAL 2018	ACTUAL 2019	ACTUAL 2020	ACTUAL 2021	ACTUAL 2022	ACTUAL 2023	ACTUAL 2024	% Increase/Decrease							CAGR 18→24	CAGR 20→24	% Total 2018	% Total 2019	% Total 2020	% Total 2021	% Total 2022	% Total 2023	% Total 2024	
									18→19	19→20	20→21	21→22	22→23	23→24											
REVENUE sourced from Patrons																									
1	Water Charges Receivable	4010	1,077,512	1,075,187	1,092,141	1,092,939	1,097,392	1,096,593	1,127,652	-0.22%	1.58%	0.07%	0.41%	-0.07%	2.83%	0.76%	0.80%	83.1%	82.3%	81.3%	73.3%	74.9%	78.8%	78.9%	
2	Loan Repayment Charge	4010	25,197	25,234	25,271	34,250	35,880	35,932	35,828	0.15%	0.15%	35.53%	4.76%	0.14%	-0.29%	6.04%	9.12%	1.9%	1.9%	1.9%	2.3%	2.4%	2.6%	2.5%	
3	Special Projects Charge	4010	125,618	125,731	145,559	145,819	154,619	156,822	166,049	0.09%	15.77%	0.18%	6.03%	1.42%	5.88%	4.76%	3.35%	9.7%	9.6%	10.8%	9.8%	10.5%	11.3%	11.6%	
4	Capital Improvements Fund	9151		33,272	33,295	33,345	41,595	48,530	48,460		0.07%	0.15%	24.74%	16.67%	-0.14%		9.84%	0.0%	2.5%	2.5%	2.2%	2.8%	3.5%	3.4%	
5	Little Deschutes Loss Study	9152				10,275	10,350	11,056	11,024				0.73%	6.82%	-0.29%			0.0%	0.0%	0.0%	0.7%	0.7%	0.8%	0.8%	
6	Legal Defense (stop-the-pipe)	4010				90,420	91,080						0.73%	-100.00%				0.0%	0.0%	0.0%	6.1%	6.2%	0.0%	0.0%	
	Net Water Charges		1,228,327	1,259,423	1,296,266	1,407,048	1,430,916	1,348,933	1,389,012	2.53%	2.93%	8.55%	1.70%	-5.73%	2.97%	2.07%	1.74%	94.7%	96.4%	96.6%	94.4%	97.6%	97.0%	97.1%	
OTHER INCOME																									
7	Contracted Work For Others	4110	26,079	7,348	16,839	10,826	10,857	10,826	6,768	-71.83%	129.18%	-35.71%	0.29%	-0.29%	-37.48%	20.13%	-20.38%	2.0%	0.6%	1.3%	0.7%	0.7%	0.8%	0.5%	
8	Fin. Chgs.on Contr. Work	9012	22	86	33	225	52	7	82						24.50%	25.26%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
9	Water Transfer Fees	4140	12,480	10,010	4,825	17,045	4,650	9,050	5,600	-19.79%	-51.80%	253.26%	-72.72%	94.62%	-38.12%	12.50%	3.79%	1.0%	0.8%	0.4%	1.1%	0.3%	0.7%	0.4%	
10	In-Stream Lease Fees	4145	5,400	6,720	4,800	1,500	300	2,700	6,900							5.37%	9.50%	0.4%	0.5%	0.4%	0.1%	0.0%	0.2%	0.5%	
11	Property Transfer Fees	4150	6,230	6,055	8,093	8,100	6,480	4,500	4,680	-2.81%	33.66%	0.09%	-20.00%	-30.56%	4.00%	-4.66%	-12.80%	0.5%	0.5%	0.6%	0.5%	0.4%	0.3%	0.3%	
12	Water Verification Fee	4155	1,748	1,710	2,240	2,280	1,800	1,480	1,400	-2.17%	30.99%	1.79%	-21.05%	-17.78%	-5.41%	-3.63%	-11.09%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	
13	Interest on Water Chgs	4160	4,464	4,999	4,095	5,634	5,734	6,994	8,364	11.98%	-18.09%	37.59%	1.78%	21.97%	19.59%	11.03%	19.55%	0.3%	0.4%	0.3%	0.4%	0.4%	0.5%	0.6%	
14	Misc. Income	4161	12,434	10,491	5,345	9,490	5,109	6,627	7,205	-15.63%	-49.05%	77.55%	-46.16%	29.71%	8.72%	-8.69%	7.75%	1.0%	0.8%	0.4%	0.6%	0.3%	0.5%	0.5%	
	TOTAL Other Income		68,497	47,418	46,270	83,599	34,982	42,183	40,999	-30.77%	-2.42%	80.68%	-58.16%	20.59%	-2.81%	-8.20%	-2.98%	5.3%	3.6%	3.4%	5.6%	2.4%	3.0%	2.9%	
	TOTAL OPERATING REVENUE		1,296,824	1,306,841	1,342,536	1,490,648	1,465,898	1,391,116	1,430,012	0.77%	2.73%	11.03%	-1.66%	-5.10%	2.80%	1.64%	1.59%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
OPERATING EXPENSES																									
SYSTEM & SHOP MAINTENANCE																									
15	Crescent Lake Maint.	5020		14	3,221	1,388	300	18									-100.00%								
16	System Electricity	5030	2,160	2,090	1,528	1,740	1,825	2,018	2,158	-3.26%	-26.85%	13.84%	4.86%	10.58%	6.94%	-0.02%	9.00%								
17	Shop Water	5220						307	317																
18	Shop Electricity	5230	1,393	1,465	1,312	1,060	1,202	1,100	1,367	5.12%	-10.46%	-19.17%	13.34%	-8.48%	24.28%	-0.32%	1.03%								
19	Small Tools & Equipment Pur	5050	1,114	809	2,831	818	357	1,485	1,042	-27.33%	249.76%	-71.10%	-56.34%	315.73%	-29.86%	-1.11%	-22.12%								
20	System/Shop Supplies	5060/5240	13,264	6,481	11,104	17,107	18,019	11,533	15,142	-51.14%	71.33%	54.05%	5.34%	-36.00%	31.29%	2.23%	8.06%	1.0%	0.5%	0.8%	1.1%	1.2%	0.8%	1.1%	
21	System Maintenance	5090	12,872	20,628	22,160	7,623	11,824	23,522	19,921	60.25%	7.43%	-65.60%	55.10%	98.94%	-15.31%	7.55%	-2.63%	1.0%	1.6%	1.7%	0.5%	0.8%	1.7%	1.4%	
22	Emergency Repair Fund	5092				54,240	2,399	20,359	11,401									0.0%	0.0%	0.0%	3.6%	0.2%	1.5%	0.8%	
23	Contr. Work for Others Expen	5095	7,801	1,382	203					-82.28%	-85.34%	-100.00%				-100.00%	-100.00%								
	TOTAL System Maint.		38,605	32,869	42,359	83,976	35,926	60,342	51,346	-14.86%	28.87%	98.25%	-57.22%	67.96%	-14.91%	4.87%	4.93%	3.3%	2.7%	3.3%	6.2%	3.0%	4.7%	4.0%	
EQUIPMENT MAINTENANCE																									
23	Backhoe Repairs/Parts	5110	1,749	4,089	14,491	2,860	960	7,071	1,486	33.74%	254.38%	-80.27%	-66.43%	636.53%	-78.98%	-2.68%	-43.41%	0.1%	0.3%	1.1%	0.2%	0.1%	0.5%	0.1%	
24	Bulldozer/Excavator Repairs/P	5120/21	282	565	4,259	161	1,400	1,628	8,444	100.22%	653.44%	-96.22%	769.45%	16.34%	418.50%	76.18%	18.66%	0.0%	0.0%	0.3%	0.0%	0.1%	0.1%	0.6%	
26	Equipment Lease	5127	424	2,273	806	45	236	264	724	436.52%	-64.55%	-94.42%	424.11%	11.88%	174.48%	9.35%	-2.63%	0.0%	0.2%	0.1%	0.0%	0.0%	0.0%	0.1%	
27	Truck Repairs/Parts	5130	12,876	12,741	15,659	9,361	9,554	17,374	9,500	-1.05%	22.91%	-40.22%	2.07%	81.85%	-45.32%	-4.94%	-11.74%	1.0%	1.0%	1.2%	0.6%	0.7%	1.2%	0.7%	
28	Oil & Fuel Purchases	5150	23,725	26,166	21,233	23,545	36,285	30,786	24,050	10.29%	-18.85%	10.89%	54.11%	-15.16%	-21.88%	-2.33%	3.16%	1.8%	2.0%	1.6%	1.6%	2.5%	2.3%	1.7%	
29	Tires	5160	1,640	3,078	2,213	6,049	2,911	3,290	3,359	87.68%	-28.09%	173.31%	-51.88%	13.05%	2.07%	12.69%	10.99%	0.1%	0.2%	0.2%	0.4%	0.2%	0.2%	0.2%	
30	Small Equipment Maint.	5190	1,173	847	419	915	1,110	105	144	-27.76%	-50.53%	118.23%	21.31%	-90.55%	37.21%	-29.51%	23.45%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	
31	Equipment	1750	2,042			3,912				-100.00%				-100.00%		-100.00%		0.2%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	
	TOTAL Equipment Maint.		45,353	51,794	59,130	43,282	56,368	60,667	47,707	14.20%	14.16%	-26.80%	30.23%	7.63%	-21.36%	0.85%	-5.23%	3.9%	4.2%	4.6%	3.2%	4.7%	4.7%	3.7%	
REAL ESTATE MAINTENANCE																									
32	Office Bldg. Maint.	5330	2,737	3,007	2,736	2,205	2,290	2,877	2,908	9.87%	-9.00%	-19.41%	3.83%	25.68%	1.04%	1.01%	1.53%								
33	Shop Bldg. Maint.	5340	1,365	5,917	3,269	877	1,674	1,494	2,198	333.47%	-44.76%	-73.17%	90.89%	-10.74%	47.11%	8.26%	-9.44%								
34	Water Rights Exchange	5350	1,153	1,153	1,203	1,333	2,579	2,925	3,178	0.00%	4.34%	10.81%	93.47%	13.40%	8.66%	18.41%	27.49%								
35	Deschutes County Tax/City o	5370	2,399	2,458	2,532	2,646	2,729	2,818	2,981	2.45%	3.02%	4.48%	3.16%	3.25%	5.79%	3.68%	4.16%								
36	Fire Protection	5380	1,619	1,462	1,034	1,060	1,293	1,284	1,450	-9.66%	-29.30%	2.51%	22.06%	-0.76%	12.93%	-1.82%	8.82%								
	TOTAL Real Estate Maint.		9,272	13,997	10,774	20,620	10,565	11,397	12,714	50.95%	-23.03%	91.39%	-48.76%	7.88%	11.55%	5.40%	4.23%	0.8%	1.1%	0.8%	1.5%	0.9%	0.9%	1.0%	
SALARY EXPENSES																									
37	Board Members	6010	1,200	1,250	1,650	1,450	1,350	1,550	1,700	4.17%	32.00%	-12.12%	-6.90%	14.81%	9.68%	5.98%	0.75%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
38	Administrative	2030/6070	282,532	301,401	316,106	268,598	238,631	281,335	298,593	6.68%	4.88%	-15.03%	-11.16%	17.90%	6.13%	0.93%	-1.41%	21.8%	23.1%	23.5%	18.0%	16.3%	20.2%	20.9%	
39	Field	6040/6050	226,280	233,741	243,310	247,373	241,956	228,214	241,721	3.30%	4.09%	1.67%	-2.19%	-5.68%	5.92%	1.11%	-0.16%	17.4%	17.9%	18.1%	16.6%	16.5%	16.4%	16.9%	
40	Other Wages	6080-6150	3,740	3,740	3,740	2,846	3,190	3,259	1,320	0.00%	0.00%	-23.90%	12.08%	2.16%	-59.49%	-15.93%	-22.92%	0.3%	0.3%	0.3%	0.2%	0			

Tumalo Irrigation District

Exhibit 2

Balance Sheet

December 2024

ASSETS	
Current Assets	
Cash	
Cash - Checking Account	222,458.18
Cash - Long-Term Req. Fund	2,252,849.01
Petty Cash	300.00
Cash - Point & Pay Account	100.00
TOTAL Cash	2,475,707.19
Water Chgs & Accts Receivable	
Accounts Receivable - BW	681.55
Water User Charges Rec. - Current	15,656.47
Grant Receivable	220,000.00
TOTAL Water Chgs & Accts Receivable	236,338.02
Other Receivables	
Prepaid Fire Protection	691.09
Prepaid Workers' Comp	4,383.20
TOTAL Other Receivables	5,074.29
TOTAL Current Assets	2,717,119.50
Fixed Assets	
Buildings	122,553.40
Crescent Lake Dam	392,251.62
Fish Ladders and Gauges	696,866.10
Tumalo Creek Stream Gauge	151,627.64
System Improvement Plan	58,303.42
Lands	48,568.00
Equipment	881,544.38
Irrigation Systems	3,480,142.27
Tumalo Feed Canal - Phase 1	2,838,965.00
Tumalo Feed Canal Phase 2	2,214,076.73
Tumalo Feed Canal-Phase 3	1,756,168.58
Tumalo Feed Canal Phase 4	2,123,421.31
Tumalo Feed Canal Phase 5A	1,944,140.71
Tumalo Feed Canal Phase 5B	1,140,039.44
Tumalo Feed Canal Phase 5B.2	4,764,829.26
Tumalo Feed Canal Phase VI - WSP Group 2	6,679,364.46
WSP-Group 3	4,401,504.38
WSP-Group 4	8,801,643.55
WSP-Group 6A	6,295,630.97
WSP-Group 6B	62,055.00
WSP-Group 6C	360.00
Property, Plant & Equipment	8,335,290.04
Real Estate Improvements	13,116.00
Water Rights Purchases	671.94
Accumulated Depreciation	(12,074,046.49)
TOTAL Fixed Assets	45,129,087.71

TOTAL ASSETS		<u>47,846,207.21</u>
	LIABILITIES	
Current Liabilities		
Accounts Payable Balance		(977.20)
Payroll Tax Payable		
Accrued Payroll	20,915.00	
Accrued Comp/Absences	34,112.87	
TOTAL Payroll Tax Payable	<u>55,027.87</u>	
Prepaid Water Accounts		3,541.91
Accrued Interest Payable - Loan R92580		1,286.72
Accrued DEQ Loan Fees - Loan R92580		558.40
Accrued Interest Payable - Loan R92581		1,299.20
Accrued DEQ Loan Fees - Loan R92581		655.49
TOTAL Current Liabilities		<u>61,392.39</u>
Long-Term Liabilities		
DEQ SRF Loan #R92580		134,043.00
DEQ SRF Loan #R92581		142,987.00
TOTAL Long-Term Liabilities		<u>277,030.00</u>
TOTAL LIABILITIES		<u>338,422.39</u>
	RETAINED EARNINGS	
Contributed Capital		4,241,321.27
Retained Earnings		37,351,862.21
Year-to-Date Earnings		5,914,601.34
TOTAL RETAINED EARNINGS		<u>47,507,784.82</u>
TOTAL LIABILITIES & RETAINED EARNINGS		<u>47,846,207.21</u>

2. Transferring Funds to Reserve Bank Account

If funds are collected in the operating account:

Debit: Bank/Cash (Reserve Savings Account) \$Reserve Amount

Credit: Bank/Cash (Operating Checking Account) \$Reserve Amount

(No impact on income statement; just moves cash between accounts.)

3. Earning Interest on Reserves

Interest is typically added to reserves (may be taxable separately).

Debit: Bank/Cash (Reserve Account) \$Interest Amount

Credit: Interest Income - Reserves \$Interest Amount

(Or directly to reserve equity if non-taxable treatment applies.)

4. Spending from Reserves (for Approved Major Repairs)

Reserves are used only for capital items, not routine maintenance.

- **Transfer money to operating/checking for payment:**

Debit: Bank/Cash (Operating Account) \$Expense Amount

Credit: Bank/Cash (Reserve Account) \$Expense Amount

- **Record the expenditure (charge against reserves):**

Debit: Reserve Equity (or Fund Balance - Reserves) \$Expense Amount

Credit: Due from Operating (interfund, if needed) \$Expense Amount

Then, when paid from operating:

Debit: Repair/Replacement Expense (Reserve Category) \$Expense Amount

Credit: Bank/Cash (Operating) \$Expense Amount

(The expense reduces reserve equity directly, not hitting the operating income statement.)

If actual cost differs (e.g., under budget), unused amounts are returned to reserves via reversing entries.

Exhibit 4

A **litigation provision** (also called a provision for legal claims or loss contingency) is an accounting estimate for potential losses from ongoing or pending lawsuits. It reflects the prudence principle, ensuring financial statements show a true and fair view of potential obligations.

Accounting treatment depends on the framework: **IFRS** (primarily **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**) or **US GAAP** (primarily **ASC 450 Contingencies**). These standards differ in recognition thresholds and measurement, often leading to earlier or higher provisions under IFRS for litigation.

Recognition Criteria

To "set up" (recognize) a provision, assess based on legal advice, historical outcomes, and expert opinions.

Criterion	IFRS (IAS 37)	US GAAP (ASC 450)
Past event	Present obligation (legal or constructive) from a past obligating event (e.g., the incident causing the lawsuit).	Existing condition involving uncertainty as to possible loss.
Probability of outflow	Probable (>50% likelihood of economic resources outflow).	Probable (generally interpreted as >70-75% likelihood, "likely to occur").
Reliable estimate	Amount can be reliably estimated (rarely an issue for litigation).	Amount can be reasonably estimated.
Outcome	Recognize provision if all met. If not probable, disclose as contingent liability (if possible) or nothing (if remote).	Accrue if both met. If reasonably possible, disclose. If remote, generally no disclosure.

- **Key difference:** IFRS's lower probability threshold often results in earlier recognition for litigation claims.
- Litigation is challenging due to uncertainty; companies must use robust processes (e.g., legal assessments) to evaluate.

Measurement

- **IFRS (IAS 37):** Measure at the **best estimate** of the expenditure required to settle the obligation.
 - Use expected value (probability-weighted) for large populations or most likely outcome for single obligations (e.g., a major lawsuit).
 - Discount to present value if the effect is material (using a pre-tax rate reflecting time value of money and risks).
 - Include directly attributable costs (e.g., legal fees if part of settlement).
- **US GAAP (ASC 450):** Measure at the **best estimate**; use midpoint of range if no better estimate.
 - Generally no discounting unless timing and amount are fixed.
 - Legal defense costs are often expensed as incurred (policy choice).

Reimbursements (e.g., insurance) are recognized separately only if virtually certain (IFRS) or probable (US GAAP).

Journal Entries for Setting Up the Provision

When criteria are met, record the provision at period-end or when assessed.

Typical journal entry (same under both frameworks, but timing/amount may differ):

Account	Debit	Credit
Litigation/Legal Expense (Income Statement)	Amount of provision	
Provision for Litigation (Balance Sheet - Liability)		Amount of provision

Example: Company estimates a \$500,000 probable loss from a lawsuit.

- Debit: Litigation Expense \$500,000
- Credit: Provision for Litigation Liability \$500,000

This reduces profit and increases liabilities.

Subsequent Accounting

- Review each reporting period; adjust if estimates change (through profit/loss).
- When settled:
 - Debit: Provision for Litigation (amount used)
 - Credit: Cash/Bank
 - Any difference: Additional expense or reversal (credit to income).

Disclosure

- Both require notes on nature, estimated amount, uncertainties, and timing.
- IFRS often requires more detail (e.g., reconciliation of movements).

Practical Steps to Set Up a Litigation Provision

1. **Identify the claim** — Review all pending/threatened litigation with legal counsel.
2. **Assess obligation** — Determine if a present obligation exists from a past event.
3. **Evaluate probability** — Use legal opinions to judge likelihood.
4. **Estimate amount** — Calculate best estimate (consider ranges, discounting if IFRS).
5. **Recognize if criteria met** — Record journal entry.
6. **Disclose appropriately** — In notes if not recognized.
7. **Document** — Maintain audit trail (legal letters, calculations) for auditors.