SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 29, 2020 and February 28, 2019

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WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Luis & Delta-Mendota Water Authority
Los Banos, California

Report on Financial Statements

We have audited the accompanying financial statements of the San Luis & Delta-Mendota Water Authority (the Authority) and its fiduciary funds, as of and for the years ended February 29, 2020 and February 28, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Controller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
San Luis & Delta-Mendota Water Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of February 29, 2020 and February 28, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Emphasis of Matter

As described in Note 15 to the financial statements, during the year ended February 29, 2020, the Authority adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such 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 the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Richardson & Company, LLP

November 2, 2020

Overview

The following Management Discussion and Analysis of the San Luis & Delta-Mendota Water Authority (the Authority) provides an overview of the financial activities and transactions for fiscal year 2020 in comparison to fiscal years 2019 and 2018 in the context of the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. This discussion and analysis should be read in conjunction with the Authority's audited financial statements and accompanying notes.

Financial Reporting

The Authority's accounting records are maintained in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB) which for the Authority is the accrual basis of accounting and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB).

Description of Basic Financial Statements

The Authority's basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. The Statement of Net Position includes all of the Authority's assets, deferred outflows and liabilities, with the difference reported as net position. The Statement of Revenues, Expenses and Changes in Net Position report all of Authority's revenues and expenses during the period indicated. The Statement of Cash Flows shows the amount of cash received and paid out for operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

- **Statement of Net Position**

  The Statement of Net Position provides information about assets, liabilities, and net position of the Authority at a specific point in time. Assets are economic resources the Authority owns that have value and can either be sold or used by the Authority to provide services to its members. Assets include various pieces of equipment, vehicles, inventory, cash and investments, and accounts receivable.

  Liabilities are the amount of money that the Authority owes to others. This includes money owed to suppliers for materials, credits owed to members participating in activity agreements related to non-CVP water transfers, prepayments for water conveyance, and amounts due to the Authority's pension plan.

  Net Position is the amount of money remaining if the Authority were to sell all of its assets and pay off all liabilities.

- **Statement of Revenues, Expenses and Changes in Net Position**

  The Statement of Revenues, Expenses and Changes in Net Position is more commonly known as the Income Statement. This statement provides information regarding the Authority's operations including revenues collected and expenses incurred over a one-year period. The net of these revenues and expenses represents the Authority's end of year net position.

- **Statement of Cash Flows**

The Statement of Cash Flows reports the Authority's inflows and outflows of cash. This report provides management with information regarding cash on hand and the ability to pay expenses and purchase assets.

A cash flow statement reflects changes over time rather than absolute dollar amounts at a particular point in time. The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Cash flow statements are divided into four activities: (1) operating activities; (2) noncapital financing activities; (3) capital financing activities; and (4) investing activities.

1. Operating Activities – analyzes the cash flow from operational activities (operating revenues and expenses). This section of the cash flow statement reconciles the operating revenues to the actual cash the Authority received from or used in its operating activities.
2. Noncapital Financing Activities – reflects the cash flows from non-operating activities such as water sales and grant activity.
3. Capital Financing Activities – shows the cash flows from all financing activities. Typical cash flows from financing activities include funds received from borrowing, debt service payments, and the purchase and/or sale of capital assets.
4. Investing Activities – reflects the cash flow from all investment activities including investment income and purchases or sales of investment securities.

Condensed Statement of Net Position

	2020	2019	2019/2020 Variance	% Change	2018	2018/2019 Variance	% Change
Assets							
Current Assets	$ 39,393,314	$ 25,825,879	$ 13,567,435	53%	$ 18,430,472	$ 7,395,407	40%
Capital Assets, Net A/D	$ 4,576,691	$ 3,473,595	$ 1,103,096	32%	$ 3,019,630	$ 453,965	15%
Other Assets	$ 44,935,956	$ 45,268,905	$ (332,949)	-1%	$ 41,769,475	$ 3,499,430	8%
Total Assets	$ 88,905,961	$ 74,568,379	$ 14,337,582	19%	$ 63,219,577	$11,348,802	18%
Liabilities							
Current Liabilities	$ 37,522,988	$ 20,475,522	$ 17,047,466	83%	$ 14,725,515	$ 5,750,007	39%
Debt Borrowings, S/T	$ 1,048,061	$ 1,006,378	$ 41,683	4%	$ 690,000	$ 316,378	46%
Debt Borrowings, L/T	$ 39,844,070	$ 40,844,977	$ (1,000,907)	-2%	$ 37,092,967	$ 3,752,010	10%
Other Liab., Comp. Abs.	$ 1,266,421	$ 1,241,083	$ 25,338	2%	$ 1,286,230	$ (45,147)	-4%
Total Liabilities	$ 79,681,540	$ 63,567,960	$ 16,113,580	25%	$ 53,794,712	$ 9,773,248	18%
Net Position							
Total Net Position	$ 9,224,421	$ 11,000,419	$ (1,775,998)	-16%	$ 9,424,865	$ 1,575,554	17%

Current Assets

Current assets include cash and equivalents, accounts receivable, grants receivable, interest receivable, inventory and prepaid expenses.

Fiscal Year 2020 Compared to 2019. At February 29, 2020, current assets totaled $39.39 million which was a $13.57 million or 53% increase from the prior year. This increase, as compared to February 28, 2019, was primarily due to an increase of $12.89 million in current cash and cash equivalents due to the agency funds being closed into the enterprise funds as GASB Statement No. 84 was implemented during the year as discussed in Note 14 and $19.91 million of cash being added to the enterprise fund, offset by the use of cash for SGMA and IRWM grant funded projects and Unit 2 rewind expenses. Also, there was a $1.29 million increase in accounts receivable due to a $1.5 million credit receivable provided by the United States Bureau of Reclamation (Reclamation) for project use energy, offset by a $.58 million decrease in amounts due from fiduciary funds.

Fiscal 2019 Compared to 2018. At February 28, 2019, current assets totaled $25.83 million which was a $7.40 million or 40% increase from the prior year. This increase, as compared to February 28, 2018, was primarily due to an increase of $8.80 million in cash and cash equivalents and a $1.68 million increase in accounts receivable, offset by a $3.13 million decrease in amounts due from fiduciary funds. Cash and cash equivalents increased due to water year 2017 and 2018 final accountings not being completed and no refunds being processed to members. Accounts receivable increased due to a $1.80 million receivable due from Reclamation for the Unit 6 Rewind Project.

Capital Assets Net of Depreciation

Capital assets net of depreciation includes automobiles, heavy equipment, furniture, equipment, and computers net of all accumulated depreciation.

Fiscal Year 2020 Compared to 2019. At February 29, 2020, net capital assets totaled $4.58 million net of accumulated depreciation, which was an increase from fiscal year 2019 of approximately $1.10 million, or 32%. This increase is a net result of purchases of heavy equipment and other vehicle, offset by disposals and depreciation for the year.

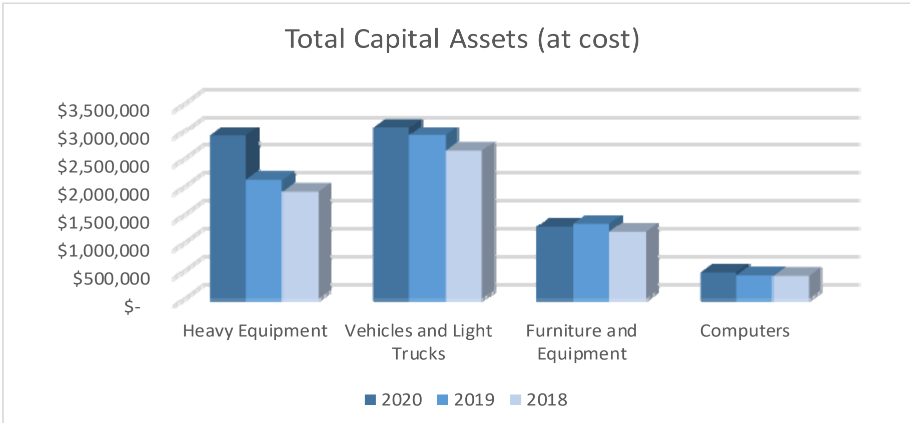
Fiscal Year 2019 Compared to 2018. At February 28, 2019, net capital assets totaled $3.47 million net of accumulated depreciation, which was an increase from $3.02 million in fiscal year 2018 of approximately $0.45 million, or 15%. This increase is a net result of fixed asset additions, retirements, and depreciation for the year.

	2020	2019	2018
Heavy Equipment	$ 2,923,685	$ 2,129,321	$ 1,917,325
Vehicles and Light Trucks	$ 3,076,222	$ 2,931,631	$ 2,648,571
Furniture and Equipment	$ 1,296,869	$ 1,346,290	$ 1,203,488
Computers	$ 479,059	$ 425,475	$ 415,182
Total Fixed Assets at Cost	$ 7,775,835	$ 6,832,717	$ 6,184,566
Less Accumulated Depreciation	$ (3,199,144)	$ (3,359,122)	$ (3,164,936)
Net Fixed Assets	$ 4,576,691	$ 3,473,595	$ 3,019,630

Major capital asset events during the 2019 and 2020 fiscal years included the following:

- Heavy equipment purchases totaled $1.10 million, with retirements of $.30 million.
- Vehicle purchases and replacements were $.28 million with retirements totaling $.18 million.
- Computers purchased totaled $.05 million, with no retirements.

Additional information on the Authority's capital assets may be found in Note 4.



Other Assets

Other assets, which consist primarily of receivables from financing participants, restricted cash and cash equivalents and investments, a long-term receivable from members for the Unit 6 Rewind Project financing and prepaid debt issuance costs, decreased from $45.27 million in fiscal year 2019 to $44.94 million in fiscal year 2020. This was mainly due to collections on the Unit 6 Rewind Project receivable and receivables from financing participants, offset by a $.58 million decrease in restricted cash and investments. Other assets increased from $41.77 million in fiscal year 2018 to $45.27 million in 2019, or 8%. The increase in 2019 was mainly from the accrual of the long-term receivable for the Unit 6 Rewind Project, offset by payments from financing participants. More information on the Unit 6 Rewind Project can be found in Note 7.

Current Liabilities

Current liabilities represent Authority obligations that are due within one year. They include accounts payable, prepayments for water conveyance, and the current portion of long-term liabilities.

Fiscal Year 2020 Compared to 2019. At February 29, 2020, current liabilities totaled $37.52 million, an increase of $17.05 million or 83% from the prior year due to the agency funds being closed into the enterprise fund in 2020 as discussed previously. Agency fund liabilities now included in the enterprise fund include payables to Reclamation for San Luis joint use facility costs of $15.60 million. Other changes include an increase in payables to vendors of $1.06 million due to the Unit 2 rewind project in progress, a decrease in unearned revenues of $.30 million and a decrease in payroll liabilities of $.33 million.

Fiscal Year 2019 Compared to 2018. At February 28, 2019, current liabilities totaled $20.48 million, an increase of $5.75 million or 39% from the prior year due to a $7.11 million-dollar increase in unearned revenues, offset by a $1.38 million decrease in accounts payable. The increase in unearned revenue is due to water year 2017 and 2018 final accountings not being completed, causing "payable" to members to be reclassified as unearned revenue.

Debt Borrowings – Due within One Year

Debt Borrowings – due within one year increased from $0.69 million in 2018 to $1.01 million in 2019 and then to $1.05 million in fiscal year 2020 for an overall increase of $0.04 million or 4%. The increase reflects the net increase in the current portion of the Series 2013A Refunding Revenue Bond and debt to Reclamation for the Unit 6 Rewind Project.

Debt Borrowings – Long Term

Fiscal Year 2020 Compared to 2019. Debt Borrowings – long-term liabilities decreased $1.00 million from fiscal year 2019 to 2020 due to payments on the Unit 6 Rewind note and the 2013 A Revenue Refunding Bonds. More information on the Unit 6 Rewind and Revenue Refunding Bonds can be found in Note 7.

Fiscal Year 2019 Compared to 2018. Debt Borrowings – long-term liabilities increased $3.75 million from fiscal year 2018 to 2019 due to the $4.86 million debt incurred from the Unit 6 Rewind Project that will be paid back to Reclamation over a period of 15 years, offset by payments on the 2013A Revenue Refunding Bonds. More information on the Unit 6 Rewind and Revenue Refunding Bonds can be found in Note 7.

Total Net Position

Total net position is a measure of equity that is comprised of the difference between total assets and total liabilities.

Fiscal Year 2020 Compared to 2019. The total net position at the end of fiscal year 2020 was $9.22 million, a decrease of $1.78 million from the balance at the end of fiscal year 2019. Net position decreased due to an operating loss of $1.72 million and net non-operating loss of $.05 million. The operating loss was mainly a $1.48 million loss in activity agreements due to spending down previous revenue and Unit 6 rewind expenses exceeding revenues by $.06 million and depreciation. Nonoperating expenses exceeded non-operating revenues due to extraordinary O&M expenses exceeding revenues.

Fiscal Year 2019 Compared to 2018. The total net position at the end of fiscal year 2019 was $11.00 million, an increase of $1.58 million from the end of fiscal year 2018. Net position increased due to operating income of $1.56 million and net non-operating revenues of $.20 million.

Revenues and Expenses

The following is a condensed presentation of revenues, expenses and changes in net position for the fiscal year ended February 29, 2020 in comparison to years ended February 28, 2019 and February 28, 2018:

	2020	2019	Variance	% Change	2018	Variance	% Change
Revenues & Expenses							
Operating Revenues	$ 61,749,028	$ 28,133,637	$ 33,615,391	119%	$ 20,981,987	$ 7,151,650	34%
Non-Operating Revenues	$ 20,217,303	$ 8,514,867	$ 11,702,436	137%	$ 2,766,683	$ 5,748,184	208%
Operating Expenses	$ (63,472,130)	$ (26,578,295)	$ (36,893,835)	139%	$ (21,116,260)	$ (5,462,035)	26%
Non-Operating Expenses	$ (20,270,199)	$ (8,494,655)	$ (11,775,544)	139%	$ (3,843,264)	$ (4,651,391)	121%
Net Income (Loss)	$ (1,775,998)	$ 1,575,554	$ (3,351,552)		$ (1,210,854)	$ 2,786,408	
Net Position - Beg. of Year	$ 11,000,419	$ 9,424,865	$ 1,575,554		$ 9,245,966	$ 178,899	
Restatement			$ -		$ 1,389,753	$ (1,389,753)	
Net Position - Beg. of Year as restated	$ 11,000,419	$ 9,424,865	$ 1,575,554	17%	$ 10,635,719	$ (1,210,854)	-11%
Net Position - End of Year	$ 9,224,421	$ 11,000,419	$ (1,775,998)	-16%	$ 9,424,865	$ 1,575,554	17%

Operating & Non-Operating Revenues

- **Operating Revenues**

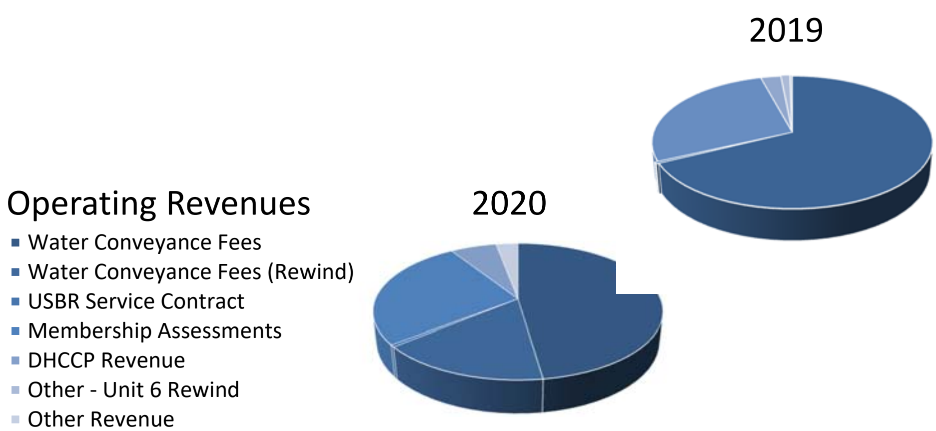
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 operating revenues were $61.75 million, an increase of nearly $33.62 million as compared to fiscal year 2019. Details to support this increase include:

1. Water conveyance fees increased $1.09 million.

2. Project use energy fees and San Luis joint use facility fees that were previously reported in agency funds were reported as part of enterprise fund operating revenue for the first time in 2020 due to implementing GASB Statement No. 84 as discussed in Note 15. These revenues were $24.26 million and $11.82 million respectively.

3. An increase of water conveyance fees for Unit 2 Rewind of $4.07 million, offset by a decrease in Unit 6 Rewind revenue of $4.32 million due to recognizing most of a long-term receivable for loan payments in 2019.
4. Membership assessment revenues for the activity budget decreased of $3.06 million, which contributed to the operating loss.
5. Other revenues decreased $.22 million, mainly due to $.30 million being received for a fish food study and $.15 million being received for the study of yellow star thistle in 2019, which were one-time revenues.

The Authority's principal source of operating revenue is from O&M rates paid for the conveyance of water, project use energy fees, San Luis joint use facility fees and activity agreement membership dues, which typically accounts for approximately 75 percent of fiscal year revenues. Water conveyance fees for the Unit 2 Rewind project were added to rates in 2020 and water conveyance fees were added to rates in 2019 for the Unit 6 Rewind Project to cover payments required on the Unit 6 Rewind debt with Reclamation beginning in 2020. See Note 7 for more information.



Fiscal Year 2019 Compared to 2018. Fiscal year 2019 operating revenues were $28.13 million, an increase of nearly $7.15 million as compared to fiscal year 2018. Details to support this increase include:

6. An increase of water conveyance fees for Unit 6 Rewind of $4.58 million. This is a long-term receivable to finance the Unit 6 Rewind debt from Reclamation.
7. Membership assessment revenues increase of $1.2 million for member activity agreements.
8. Delta Habitat Conservation and Conveyance Program (DHCCP) revenue increased by $1.1 million. This is due to existing fiscal agent cash and cash equivalents being used for the 2018 debt service payment.
9. Other revenues increased $0.58 million, mainly due to $0.30 million being received for a fish food study and $0.15 million being received for the study of yellow star thistle.

- **Non-Operating Revenues**

Fiscal Year 2020 Compared to 2019. Non-operating revenues increased $11.70 million or 139% from fiscal year 2019 for a total of $20.22 million at February 29, 2020. Of that, Extraordinary Operations and Maintenance revenues increased $1.88 million due to recognizing previous unearned revenue to fund expenses, whereas $5.78 million of the increase is from water transfers totaling $12.04 million compared to $6.21 purchased in 2019 from South San Joaquin Irrigation District and Oakdale Irrigation District and revenues being collected from members benefiting from the transfer.

Fiscal Year 2019 Compared to 2018. Non-operating revenues increased $5.75 million or 208% from fiscal year 2018 for a total of $8.51 million at February 28, 2019. Of that, Extraordinary Operations and Maintenance revenues decreased $1.4 million-dollars, whereas $6.26 million of the increase is from a transfer of water purchased from South San Joaquin Irrigation District and Oakdale Irrigation District and revenues being collected from members benefiting from the transfer.

Operating & Non-Operating Expenses

- **Operating Expenses**

Fiscal Year 2020 Compared to 2019. Total operating expenses for fiscal year 2020 were $63.47 million, an increase of $36.89 million from 2019. As discussed previously, project use energy and San Luis joint use facility activities were included in the enterprise fund in 2020 for the first time. These expenses totaled $24.26 million and $12.27 million, respectively. Legal costs decreased $.25 million and Units 2 and 6 Rewind Project costs decreased $.64 million in fiscal year 2020 as a majority of the work on the Unit 6 Rewind Project was completed in 2019 and the Unit 2 Rewind Project began in 2020. See Note 7 and Note 13 for more information about the rewind projects.

Fiscal Year 2019 Compared to 2018. Total operating expenses for fiscal year 2019 were $26.58 million, an increase of $5.46 million from 2018. Legal costs increased $0.83 million and Unit 6 Rewind Project costs increased $4.66 million in fiscal year 2019 as a majority of the work on the Unit 6 Rewind Project was completed in this year. See Note 7 for more information.

- **Non-Operating Expenses**

  Fiscal Year 2020 Compared to 2019. Total non-operating expenses increased $11.78 million or 139% from $8.50 million in fiscal year 2019 for a total of $20.27 million in non-operating expenses in fiscal year 2020. This increase is mainly due to the increase of $5.78 million of water transfer expenses that are consistent with water transfers discussed above and an increase of $2.64 million of extraordinary O&M costs.

  Fiscal Year 2019 Compared to 2018. Total non-operating expenses increased $4.65 million or 121% from $3.84 million in fiscal year 2018 for a total of $8.49 million in non-operating expenses in fiscal year 2019. This increase is mainly due to expenses incurred through the Unit 6 Rewind Project. See Note 7 for more information.

Long-Term Debt

In June 2013, the Water Authority issued $37.55 million in Series 2013A Refunding Revenue Bonds to advance refund a portion of the $50.00 million outstanding Series 2009A Revenue Notes. In 2019, the Authority incurred debt to Reclamation for the Unit 6 Rewind Project of $4.86 million. The changes in long-term debt in 2020 were mainly scheduled principal payments and amortization of the premium. There was also a small addition to the Unit 6 Rewind note as the expenses were not fully incurred at the end of fiscal 2019. See Note 7 for more information regarding long-term debt.

Series 2013A Refunding Revenue Bonds

In June 2013, the Authority issued $37.55 million in Refunding Revenue Bonds (DHCCP Development Project), Series 2013A, to defease a portion of the Authority's Revenue Notes (DHCCP Development Project), Series 2009A, discussed in Note 7. The bonds are payable from amounts received from Westlands Water District and other members under DHCCP Activity Agreements.

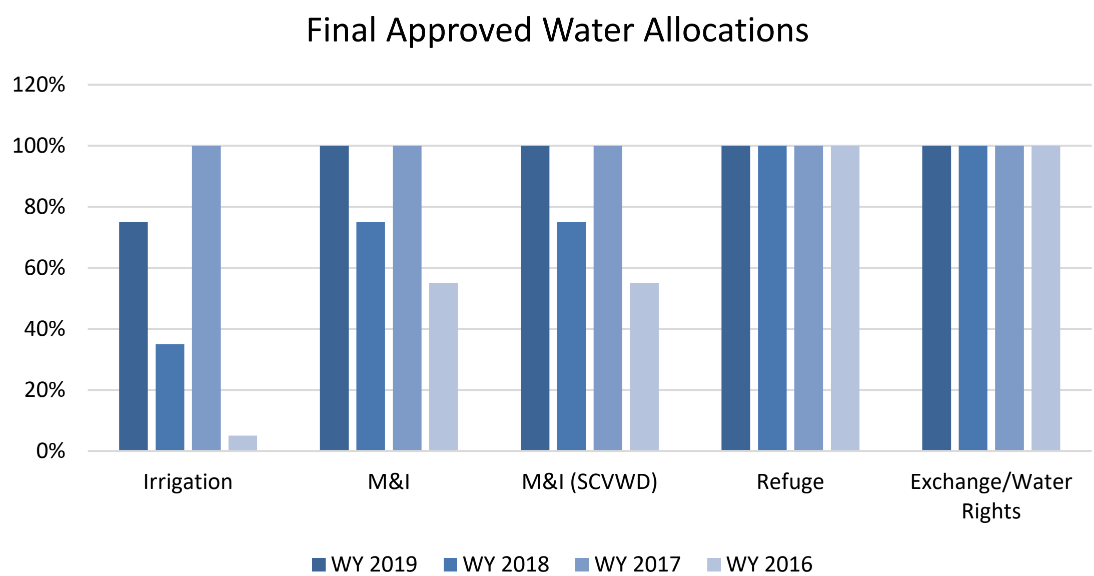
Remaining principal payments on the Series 2013A Revenue Bonds are due annually through March 1, 2043 in amounts varying from $0.61 to $2.34 million at interest rates ranging from 3% to 5%.

USBR Unit 6 Rewind Project

In 2020, the Authority recognized debt of $5.0 million to Reclamation for the Unit 6 Rewind Project. The total debt will repaid over 15 years in installments of $0.40 million per year at the U.S. Treasury interest rate.

Economic Factors and Subsequent Years' Water Allocation

Water Allocations



Financial Contact

This financial report is intended to provide the Authority's members, creditors, investors and other interested parties an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding information included in this report, or wish to request additional financial information, please contact the Authority's Director of Finance at P.O. Box 2157, Los Banos, CA 93635.

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF NET POSITION

February 29, 2020 and February 28, 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents:		
Unrestricted	$ 11,373,615	$ 15,083,038
Restricted - available for current operations	4,379,954	7,688,207
Restricted - available for current San Luis joint use facility costs	19,910,925	
Receivables:		
Accounts, net	3,311,679	2,023,385
Due from fiduciary funds		584,762
Prepaid expenses	96,664	122,628
Inventory	320,477	323,859
Total Current Assets	39,393,314	25,825,879
Noncurrent Assets:		
Cash and cash equivalents - restricted for emergency reserve fund	1,835,000	1,715,000
Cash and cash equivalents - restricted for debt service	1,932,480	1,785,744
Investments - restricted for debt service	3,995,301	3,713,348
Prepaid expenses - debt issuance costs	126,520	131,792
Grant retention receivable	235,926	
Receivables, Unit 6 Rewind project	3,730,729	4,083,021
Receivables, financing participants	33,080,000	33,840,000
Capital assets (net of accumulated depreciation)	4,576,691	3,473,595
Total Noncurrent Assets	49,512,647	48,742,500
TOTAL ASSETS	88,905,961	74,568,379
LIABILITIES		
Current Liabilities:		
Accounts payable	20,383,501	2,844,757
Accrued payroll and related liabilities	359,535	687,834
Accrued interest payable	846,000	864,125
Unearned revenue	15,779,239	16,078,806
Compensated absences	627,435	514,651
Current portion of long-term liabilities	1,048,061	1,006,378
Total Current Liabilities	39,043,771	21,996,551
Noncurrent Liabilities:		
Retention payable	154,713	
Compensated absences	638,986	726,432
Long-term liabilities, net of current portion	39,844,070	40,844,977
Total Noncurrent Liabilities	40,637,769	41,571,409
TOTAL LIABILITIES	79,681,540	63,567,960
NET POSITION		
Investment in capital assets	4,576,691	3,473,595
Restricted for activity agreements	2,281,545	3,765,034
Restricted for emergency reserve fund	1,835,000	1,715,000
Unrestricted	531,185	2,046,790
TOTAL NET POSITION	$ 9,224,421	$ 11,000,419

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended February 29, 2020 and February 28, 2019

	2020	2019
OPERATING REVENUES		
Water conveyance fees, operations and maintenance	$ 14,556,542	$ 13,468,622
Project use energy (PUE) fees	24,258,072	
San Luis joint use facility fees	11,818,213	
Water conveyance fees - Unit 2 Rewind	4,073,705	
Water conveyance fees - Unit 6 Rewind	263,133	4,582,507
United States Bureau of Reclamation service contract	156,118	136,909
Membership assessments, activity budget	4,431,542	7,493,248
Delta Habitat Conservation and Conveyance Program (DHCCP) revenue	1,695,583	1,731,833
Other revenue - Unit 6 Rewind		
Other revenue	496,120	720,518
TOTAL OPERATING REVENUES	61,749,028	28,133,637
OPERATING EXPENSES		
Salaries and related benefits	11,883,261	11,084,761
Project use energy (PUE) costs	24,260,793	
San Luis joint use facility costs	12,286,904	
Office expense	89,057	63,148
Tools and supplies	22,238	16,850
Janitorial and uniform expense	48,671	74,973
Legal and professional services	4,595,987	4,850,301
Security	247	120
License and education	218,251	176,281
Other services	136,928	232,904
Building, machinery and equipment	977,476	693,471
Membership and fees	54,336	216,464
Travel	121,150	71,451
Meetings	42,856	22,755
Auto expenses	373,326	412,446
Parts and materials	243,948	160,303
Telephone and communications	123,258	148,746
Utilities	112,394	105,637
Insurance	220,117	225,615
Intertie conveyance	2,284,793	2,143,833
Grassland Basin Drainage specific	1,093,874	930,893
Depreciation	272,245	242,167
Unit 2 Rewind expense	4,073,705	
Unit 6 Rewind expense	322,112	5,034,514
Allocated indirect costs	(385,797)	(329,338)
TOTAL OPERATING EXPENSES	63,472,130	26,578,295
OPERATING INCOME (LOSS)	(1,723,102)	1,555,342

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)

For the Years Ended February 29, 2020 and February 28, 2019

	2020	2019
NONOPERATING REVENUES (EXPENSES)		
Investment income	$ 1,704,383	$ 925,171
Interest expense	(1,713,521)	(1,636,293)
Water transfer revenue	12,042,871	6,261,800
Water transfer expense	(12,042,871)	(6,261,800)
Extraordinary operations and maintenance reserve revenue	3,155,395	1,278,577
Extraordinary operations and maintenance reserve expense	(3,224,245)	(581,005)
State grant revenue	2,961,387	
State grant expense	(2,961,387)	
Los Vaqueros Reservoir Expansion revenue	314,782	
Los Vaqueros Reservoir Expansion expense	(314,782)	
Gain (loss) on disposition of assets	18,576	13,060
Central California Irrigation District turnouts revenue	10,546	15,801
Central California Irrigation District turnouts expense	(7,414)	(6,823)
Firebaugh Canal Water District turnouts revenue	3,863	12,065
Firebaugh Canal Water District turnouts expense	(2,697)	(4,743)
Extraordinary operations and maintenance vehicle usage recovery income	1,074	4,533
Columbia Canal Company projects revenue	4,426	3,860
Columbia Canal Company projects expense	(3,282)	(3,991)
TOTAL NONOPERATING REVENUES (EXPENSES)	(52,896)	20,212
CHANGE IN NET POSITION	(1,775,998)	1,575,554
NET POSITION AT BEGINNING OF YEAR	11,000,419	9,424,865
NET POSITION AT END OF YEAR	$ 9,224,421	$ 11,000,419

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended February 29, 2020 and February 28, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 60,476,112	$ 35,141,799
Cash payments to suppliers for goods and services	(33,588,549)	(16,648,591)
Cash payments to employees for services	(12,186,222)	(11,123,150)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,701,341	7,370,058
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on long-term debt	(1,006,378)	(690,000)
Interest paid on long-term debt	(1,828,875)	(1,750,772)
Long-term debt issued	1,946,613	3,053,387
Extraordinary O & M Reserve projects revenue	3,156,469	1,283,110
Extraordinary O & M Reserve projects expense	(3,224,245)	(581,005)
Noncapital grants received	2,308,899	
Noncapital grant expense	(2,961,387)	
Other projects revenue	333,617	31,726
Other projects expenses	(328,175)	(15,557)
NET CASH USED (PROVIDED) BY NONCAPITAL FINANCING ACTIVITIES	(1,603,462)	1,330,889
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,433,014)	(683,072)
Proceeds from disposal of capital assets	76,249	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,356,765)	(683,072)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,418,871	823,713
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,418,871	823,713
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,159,985	8,841,588
Cash and cash equivalents, beginning of year	26,271,989	17,430,401
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 39,431,974	$ 26,271,989
Cash and cash equivalents - financial statement classification		
Unrestricted	$ 11,373,615	$ 15,083,038
Restricted - available for current operations	4,379,954	7,688,207
Restricted - available for current San Luis joint use facility costs	19,910,925	
Restricted for emergency reserve fund	1,835,000	1,715,000
Restricted for debt service	1,932,480	1,785,744
TOTAL CASH AND CASH EQUIVALENTS	$ 39,431,974	$ 26,271,989

(Continued)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended February 29, 2020 and February 28, 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income/(loss)	$ (1,723,102)	$ 1,555,342
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Depreciation expense	272,245	242,167
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,670,403)	121,895
Due from fiduciary funds	584,762	3,137,485
Prepaid expenses	25,964	(17,713)
Inventory	3,382	(38,479)
Prepaid expenses - debt issuance costs	5,272	5,272
Receivables, Unit 6 Rewind project	352,292	(4,083,021)
Receivables, financing participants	760,000	725,000
Accounts payable	17,538,744	(1,380,302)
Accrued payroll and related liabilities	(302,961)	(4,391)
Unearned revenue	(299,567)	7,106,803
Retention payable	154,713	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 14,701,341	$ 7,370,058
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Debt proceeds receivable		$ (1,802,230)
Amortization of bond premium	$ (97,229)	$ (97,229)
Amortization of bond prepaid insurance	$ 5,272	$ 5,272
Unrealized gain on investments	$ 281,953	$ 30,960

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENT OF FIDUCIARY NET POSITION

February 28, 2019

February 28, 2019	Agency Funds			
	Other Outside Water Transfers	Project Use Energy	DWR, San Luis Canal, Dos Amigos	Total Agency Funds
ASSETS				
Cash and cash equivalents	$ 5,171		$ 13,906,245	$ 13,911,416
Receivables, net	620,011	$ 2,076,314	38,021	2,734,346
TOTAL ASSETS	$ 625,182	$ 2,076,314	$ 13,944,266	$ 16,645,762
LIABILITIES				
Accounts payable	$ 1,162			$ 1,162
Due to other governments	39,258	$ 2,076,314	$ 13,944,266	16,059,838
Due to enterprise fund	584,762			584,762
TOTAL LIABILITIES	$ 625,182	$ 2,076,314	$ 13,944,266	$ 16,645,762

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

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the San Luis & Delta-Mendota Water Authority conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

A. Financial Reporting Entity: The San Luis & Delta-Mendota Water Authority (Authority) was established as a joint powers authority under California law dated July 1, 1990. It serves 28 member agencies, 25 of which contract (Contractors) with the United States Bureau of Reclamation (Reclamation or USBR) for water supply from the Central Valley Project (CVP). The Authority delivers water to the most diverse set of member agencies in California. The member agencies provide water to approximately 1.2 million acres of highly productive farmland, 2 million California residents, and millions of waterfowl dependent upon the nearly 130,000 acres of managed wetlands within this area of the Pacific Flyway. The Authority is governed by a 19-member Board of Directors and serves two important roles: (1) To act as the operations and maintenance entity for the Delta Division and south of Delta CVP facilities that the Authority's member agencies depend on for the delivery of their water supply, and (2) To provide unified representation on common interests of Authority members.

The member agencies are as follows and are assigned to one of five divisions based on location:

Division 1 (Northern DMC):
- Banta-Carbona Irrigation District
- Byron Bethany Irrigation District
- City of Tracy
- Del Puerto Water District
- Patterson Irrigation District
- West Side Irrigation District
- West Stanislaus Irrigation District

Division 2 (San Luis Unit):
- Panoche Water District
- Pleasant Valley Water District
- San Luis Water District
- Westlands Water District

Division 3 (Exchange Contractor and Grassland Water
- Central California Irrigation District
- Columbia Canal Company (Friend)
- Firebaugh Canal Water District
- Grassland Water District
- Henry Miller Reclamation District #2131

Division 4 (San Felipe Unit):
- San Benito County Water District
- Santa Clara Valley Water District (Valley Water)

Division 5 (Southern DMC/Mendota Pool):
- Broadview Water District
- Eagle Field Water District
- Fresno Slough Water District
- James Irrigation District
- Laguna Water District
- Mercy Springs Water District
- Oro Loma Water District
- Pacheco Water District
- Reclamation District 1606
- Tranquillity Irrigation District
- Turner Island Water District

The Authority has determined that there are no component units that meet the criteria for inclusion within the reporting entity.

The Authority is a member of the following joint power authorities/agencies (JPAs) where the Authority is not responsible for the liabilities of the JPAs under the JPA agreements and only has a residual interest in any assets held by the JPAs upon termination of the agreements: Association of California Water Agencies (ACWA) and ACWA Joint Powers Insurance Authority and State and Federal Contractors Water Authority. However, see Note 11.H for a discussion of effect of changes due to a state law related to pension liabilities.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

B. Basis of Presentation – Fund Accounting: The Authority's resources are allocated to and accounted for in these basic financial statements using an enterprise fund type of the proprietary fund group. A fund is a self-balancing set of accounts. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on the flow of economic resources measurement focus. Under the flow of economic resources measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the fund are included on the statement of net position. Net position is segregated into the net investment in capital assets, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Enterprise funds and agency funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

   Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for operations and maintenance of the Delta Mendota Canal, Project Use Energy (PUE) fees, San Luis joint use facility fees (fees for the Authority's share of facilities used jointly by Reclamation and the California Department of Water Resources and funding participants) and related facilities. Operating expenses for the enterprise fund include the cost of operations and maintenance of the Delta Mendota Canal and related facilities, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Cost reimbursement grant revenues are recognized as revenue when the reimbursable costs are incurred under the accrual basis of accounting.

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

D. Cash and Cash Equivalents: For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less, including restricted assets, to be cash equivalents, which includes investments in the California Local Agency Investment Fund (LAIF), the Investment Trust of California (CalTRUST) and money market mutual funds.

E. Accounts Receivable: Billed, but unpaid, services are recorded as accounts receivable. Receivables include a year-end accrual for services provided through the end of the fiscal year that were not billed at year-end. Water conveyance fees are paid by water contractors each month for the next calendar month based on the estimated acre-feet of water deliveries and the Authority, DWR and Reclamation's PUE estimated operations and maintenance costs determined at the beginning of the fiscal year, as indicated on the water contractor's advanced payment form. Receivables are recognized from water contractors at year-end when conveyance fees are trued-up based on actual water deliveries and operations and maintenance costs. See Note 7 for a description of Unit 6 Rewind project and financing participant receivables.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

G. Prepaid Expenses: Prepaid expenses represent payments made to the Association of California Water Agencies Joint Powers Insurance Authority for various forms of insurance that will benefit periods beyond year-end and insurance prepaid on the Authority's Refunding Revenue Bonds, Series 2013A, as described in Note 7.

H. Restricted Assets: Restricted assets consist of unspent bond proceeds that are restricted to future bond payments, the emergency reserve fund required under the Reclamation Transfer Agreement as described in Note 8 and assets restricted under activity agreements with member agencies.

I. Inventory: Inventory consists of various parts and materials needed to operate and maintain the Delta-Mendota Canal and other facilities. It is valued on an average cost basis.

J. Capital Assets Purchased by the Water Authority: Capital assets are recorded at historical cost. It is the Authority's policy to capitalize assets with a cost of $5,000 or more with useful lives in excess of one year. The costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives.

Description	Estimated Life
Heavy equipment	15-30 years
Vehicles and light trucks	10-30 years
Furniture and equipment	10-30 years
Computers	5-20 years

Donated Capital Assets: Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The United States Bureau of Reclamation transferred assets relating to the conveyance of water, maintenance, and operation of canals to the Authority at March 1, 1998. Depreciation on these assets has been computed and reported in the financial statements using the straight-line method over their useful lives.

K. Unearned Revenue: Unearned revenue arises when resources are received by the Authority prior to the incurrence of qualifying operations and maintenance costs. The Authority's unearned revenues represent water conveyance fees, PUE fees and San Luis joint use facility fees not earned at year-end by incurring qualifying expenses. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

L. Compensated Absences: Accumulated unpaid employee vacation benefits are recognized as a compensated absences liability in the year vested. Vacation is fully payable at separation. However, at retirement 95% of accrued vacation leave is payable to the employee and 5% is payable to the Authority's retirement health savings plan, as described below. Sick leave is accumulated without limit, but is not payable at retirement and is not recognized as part of the Authority compensated absences liability except for the available sick leave cash-out balance described below.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

According to the Authority's ICMA Retirement Health Savings Plan (Plan) adopted March 1, 2005, upon retirement with the Authority, the participant's available sick leave cash out balance and 5% of the participant's accrued vacation leave is required to be contributed to the Plan and is deposited in an individual account held for the benefit of the participant. The available sick leave cash out balance is defined as the lesser of one-half of accumulated sick leave on the effective date of separation or 500 hours for employees 1) that have ten years of service that are at least 55 years of age, or 2) employees with fifteen years of service regardless of age.

M. Net Position: Net position is categorized as the investment in capital assets, restricted and unrestricted.

Investment in Capital Assets: This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position: This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constructional provisions or enabling legislation. The Transfer Agreement requires the Authority to maintain an emergency reserve fund to finance (1) unusual OM&R costs; (2) costs associated with addressing conditions which threaten or cause interruption of water service; (3) unforeseen or extraordinary OM&R costs; and (4) costs associated with addressing conditions which threaten the safety or integrity of Project works. The balance reported as restricted net position under this agreement at February 29, 2020 and February 28, 2019 was $1,835,000 and $1,715,000, respectively. Restricted net position also reflects the amount restricted for projects under activity agreements with members.

Unrestricted Net Position: This category represents net position of the Authority, not restricted for any project or other purpose.

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

O. Reclassification: The 2019 net position restricted for activity agreements was adjusted during 2020 to reflect a loss incurred during 2019 that was not previously reflected in the amount reported. This resulted in a reclassification between net position restricted for activity agreements and unrestricted net position. This reclassification had no effect on total net position. Certain items were also reclassified in the 2019 statement of cash flows to conform with the current presentation. The reclassification had no effect on total change in cash and cash equivalents.

P. New Pronouncements: In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

extinguished and notes to financial statements for debt that is defeased in substance. For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement No. 87, *Leases.* This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. 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. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement enhances disclosures about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. Interest cost incurred before the end of a construction period will be recognized as an expense rather than being recorded as part of the cost of capital assets in a business-type activity or enterprise fund and interest cost incurred by a fund using the current financial resources measurement focus before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement provides temporary relief to governments due to the COVID-19 pandemic by postponing the effective dates of Statements and Implementation Guides that first become effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. Effective dates of the following Statements and Implementation Guides were postponed by one year: Statements No. 83, 84 and 88 to 93 as well as Implementation Guide No's 2018-1, 2019-1 and 2019-2. Effective dates for Statement No. 87 and Implementation Guide No. 2019-3 were postponed by 18 months. This Statement changes the implementation dates above and is effective immediately.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA).* This Statement 1) defines the term SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs to a SBITA; and 4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITA are based on the standards established in Statement No. 87, Leases, as amended. This statement is effective for fiscal years beginning after June 15, 2022.

The Authority is currently analyzing the impact of these new Statements.

NOTE 2 – CASH AND INVESTMENTS:

Cash and investments were classified as follows at February 29, 2020 and February 28, 2019:

	2020	2019
Statement of net position:		
Cash and cash equivalents - unrestricted	$ 11,373,615	$ 15,083,038
Cash and cash equivalents - restricted current, O&M	4,379,954	7,688,207
Cash and cash equivalents - restricted current, San Luis joint use	19,910,925	
Cash and cash equivalents - restricted for emergency reserve fund	1,835,000	1,715,000
Cash and cash equivalents - restricted for debt service	1,932,480	1,785,744
Investments - restricted for debt service	3,995,301	3,713,348
Agency funds:		
Cash and cash equivalents		13,911,416
Total cash and investments	$ 43,427,275	$ 43,896,753

Cash and investments were classified as follows under GASB Statement No. 40 at February 29, 2020 and February 28, 2019:

	2020	2019
Cash and investments consisted of the following:		
Cash on hand	$ 1,000	$ 700
Deposits with financial institutions	5,611,572	5,577,856
Investments	37,814,703	38,318,197
Total cash and investments	$ 43,427,275	$ 43,896,753

Investment Policy: The Authority's investment policy was approved by Resolution 2013-367. The policy allows the Authority to invest in Federal Deposit Insurance Corporation insured bank deposits, LAIF, the Investment Trust of California (CalTRUST) and United States Treasury notes, bonds, bills or certificates of indebtedness secured by the full faith and credit of the United States Government.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. Under the Authority's Indenture of Trust, debt proceeds may be invested in direct U.S. Government obligations and highly rated: 1) U.S. Government agency obligations; 2) certificates of deposit, federal funds and banker's acceptances of domestic commercial bank; 3) commercial paper; 4) money market funds; 5) municipal obligations; 6) CalTRUST; LAIF; and investment agreements.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Authority manages its exposure to changes in market interest rates by diversifying its investments by security type and institution.

NOTE 2 – CASH AND INVESTMENTS (Continued):

The following table illustrates the distribution of the Authority's investments by maturity:

February 29, 2020	Fair Value	12 Months or Less	More than 12 to 24 Months	More than 24 to 60 Months
Local Agency Investment Fund	$ 12,441,708	$ 12,441,708		
CalTRUST	19,446,925	5,522,175	$ 13,924,750	
Held by bond trustee:				
Money market funds	1,930,769	1,930,769		
U.S. goverment agency bond	2,889			$ 2,889
United States government aid bond	3,992,412		3,992,412	
Totals	$ 37,814,703	$ 19,894,652	$ 17,917,162	$ 2,889

February 28, 2019	Fair Value	12 Months or Less	More than 12 to 24 Months
Local Agency Investment Fund	$ 14,016,490	$ 14,016,490	
CalTRUST	18,677,948	5,370,743	$ 13,307,205
Held by bond trustee:			
Money market funds	1,913,107	1,913,107	
United States government aid bond	3,710,652		3,710,652
Totals	$ 38,318,197	$ 21,300,340	$ 17,017,857

Credit Risk: The Authority limits its exposure to credit risk, that is, the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, by limiting its investments to instruments with the top ratings issued by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual Standard & Poor's rating as for each investment type:

February 29, 2020	Fair Value	Minimum Legal Rating	AAA	AA	AA-	Not Rated
Local Agency Investment Fund	$ 12,441,708	N/A				$ 12,441,708
CalTRUST	19,446,925	N/A		$ 5,522,175	$ 13,924,750	
Held by bond trustee:						
Money market funds	1,930,769	AAA	$ 1,930,769			
U.S. government agency agency	2,889	N/A	2,889			
United States government aid bond	3,992,412	N/A	3,992,412			
	$ 37,814,703		$ 5,926,070	$ 5,522,175	$ 13,924,750	$ 12,441,708

February 28, 2019	Fair Value	Minimum Legal Rating	AAA	AA	AA-	Not Rated
Local Agency Investment Fund	$ 14,016,490	N/A				$ 14,016,490
CalTRUST	18,677,948	N/A		$ 18,677,948		
Held by bond trustee:						
Money market funds	1,913,107	AAA	$ 1,913,107			
United States government aid bond	3,710,652	N/A	3,710,652			
	$ 38,318,197		$ 5,623,759	$ 18,677,948	$ -	$ 14,016,490

NOTE 2 – CASH AND INVESTMENTS (Continued):

Concentration of Credit Risk: The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than mutual funds and external investment pools) that represent 5% or more of total Agency investments other than the $3,992,412 and $3,710,652 of United States government aid bonds at February 29, 2020 and February 28, 2019, respectively.

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

At February 29, 2020 and February 28, 2019, the carrying amount of the Authority's deposits was $5,611,572 and $5,577,856 and the balance in financial institutions was $6,101,088 and $5,899,789, respectively. Of the balance in financial institutions, $251,711 at February 29, 2020 and February 28, 2019, was covered by federal depository insurance and the remaining amounts were collateralized by the pledging financial institution's assets held in a common pool for the Authority and other governmental agencies, but not in the name of the Authority.

Investments in External Investment Pools: The Authority is a voluntary participant in the following external investment pools: Local Agency Investment Fund (LAIF) and the Investment Trust of California (CalTRUST). LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. CalTRUST is administered under the oversight of a Board of Trustees comprised of experienced investment managers. The weighted average maturity of investments held by LAIF was 216 and 184 days as of February 29, 2020 and February 28, 2019, respectively. The Authority invests in the CalTRUST short-term and medium-term pools. The fair value of the Authority's investments in these pools are reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by the pools for their entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The amount that may be withdrawn from CalTRUST is based on the net asset value per share and the number of shares held by participants in each pool. The weighted average maturity of short term-funds in CalTRUST was 201 and 347 days as of February 29, 2020 and February 28, 2019, respectively. The February 28, 2019 weighted average maturity was unavailable. The weighted average maturity of medium-term funds in CalTRUST was 391 and 799 days as of February 29, 2020 and February 28, 2019, respectively.

NOTE 2 – CASH AND INVESTMENTS (Continued):

Fair Value Measurement: The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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; Level 3 inputs are significant unobservable inputs. The Authority's U.S. government agency bonds and U.S. government aid bonds are valued using level 2 inputs. The Authority's investments in LAIF, CalTRUST and money market funds are not subject to the fair value hierarchy or are measured at net asset value. All securities classified in Level 2 are valued using pricing models based on market data, such as matrix or model pricing from outside pricing services. These valuation techniques include third party benchmark yields, reported trades, broker/dealer quotes and other techniques.

NOTE 3 – ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES:

Accounts receivable and other receivables consisted of the following:

February 29, 2020	Enterprise Fund	Total
Membership assessments	$ 2,948,371	$ 2,948,371
Other receivables	87,890	87,890
Due from other governments	177,723	177,723
Interest receivable	97,695	97,695
Total accounts receivable	3,311,679	3,311,679
Grant retention receivable	235,926	
Unit 6 Rewind project	3,730,729	3,730,729
DHCCP, financing participants	33,080,000	33,080,000
Total	$ 40,358,334	$ 40,122,408

February 28, 2019	Enterprise Fund	Agency Funds	Total
Membership assessments	$ 88,614		$ 88,614
Other receivables	80,392		80,392
Due from other governments	1,802,231	$ 2,692,958	4,495,189
Interest receivable	52,148	41,388	93,536
Total accounts receivable	2,023,385	2,734,346	4,757,731
Due from fiduciary funds	584,762		584,762
Unit 6 Rewind project	4,083,021		4,083,021
DHCCP, financing participants	33,840,000		33,840,000
Total	$ 40,531,168	$ 2,734,346	$ 43,265,514

NOTE 4 – CAPITAL ASSETS:

Capital asset activity was as follows:

February 29, 2020

Capital Assets	Balance at March 1, 2019	Additions	Retirements	Transfers	Balance at February 29, 2020
Capital assets, being depreciated:					
Heavy equipment	$ 2,129,321	$ 1,096,804	$ (302,440)		$ 2,923,685
Vehicles and light trucks	2,931,631	282,626	(187,456)	$ 49,421	3,076,222
Furniture and equipment	1,346,290			(49,421)	1,296,869
Computers	425,475	53,584			479,059
Total capital assets, being depreciated	6,832,717	1,433,014	(489,896)		7,775,835
Less accumulated depreciation:					
Heavy equipment	(910,187)	(72,741)	277,785		(705,143)
Vehicles and light trucks	(1,188,127)	(141,011)	143,675	(40,416)	(1,225,879)
Furniture and equipment	(961,010)	(29,364)	10,763	40,416	(939,195)
Computers	(299,798)	(29,129)			(328,927)
Total accumulated depreciation	(3,359,122)	(272,245)	432,223		(3,199,144)
Capital assets, net	$ 3,473,595	$ 1,160,769	$ (57,673)	$ -	$ 4,576,691

February 28, 2019

Capital Assets	Balance at March 1, 2018	Additions	Retirements	Balance at February 28, 2019
Capital assets, being depreciated:				
Heavy equipment	$ 1,917,325	$ 211,996		$ 2,129,321
Vehicles and light trucks	2,648,571	332,481	$ (49,421)	2,931,631
Furniture and equipment	1,203,488	142,802		1,346,290
Computers	415,182	10,293		425,475
Total capital assets, being depreciated	6,184,566	697,572	(49,421)	6,832,717
Less accumulated depreciation:				
Heavy equipment	(853,688)	(56,499)		(910,187)
Vehicles and light trucks	(1,104,728)	(131,380)	47,981	(1,188,127)
Furniture and equipment	(933,620)	(27,390)		(961,010)
Computers	(272,900)	(26,898)		(299,798)
Total accumulated depreciation	(3,164,936)	(242,167)	47,981	(3,359,122)
Capital assets, net	$ 3,019,630	$ 455,405	$ (1,440)	$ 3,473,595

NOTE 5 – ACCOUNTS PAYABLE:

Accounts payable consisted of the following:

February 29, 2020	Enterprise Fund	Total
Other governments	$ 17,798,791	$ 17,798,791
Vendors	2,584,710	2,584,710
Total	$ 20,383,501	$ 20,383,501

February 28, 2019	Enterprise Fund	Agency Funds	Total
Other governments	$ 1,317,066	$ 16,059,838	$ 17,376,904
Vendors	1,527,691	1,162	1,528,853
Total	$ 2,844,757	$ 16,061,000	$ 18,905,757

NOTE 6 – UNEARNED REVENUE:

The water contractors pay water conveyance fees based on estimated water deliveries in the month prior to the water delivery date. The PUE rate component is based on Reclamation's project use cost estimates and the San Luis joint use facility rate component is based on the California Department of Water Resources budget. These fees are reported as unearned revenue at each year-end if not spent for qualifying expenses. Unearned revenue consisted of the following:

February 29, 2020	Enterprise Fund	Total
Contractors	$ 15,779,239	$ 15,779,239
Total	$ 15,779,239	$ 15,779,239

February 28, 2019	Enterprise Fund	Total
Other governments	$ 106,341	$ 106,341
Contractors	15,972,465	15,972,465
Total	$ 16,078,806	$ 16,078,806

NOTE 7 – LONG-TERM LIABILITIES:

The following is a summary of changes in the Authority's long-term liabilities:

February 29, 2020	Balance at February 28, 2019	Additions	Reductions	Balance at February 29, 2020	Due Within One Year
Refunding Revenue Bonds, Series 2013	$ 34,565,000		$ (725,000)	$ 33,840,000	$ 760,000
Add issuance premium	2,430,738		(97,229)	2,333,509	
	36,995,738		(822,229)	36,173,509	760,000
USBR Unit 6 Rewind Note	4,855,617	$ 144,383	(281,378)	4,718,622	288,061
Total debt	41,851,355	144,383	(1,103,607)	40,892,131	1,048,061
Compensated absences	1,241,083	977,165	(951,827)	1,266,421	627,435
Total	$ 43,092,438	$ 1,121,548	$ (2,055,434)	$ 42,158,552	$ 1,675,496

February 28, 2019	Balance at February 28, 2018	Additions	Reductions	Balance at February 28, 2019	Due Within One Year
Refunding Revenue Bonds, Series 2013	$ 35,255,000		$ (690,000)	$ 34,565,000	$ 725,000
Add issuance premium	2,527,967		(97,229)	2,430,738	
	37,782,967		(787,229)	36,995,738	725,000
USBR Unit 6 Rewind Note		$ 4,855,617		4,855,617	281,378
Total debt	37,782,967	4,855,617	(787,229)	41,851,355	1,006,378
Compensated absences	1,286,230	948,324	(993,471)	1,241,083	514,651
Total	$ 39,069,197	$ 5,803,941	$ (1,780,700)	$ 43,092,438	$ 1,521,029

Refunding Revenue Bonds (DHCCP Development Project), Series 2013A:

In June 2013, the Authority issued the Refunding Revenue Bonds (DHCCP Development Project), Series 2013A (the Bonds) in the amount of $37,550,000 in refunding revenue bonds. The bonds were issued to provide funds to defease $39,635,000 of the outstanding Revenue Notes (DHCCP Development Project), Series 2009A (the Notes). The Notes were issued to finance planning, preliminary design and environmental activities of the Delta Habitat Conservation and Conveyance Program (DHCCP), which is a program consisting of joint efforts by agencies of the federal government, State of California and local agencies to fund and plan habitat conservation and water supply activities in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the "Bay-Delta"), including Bay-Delta water conveyance options.

The Bonds are special obligations of the Authority payable solely from a lien on revenues defined in the agreement, including portions of payments received by the Authority pursuant to the DHCCP Activity Agreements by and between the Authority and the Financing Participants. The Financing Participants have agreed to collect revenues sufficient to pay their specified percentage of the required principal and interest payments due on the Bond under the DHCCP Activity Agreements. Westlands Water District has agreed pursuant to its DHCCP Activity Agreement to pay 100% of the principal and interest on the Bonds. The Authority will reimburse Westlands Water District for a portion of such principal and interest payments from amounts that the Authority receives from other Financing Participants, including: Broadview Water District, Byron Bethany Irrigation District, Eagle Field Water District, Laguna Water District, Mercy Springs Water District, Pacheco Water District, Panoche Water District and San Luis Water District. The Authority has agreed not to pledge, lien, charge or create any other encumbrance on the revenues pledged under the Bond indenture. A receivable is recognized for the funding participants' obligation to provide

NOTE 7 – LONG-TERM LIABILITIES (Continued):

revenues sufficient to make principal payments on the Bond under the DHCCP Activity Agreements. Interest revenue is recognized from the participants on the accrual basis each year. The Bonds bear interest at 3.0% to 5.0% and are payable semi-annually on March 1, and September 1, beginning September 1, 2013. The bonds mature annually at various amounts through March 1, 2043.

In May of 2017, $3,684,099 of unused funds from the Series 2009A Notes were deposited to an irrevocable escrow account held by a fiscal agent and will be used, with investment earnings, to make principal payments on the Revenue Refunding Bonds, Series 2013A, of $1,810,000 on March 1, 2042 and $2,335,000 on March 1, 2043. Because the amount placed in escrow will not repay all principal and interest of the 2013A Refunding Bonds, it did not meet the definition of a defeasance under paragraph 4 of GASB Statement No. 7 and the escrow account and principal payment to be made was not removed from the statement of net position. The fair value of the amount in the escrow account was $3,997,012 and $3,715,059 at February 29, 2020 and February 28, 2019, respectively.

<u>Pledged Revenue</u>: The Authority pledged future Financing Participation revenues to repay the Bonds in the original amount of $37,550,000. The Bonds are payable solely from Financing Participation payments and are payable through March 1, 2043. Total principal and interest remaining to be paid on the Bond was $58,008,000 and $60,443,125 at February 29, 2020 and February 28, 2019, respectively. Total cash basis principal and interest paid was $2,435,125 and $2,335,500 and the total financing participant payments received for DHCCP debt service payments were $2,445,583 and $2,456,833 for the years ended February 29, 2020 and February 28, 2019, respectively. The total financing participant payments above include amounts reported as a reduction of the receivable from financing participants on the statements of net position, which were used to make DHCCP debt service payments.

USBR Unit 6 Rewind Note (Private Placement):

In February 2018, the Authority entered into an agreement to receive up to $5 million from the United States Bureau of Reclamation to rewind Unit 6 of the C.W. “Bill” Jones Pumping Plant. The obligation was on a cost reimbursement basis and the Authority incurred $4,855,617 as of February 28, 2019, with the remaining $144,383 incurred by August 2019. The amount was assumed to be required to be repaid in installments of $400,128 per year on the last day of February from February 2020 to February 2034 based on the preliminary amortization schedule provided by Reclamation. The USBR provided a proposed tentative revised repayment schedule, which is disclosed below, that includes additional accrued interest as part of the principal outstanding. The terms of the proposed tentative revised repayment schedule are currently being negotiated, so the principal balance outstanding was not adjusted to be consistent with the proposed tentative revised repayment schedule. Interest due is at the average U.S. Department of Treasury interest rate based on average market yields of obligations of comparable maturities at the beginning of the fiscal year when work began on the project, adjusted to the nearest 1/8 of 1 percent, which is 2.375%. The agreement requires an additional 0.5% interest rate per month to be paid if the obligation becomes delinquent more than 60 days. The Authority has added an additional charge to water conveyance fees to repay the obligation.

A long-term receivable is recognized for the contractors’ obligation to provide sufficient water conveyance fees to repay the Unit 6 Rewind Note. The receivable is equal to the liability outstanding, less revenue collected from the contractors for principal payments. Revenue collected for interest payments is recognized in the year the interest payments are due.

NOTE 7 – LONG-TERM LIABILITIES (Continued):

The annual debt service requirements to maturity for the Bonds were as follows:

February 29, 2020

Year Ended Last Day of February,	Refunding Revenue Bonds, Series 2013A Principal	Refunding Revenue Bonds, Series 2013A Interest	Total Debt Service
2021	$ 760,000	$ 1,673,000	$ 2,433,000
2022	800,000	1,634,000	2,434,000
2023	840,000	1,593,000	2,433,000
2024	880,000	1,550,000	2,430,000
2025	925,000	1,504,875	2,429,875
2026-2030	5,365,000	6,764,375	12,129,375
2031-2035	6,845,000	5,245,125	12,090,125
2036-2040	8,730,000	3,307,500	12,037,500
2041-2044	8,695,000	896,125	9,591,125
Total	$ 33,840,000	$ 24,168,000	$ 58,008,000

Year Ended Last Day of February,	USBR Unit 6 Rewind Note - As Recorded Principal	USBR Unit 6 Rewind Note - As Recorded Interest	Total Debt Service
2021	$ 288,061	$ 112,067	$ 400,128
2022	294,902	105,226	400,128
2023	301,906	98,222	400,128
2024	309,077	91,052	400,129
2025	316,417	83,711	400,128
2026-2030	1,698,443	302,198	2,000,641
2031-2034	1,509,816	90,697	1,600,513
Total	$ 4,718,622	$ 883,173	$ 5,601,795

The USBR's proposed tentative revised repayment schedule is as follows, including the 2020 payment that was made by the Authority:

Year Ended Last Day of February,	USBR Unit 6 Rewind Note - Tentitive Revised Repayment Schedule Principal	USBR Unit 6 Rewind Note - Tentitive Revised Repayment Schedule Interest	Total Debt Service
2020	$ 281,378	$ 118,750	$ 400,128
2021	298,060	115,957	414,017
2022	305,139	108,879	414,018
2023	312,386	101,631	414,017
2024	319,805	94,212	414,017
2025	327,401	86,617	414,018
2026-2030	1,757,401	312,688	2,070,089
2031-2034	1,562,227	93,846	1,656,073
Total	$ 5,163,797	$ 1,032,580	$ 6,196,377

NOTE 7 – LONG-TERM LIABILITIES (Continued):

February 28, 2019

Year Ended Last Day of February,	Refunding Revenue Bonds, Series 2013A Principal	Interest	Total Debt Service
2020	$ 725,000	$ 1,710,125	$ 2,435,125
2021	760,000	1,673,000	2,433,000
2022	800,000	1,634,000	2,434,000
2023	840,000	1,593,000	2,433,000
2024	880,000	1,550,000	2,430,000
2025-2029	5,110,000	7,026,250	12,136,250
2030-2034	6,520,000	5,579,250	12,099,250
2035-2039	8,315,000	3,733,625	12,048,625
2040-2044	10,615,000	1,378,875	11,993,875
Total	$ 34,565,000	$ 25,878,125	$ 60,443,125

Year Ended Last Day of February,	USBR Unit 6 Rewind Note Principal	Interest	Total Debt Service
2020	$ 281,378	$ 118,750	$ 400,128
2021	288,061	112,067	400,128
2022	294,902	105,226	400,128
2023	301,906	98,222	400,128
2024	309,077	91,052	400,129
2025-2029	1,659,041	341,600	2,000,641
2030-2034	1,865,635	135,006	2,000,641
Total	$ 5,000,000	$ 1,001,923	$ 6,001,923

NOTE 8 – RESTRICTED NET POSITION - EMERGENCY RESERVE FUND:

The Reclamation Transfer Agreement requires the Authority to maintain an emergency reserve fund to finance (1) unusual operations, maintenance and repair (OM&R) costs; (2) costs associated with addressing conditions which threaten or cause interruption of water service; (3) unforeseen or extraordinary OM&R costs; and (4) costs associated with addressing conditions which threaten the safety or integrity of Project works. As stated in the Authority's transfer agreement, the Authority is required to maintain a targeted minimum reserve fund amount equal to 15% of the most current three years average annual actual OM&R costs incurred for the Project Works. The balance of this fund at February 29, 2020 and February 28, 2019 was $1,835,000 and $1,715,000, respectively.

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NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2020 and February 28, 2019

NOTE 9 – O&M VERSUS ACTIVITY AGREEMENT AND OTHER EXPENSES:

Total operations and maintenance (O&M) versus activity agreement and other expenses and a reconciliation to water conveyance fees – (O&M) follows at February 29, 2020 and February 28, 2019:

	2020			2019		
	O&M	Activity Agreements and Other	Total	O&M	Activity Agreements and Other	Total
OPERATING EXPENSES						
Salaries and related benefits	$ 10,819,769	$ 1,063,492	$ 11,883,261	$ 10,390,082	$ 694,679	$ 11,084,761
Project use energy (PUE) costs	24,260,793		24,260,793			
San Luis joint use facility costs	12,286,904		12,286,904			
Office expense	70,260	18,797	89,057	32,162	30,986	63,148
Tools and supplies	22,232	6	22,238	16,850		16,850
Janitorial and uniform expense	47,494	1,177	48,671	70,535	4,438	74,973
Legal and professional services	323,060	4,272,927	4,595,987	83,761	4,766,540	4,850,301
Security	247		247	120		120
License and education	79,856	138,395	218,251	54,713	121,568	176,281
Other services	134,180	2,748	136,928	140,080	92,824	232,904
Building, machinery and equipment	853,920	123,556	977,476	591,258	102,213	693,471
Membership and fees	25,129	29,207	54,336	23,269	193,195	216,464
Travel	66,113	55,037	121,150	49,130	22,321	71,451
Meetings	29,101	13,755	42,856	12,525	10,230	22,755
Auto expenses	366,275	7,051	373,326	396,394	16,052	412,446
Parts and materials	243,594	354	243,948	160,303		160,303
Telephone and communications	111,361	11,897	123,258	131,082	17,664	148,746
Utilities	111,644	750	112,394	100,539	5,098	105,637
Insurance	212,519	7,598	220,117	223,119	2,496	225,615
Intertie conveyance	2,284,793		2,284,793	2,143,833		2,143,833
Grassland Basin Drainage specific		1,093,874	1,093,874		930,893	930,893
Depreciation	272,245		272,245	242,167		242,167
Unit 6 Rewind expense	4,073,705		4,073,705			
Unit 6 Rewind expense		322,112	322,112		5,034,514	5,034,514
Allocated indirect costs	(410,273)	24,476	(385,797)	(349,931)	20,593	(329,338)
Total Operating Expenses	56,284,921	$ 7,187,209	$ 63,472,130	14,511,991	$ 12,066,304	$ 26,578,295
Reconciliation to O&M fees:						
Less depreciation	(272,245)			(242,167)		
Less investment and other income	(1,306,144)			(801,202)		
Total O&M fees	$ 54,706,532			$ 13,468,622		
Total O&M fees consists of:						
Water conveyance fees, O&M	$ 14,556,542			$ 13,468,622		
Project use energy (PUE) fees	24,258,072					
San Luis joint use facility fees	11,818,213					
Water conveyance fees, Unit 2 Rewind	4,073,705					
	$ 54,706,532			$ 13,468,622		

NOTE 10 – RETIREMENT BENEFITS:

The Authority provides retirement benefits for all of its full-time employees through two defined contribution pension plans organized under Internal Revenue Code (IRC) Section 401(a) and a voluntary IRC Section 457 Deferred Compensation Plan. The benefit terms and contribution rates of the plans are established and may be amended by the Board of Directors.

A. IRC Section 401(a) Plans: The Authority provides two IRC Section 401(a) plans (the Plans): The 401a Executive Defined Contribution Plan (Plan 109325) and the 401a Defined Contribution Plan (Plan 109164). Plan 190325 requires the employee to contribute 5% of "base annual salary" to the Plan and the Authority matches 5%. Plan 109164 requires the Authority to contribute an amount equal to 8% of the employee's "base annual salary" to the Plan. "Base annual salary" is defined as gross base annual salary, which excludes overtime, merit pay awards, shift differential premiums, or any other special pay. All employer and employee contributions and earnings on those contributions are vested immediately. Employees may contribute up to 25% of their total compensation up to $30,000 per year of combined employer and employee contributions, subject to IRC contribution limits. For the years ended February 29, 2020 and February 28, 2019, the employer contributions to the Plans were $825,227 and $740,183 and the employee contributions were $117,003 and $111,089, respectively.

B. IRC Section 457 Plan: Employees are also eligible to participate in a voluntary IRC Section 457 Deferred Compensation Plan (the Plan) from date of employment. If an employee elects to participate, the Authority will match up to 5% of the employee's base gross annual salary, which excludes overtime, merit pay awards, shift differential premiums, or any other special pay. Employee contributions are based on W-2 earnings. All employer and employee contributions and earnings on those contributions are vested immediately. The funding limit is the lesser of $7,500 per year, or 33% of includable compensation, which equates to 25% of total compensation. For the years ended February 29, 2020 and February 28, 2019, the employer contributions were $291,792 and $251,334 and the employee contributions were $595,057 and $640,151, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES:

A. Litigation

The Authority is involved in various litigation matters. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material adverse effect on the Authority's financial statements.

B. State and Federal Allowances, Awards and Grants

The Authority has received state and federal funds for specific purposes that are subject to review and audit by the granting agencies. Although such audits could generate expense disallowances under such terms of the grants, it is believed that any required reimbursements will not be material.

C. Grassland Basin Drainage Management Activity

Litigation filed by a coalition of fishermen's organizations and an individual in late 2011 remained pending in federal court throughout Fiscal Year 2020 and 2019. The litigation alleges that the Authority and the United States Bureau of Reclamation (Reclamation) have violated the Clean Water Act by

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued):

failing to obtain a National Pollution Elimination System Discharge (NPDES) permit for discharges of drainage water from the Grassland Bypass Project, conducted under the Authority's Grassland Basin Drainage Management Activity Agreement. The Authority and Reclamation maintain that there is no such violation because the discharges fit within exemptions from the NPDES permit requirements. On September 6, 2019, the Ninth Circuit Court of Appeal issued its opinion reversing the district court and remanding the case, and subsequently, the Ninth Circuit denied petitions for rehearing. Following further proceedings in the form of petitions for rehearing, on December 30, 2019, the Ninth Circuit remanded the case back to the District Court. After an initial case management conference on March 6, 2020, the Court set September 25, 2020 as the date for close of fact discovery, with an additional period for expert discovery closing on December 18, 2020 and the date for dispositive motions set for no later than January 22, 2021. A hearing was held on April 24, 2020 on the Grassland Water District's motion to intervene in the litigation, which the Plaintiffs opposed. The Court has not yet issued its order on that motion and also has not ruled on disputes between the Plaintiffs and the Authority concerning the scope of discovery. Most recently, the Authority has filed a Notice of Related Cases advising the Court that the two cases discussed below involve the same project and nearly the same parties as this case. The remanded case involves legal theories and claims that were not addressed previously, to determine whether or not an NPDES permit is required for discharges from the Grasslands Bypass Project through the San Luis Drain. The Authority's response remains that it denies that an NPDES permit is required and believes its defense are meritorious. Therefore, at the present time the possibility of an unfavorable outcome is possible, but not probable, and were there such an unfavorable outcome, the amount of liability cannot reasonably be determined at the present time.

On November 12, 2019, North Coast Rivers Alliance et al. filed a Petition for Writ of Mandate and Complaint for Injunctive Relief against the San Luis & Delta-Mendota Water Authority regarding the Water Authority's compliance with the California Environmental Quality Act and other statutory requirements. The lawsuit seeks to invalidate certain actions by the Water Authority taken on October 10, 2019 and does not involve claims for monetary damages except for a possible reward of attorney fees. A case management conference scheduled for August 24, 2020 has been rescheduled due to COVID backlogs until March 8, 2021.

On or about May 5, 2020, the same counsel who brought the North Coast Rivers Association case discussed above filed an additional case, *Winnemem Wintu Tribe, et al., v. State Water Resources Control Board and Central Valley Regional Control Board, et al.*, San Francisco County. The Authority is named as a Real Party in Interest, along with Reclamation. This case is a petition for writ of Mandate and declaratory and injunctive relief seeking to set aside the Waste Discharge Order issued for the Authority's Grassland Bypass Project (Long-Term Storm Water Management Plan) on the grounds that both the State Board and Regional Board have violated applicable laws by failing to require an NPDES permit for the project; relying on the Authority's CEQA documents and failing to adopt feasible mitigation measures; violating the Delta Protection Act; and violating the Public Trust Doctrine. Counsel for the Authority on this case has filed a notice of Related Cases to the two cases described above and on September 15, 2020, also filed a motion to transfer the case to Merced County. The hearing on that motion was set for October 13, 2020. Similar to the *North Coast Rivers Association* case discussed above, this is not a damages type of action and there are no direct financial consequences expected, except for payment of the Authority's own counsel and a possible award of attorneys' fees. Special procedural requirements for a CEQA lawsuit are in process. Given those requirements, the Authority has not yet even provided its response, and it is far too preliminary to assess the outcome or the likelihood of any material liability of the Authority.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued):

D. Groundwater Sustainability Plans

California Sportfishing Protection Alliance, a California non-profit public benefit conservation and research organization v. San Luis & Delta-Mendota Water Authority and numerous others, Superior Court of California, in and for the County of Stanislaus. This is a purported reverse validation proceeding brought pursuant to California Water Code §10726.6 and California Code of Civil Procedure §863. The plaintiff challenges the adoption of six groundwater sustainability plans adopted by various groundwater sustainability agencies for the Delta-Mendota sub-basin. The Authority did not adopt a groundwater sustainability plan. We are therefore engaged in negotiations to obtain a dismissal without prejudice of the case insofar as it relates to the Authority. The case is in its earliest stages. We are unable to provide an evaluation of the merits of the case or the financial impact, if any, that it might have upon the Authority if it were to proceed against the Authority. This should not be read as an opinion that the lawsuit will have any adverse impact on the Authority.

E. Lease Agreements

The Authority leases its headquarters building in Los Banos, California, an office in Sacramento, California, and various equipment. The Los Banos office lease expires February 28, 2021, all other leases are on a month-to-month basis. Lease expense incurred during the years ended February 29, 2020 and February 28, 2019 was $149,632 and $214,739, respectively.

F. Sisk Dam Raise Feasibility Study

On November 12, 2019, the Authority entered into an agreement with CDM Smith Inc (CDM) for professional services to be conducted towards the Supplemental Environmental Impact Study/Environmental Impact Report (SEIS/EIR) and feasibility study of the B.F Sisk Dam. The Sisk Dam is approximately 382 feet high and 3.5 miles in length and is located in a historically seismically active area. Studies and amylases indicate that a major earthquake could result in substantial consequences, though the possibility of dam failure is remote. Reclamation and the Department of Water Resources completed a corrective action study indicating a 12-foot raise in the embankment height of the North and South Valley sections would reduce the potential for damn failure due to earthquake induced cracking. In connected action to the B.F Sisk SOD Modification project, the Authority seeks to evaluate for an additional 10-foot raise across the entire Dam above the safety purpose to expand reservoir capacity. The feasibility study associated with raising the Dam, including economic and environmental impacts was initiated this year and would cost approximately $410,000. Additional funding will be required to complete the feasibility study.

G. Jones Pumping Plant Rewind Unit Two

The Authority is in the process of rewinding Unit Two of the Jones Pumping Plant project. The project has an original contract amount of $4,420,365 and additional change orders of $55,034. As of February 29, 2020, the project had an outstanding balance of $1,326,110 remaining to be completed.

H. Joint Powers Authority Contingent Liabilities

The State and Federal Contractors Water Agency ("SFCWA") was formed by various water agencies in August of 2009 as a joint powers authority according to California law. The Authority, along with

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued):

five other water agencies, was an initial party to the agreement. In 2018, a decision was made to wind down SFCWA activities, with the ultimate objective of terminating the entity and related agreements that formed the entity. The SFCWA has received a status update on review of the pension and other postemployment benefits liabilities and is evaluating whether it holds sufficient assets to cover existing and projected liabilities through the time of termination. California Assembly Bill (AB) 1912 requires member agencies of an agency established pursuant to a joint powers agreement that participates in, or contracts with, a public retirement system to mutually agree as to the apportionment of the agency's retirement obligation among themselves prior to filing a notice of termination. AB 1912 could result in the Authority being held responsible for a portion of the SFCWA's retirement obligation if SFCWA does not have sufficient assets to fund the obligation.

As described in Note A, the Authority is a party to a number of joint powers agreements. Due to AB 1912, the Authority could be held responsible for funding a portion of any unfunded public retirement system pension obligation of a joint powers authority (JPA) at the time of termination if the JPA does not have sufficient assets to fund any public retirement system pension obligation.

NOTE 12 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS:

The Authority is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) for general liability, property, workers' compensation and employer's liability, and health benefits insurance. The JPIA is a special district in the State of California and its formation and operation are subject to the provisions of the California Government Code. The purpose of the JPIA is to provide risk sharing pools to meet the needs of its member water agencies. Each member selects one representative to serve as a director on the JPIA Board of Directors. The relationship is such that the JPIA is not considered a component unit of the Authority for financial reporting purposes.

For general liability, auto liability and public officials' liability insurance, the Authority is fully responsible for claims up to a Retrospective Allocation Point (RAP) of $25,000. Coverage between the Authority's RAP and $5,000,000 is provided through the JPIA risk pool. Coverage from $5,000,000 to $60,000,000 is provided through insurance purchased by the JPIA on behalf of its members.

The Authority has coverage up to $2,000,000 for workers' compensation and employer's liability provided through the JPIA risk pool and $2,000,000 of excess coverage is purchased by the JPIA on behalf of its members to the $4,000,000 statutory limits.

For the liability and workers' compensation programs, retrospective premium adjustments are determined for each policy year. The adjustment can result in an additional charge or a refund to the member entity. The adjustment is computed as the difference between premiums received from the member entity and direct and pooled claims losses and other costs, net of investment income, including unallocated claims expenses, excess insurance premiums, and administrative expenses.

The Authority has deductibles for the property program ranging from $500 for vehicle coverage to $50,000 or $5 per kilowatt hour for turbine units and associated equipment. The JPIA has a pooled self-insured retention (SIR) level of $100,000 for the fiscal years ending February 29, 2020 and February 28, 2019. The JPIA provides coverage above its SIR up to $500,000,000 through purchased insurance.

NOTE 12 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS (Continued):

In July 2012, the ACWA/JPIA Employee Benefits Program was established to provide medical and dental and vision coverage for members' employees and dependents. The preferred provider organization plans offered in the medical and dental coverage are self-insured. The JPIA carries reinsurance with Sun Life Assurance Company of Canada for coverage losses in excess of its self-insured retention of $500,000 per beneficiary incurred during the policy period.

Settled claims have not exceeded any of the Authority's coverage amounts in any of the last three fiscal years and there were no significant reductions in the Authority's coverage during the fiscal years ended February 29, 2020 and February 28, 2019.

NOTE 13 – MEMORANDUM OF UNDERSTANDING WITH FRIANT WATER AUTHORITY

The Authority and the Friant Water Users Authority (FWUA) entered into a memorandum of understanding, effective March 1, 1998 (Original Friant MOU) with respect to operation, maintenance and replacement (OM&R) of the Jones Pumping Plant, Delta Mendota Canal/California Aqueduct Intertie and Pumping Plant, Kesterson Reservoir, Mendota Pool, O'Neil Pumping-Generating Plant, San Luis Drain and other facilities (Project Works) owned by the United States acting through Reclamation. The Original Friant MOU was amended and restated as of September 1, 2002 by the Authority and FWUA (Friant MOU). On June 30, 2004, the Friant Water Authority (FWA) succeeded to the rights and obligations of FWUA under the Friant MOU.

Under the Friant MOU, settlement water is provided to Settlement Contractors, as defined in the Friant MOU, under a settlement agreement with Reclamation to replace irrigation water no longer reaching the Mendota Pool after Reclamation began operating Friant Dam on the San Joaquin River. Pursuant to the Friant MOU, FWA is responsible for reimbursing the Authority's OM&R Costs (defined in the Friant MOU) related to the conveyance or delivery of up to 840,000 acre-feet of settlement water each year to the following Settlement Contractors: Central California Irrigation District, Firebaugh Canal Company, Columbia Canal Company, and San Luis Canal Company. FWA collects amounts necessary to reimburse the Authority for such OM&R from its contractors, which have entered into water repayment or other water contracts with Reclamation from the Friant Division of the Central Valley Project (Friant Division Contractors).

Under the Friant MOU, FWA acknowledges that the Friant Division Contractors have a critical interest in the OM&R of the Project Works allocable to settlement water delivered to the Settlement Contractors and have agreed to pay OM&R Costs incurred by the Authority under the Transfer Agreement associated with the delivery of settlement water to the Settlement Contractors in accordance with the Friant MOU. As further set forth in the Friant MOU, FWA collects amounts to pay such OM&R to the Authority from Friant Division Contractors as permitted under the Friant Transfer Agreement entered into by FWA and Reclamation effective March 1, 1998. FWA succeeded to the rights and obligations of FWUA under the Friant Transfer Agreement on June 30, 2004. FWA executed a renewed Friant Transfer Agreement with Reclamation effective October 5, 2020.

NOTE 14 – SUBSEQUENT EVENTS:

The Authority has the following subsequent events:

DELTA-MENDOTA CANAL SUBSIDENCE CORRECTION PROJECT

The broad scope of work for the Delta-Mendota Canal (DMC) Subsidence Correction Project (Project) is to perform modifications necessary on the DMC conveyance system that will allow maximum pumping at the Jones Pumping Plant. The Authority and Reclamation are developing appraisal level cost estimates for the various modifications to the DMC that are necessary to restore the DMC to its original design capacity. The first phase of this multi-phased project has received approximately $5 million in federal funding and is in progress. This phase consists of manufacturing and installing two additional pumping units and appurtenances into the two additional pump bays of the Delta-Mendota Canal/California Aqueduct Intertie Pumping Plant. The installation of these pumping units is planned to be performed in April 2021.

The additional phases of this project will be determined and developed during the design phase of the Project. During this design phase, the Authority and Reclamation will determine the total number of structures that will need to be modified during each phase and the order of the phases to best match the future funding for the Project. The phases include; raising the height of the existing concrete lining, repairing the concrete lining that has been damaged by the subsidence, repairing and further protecting the clay lined embankment where the subsidence has caused significant embankment erosion, raising or replacing irrigation pipeline crossings and storm drain over chutes that have become (or are partially) submerged from the subsidence and raise or replace county road bridges where the bridge structure is impeding the DMC flows.

Background

The 116.5-mile long Delta-Mendota Canal has several locations along its length where significant subsidence has occurred that limits the DMC’s ability to pass the design flows through that section. The areas where the significant subsidence has occurred, is in areas where the subsurface geology compacts when there is excessive groundwater pumping. This condition typically occurs during extended drought periods when surface water is not available and the landowners pump groundwater to irrigate their crops.

JONES PUMPING PLANT (JPP) UNIT REWIND PROJECT

The Authority and Reclamation entered into an Agreement to Transfer the Operation, Maintenance, and Replacement (O&MR) and Certain Financial and Administrative Activities Related to the San Luis and Delta-Mendota Canal, Tracy Pumping Plant and O’Neill Pumping/Generating Plant, San Luis Drain and Associated Works, Contract No. 8-07-20-X0354 (Transfer Agreement), effective March 1, 1998 with a term of 25 years. Effective February 18, 2003, the United States and the Authority executed an amendment to the Transfer Agreement which revised Article 11, 12, 16 and 18 of the Transfer Agreement. The 25-year term was scheduled to end on February 28, 2023. The Authority is seeking funding for infrastructure improvement related to the Jones Pumping Plant (JPP) Unit Motor Rehabilitation Project (Project). There is a total of six units that require rehabilitation for a total Project cost of $36.7 million. Reclamation funded rehabilitation of the first unit and the Authority is funding the second unit. The Authority is seeking funding for the remaining four units and submitted a Letter of Interest (LOI) for the Water Infrastructure Finance and Innovation Act (WIFIA) loan administered by the U.S. Environmental Protection Agency (EPA) and have been selected to submit an application for the loan. This WIFIA financing is expected to be secured

NOTE 14 – SUBSEQUENT EVENTS (Continued):

by a pledge of revenue collection from Operations & Maintenance (O&M) rates provided under the Transfer Agreement. Therefore, to secure the WIFIA loan, the Authority was required to have a Transfer Agreement in place for the term of the loan. The Authority completed an early renewal of the Transfer Agreement for a new term of 35 years in January 2020.

On June 29, 2020, the Authority entered into an agreement with Reclamation, contract No 20-EC-20-5647, for the repayment of extraordinary maintenance costs for the Jones Pumping Plant. The contract provides funding for the rewind of units #1, #3, #4 and #5. The contract provides funds up to a total of $12,700,000 for all work pursuant to the contract and is to not exceed 80% of the total costs of the project. The funds are required to be repaid in four repayment blocks, one for each unit as completed. The interest rate used for computing interest on principle balance would be the Department of the Treasury rate at the beginning of the fiscal year each unit has commenced. Each repayment block will be repaid within twenty-three years from the first installment of each block. The scope of the Jones Pumping Plant (JPP) Unit Motor Rehabilitation Project (Project) is to rehabilitate all six (6) 22,500 HP motors that have reached the end of their service life. The primary purpose of this Project is to extend the life of the JPP's unit motors for approximately 30 years and to improve the overall reliability of the JPP.

The rehabilitation of the first unit (Unit No. 6) was completed in February 2019. The funding/financing for this unit was provided by the Authority and Reclamation. The entities entered into a 15-year repayment contract for the funding portion provided by Reclamation. Upon successful completion of the first unit's motor, the Authority prepared contract documents to rehabilitate the remaining 5 motors under one multi-year contract, utilizing the same design that was developed for Unit No. 6. The Authority awarded a construction contract to National Electric Coil Company in August 2019 to rehabilitate the remaining units with a Project completion date of May 2023. Each unit motor will be provided with a separate contract award and will be rehabilitated individually over the course of 45 months (approximately 9 months per unit). The rehabilitation of the second unit (Unit No. 2) began in August 2019 and was completed in June 2020. The Authority self-funded the cost for Unit No. 2 through the water rates.

The Authority has entered into a second repayment contract with Reclamation for the funding/financing of the third unit (Unit 5) and the sixth unit (Unit No. 3). The term of this contract is 23 years. The rehabilitation of Unit No. 5 is in progress and has a scheduled completion date of March 2021.

The Authority is seeking federal financing through EPA's Water Infrastructure Finance and Innovation Act (WIFIA) program for the cost associated with all six (6) units at the JPP. The WIFIA financing has a cost share requirement for the loan. The Authority's qualifying cost share components are the self-funded cost for Unit No. 2 and the labor associated with the Project design and in-house contract support for the rehabilitation of all six (6) unit motors. Reclamation funding for the three units is identified as part of the total federal funding in the WIFIA financing application. Due to significant uncertainty associated with securing the WIFIA financing, the Authority is also developing a bond financing plan, on a parallel path as the WIFIA financing process, which will secure funding for Unit Nos. 1 and 4, if the Authority is not able to secure WIFIA financing for the Project. The Authority cannot represent whether or not it will be able to secure the WIFIA financing or when such financing may be available.

NOTE 14 – SUBSEQUENT EVENTS (Continued):

The following table shows estimated costs of the Jones Pumping Plant Unit Rewind Project:

Jones Pumping Plant
Unit Rewind Project
PROJECT COST SUMMARY

Jones Pumping Plant Unit Rewind Project Cost

	NEC Construction Cost	Construction Contingency Cost (10%)	Total Construction Contract Cost	USBR Oversite Cost	DHR PSA Cost	Total Contracts	SLDMWA Planned Labor	Totals
Unit 6 TOTAL COST[1]:						$ 5,000,000	$ 403,298	$ 5,403,298
Units 1-5 Design[2]:	$ -	$ -	$ -	$ 60,000	$ 69,036	$ 129,036	$ 8,428	$ 137,464
Unit 2:	$ 4,420,365	$ 442,037	$ 4,862,402	$ 50,000	$ 497,130	$ 5,409,532	$ 686,000	$ 6,095,532
Unit 5:	$ 4,373,881	$ 437,388	$ 4,811,269	$ 51,500	$ 505,550	$ 5,368,319	$ 711,400	$ 6,079,719
Unit 1:	$ 4,387,771	$ 438,777	$ 4,826,548	$ 52,700	$ 514,170	$ 5,393,418	$ 736,533	$ 6,129,951
Unit 4:	$ 4,431,356	$ 443,136	$ 4,874,492	$ 53,900	$ 532,790	$ 5,461,182	$ 758,533	$ 6,219,715
Unit 3:	$ 4,564,878	$ 456,488	$ 5,021,366	$ 55,200	$ 546,410	$ 5,622,976	$ 780,533	$ 6,403,509
Totals:	**$ 22,178,251**	**$ 2,217,825**	**$ 24,396,076**	**$ 323,300**	**$ 2,665,086**	**$ 32,384,462**	**$ 4,084,726**	**$ 36,469,188**
	61%	6%		1%	7%		11%	[illegible]

Notes:
1. Unit 6 costs are final.
2. Units 1-5 design costs are final.

REFUNDING OF THE DHCCP SERIES 2013A BONDS

Due to the significant decline in interest rates since March 2020, the Authority, on behalf of the Activity Agreement Financing Participants (Participants), is pursuing refinancing of the 2013A DHCCP bonds. Currently, 9 Participants owe a total of $28,935,000. Westlands Water District is ultimately responsible to pay 100% of the principal and interest for the 2013A bonds and the Authority reimburses Westlands Water District from amounts received from the other 8 Participants. This arrangement would continue after refinancing. The refinancing is currently expected to be completed by December 17, 2020.

SAN LUIS TRANSMISSION PROJECT

The Western Area Power Administration ("WAPA") and Reclamation are proposing to construct a new 230-kilovolt transmission project about 85 miles in length between WAPA's Tracy Substation and San Luis, O'Neill and Dos Amigos substations. The goal of the San Luis Transmission Project ("SLTP") is to provide the electricity to economically and reliably deliver federal water supplies to water customers in the Central Valley and Bay Area while benefiting reliable grid operations in the region. As part of SLTP, WAPA is also considering constructing, operating and maintaining about seven miles of 70-kV transmission line between San Luis and O'Neill substations. When completed, WAPA will own, operate and maintain the SLTP with 400 megawatts of capacity between Tracy and San Luis substations reserved to serve Reclamation and the Authority's member agencies, fulfilling the transmission service request submitted by Reclamation. An additional 200 megawatts of capacity will remain for use by a private investor.

WAPA is statutorily obligated to provide power to the San Luis pumping units that serve the Authority's member agencies. This project ensures that obligation is met at stable and affordable rates. The Authority and WAPA completed the environmental review process for the SLTP under the National Environmental

NOTE 14 – SUBSEQUENT EVENTS (Continued):

Policy Act ("NEPA") and CEQA and identified the preferred route and configuration for the transmission line. In April 2016, WAPA issued its record of decision for the SLTP project, which concluded the environmental review process.

Reclamation is considering options for financing the SLTP and is working with the Authority and other private investors as potential funding partners. The Authority does not know if or when the SLTP will be constructed, how Reclamation will finance its share of the SLTP, including whether the Authority will participate in such financing, or what its share of costs of the SLTP will be, including finance costs. In the event that the construction of the SLTP is delayed or does not occur, WAPA will remain statutorily obligated to provide power.

LOS VAQUEROS RESERVOIR EXPANSION PROJECT

The SLDMWA executed Amendment #2 on September 17, 2020 to the Cost Share Agreement for Los Vaqueros Reservoir Expansion Project Planning and committed to a payment of up to $1,013,661. The obligation for such payments is the responsibility of the Los Vaqueros Reservoir Expansion Activity Agreement members. These payments will be invoiced over four (4) separate payments with the first in September 2020 and the final in July 2021.

PROPOSITION 1 INTEGRATED REGIONAL WATER MANAGEMENT PROGRAM GRANT – WESTSIDE SAN JOAQUIN RIVER FUNDING REGION

In May 2020 and July 2020, the Authority was awarded two State of California Round 1 Proposition 1 Integrated Regional Water Management (IRWM) Implementation grants, totaling $3,132,791 to assist in implementing projects in the San Joaquin River Funding Area, which is part of the Westside-San Joaquin Integrated Regional Water Management Plan, for which the Authority serves as the Regional Water Management Group. The Authority is required to demonstrate a minimum grant match of $19,479,516 and the Local Project Sponsors are responsible for all project costs exceeding the grant limit. The Authority's share of the project costs is expected to be $10,000. The local match is expected to be satisfied with in-kind and consultant services of $19,479,516, expected to be provided by the Local Project Sponsors through the Activity Agreement with the Authority.

LITIGATION

The Authority entered into litigation in the case of *AquAlliance, et al v. US Bureau of Reclamation*, San Luis & Delta Mendota Water Authority et al. on May 11, 2020. The Authority is defending a civil suit brought pursuant to National Environmental Protection Act (NEPA) and California Environmental Quality Act (CEQA), on behalf of members in the Long Term North to South Water Transfer Program Activity Agreement. Plaintiffs are challenging the Authorities certification of a Final Revised Environmental Impact Report and approval of the "Long Term Water Transfers" project. The possibility of an unfavorable outcome is undeterminable, and were there such an unfavorable outcome, the amount of liability also cannot reasonably be determined.

NOTE 14 – SUBSEQUENT EVENTS (Continued):

CONSOLIDATION OF MEMBERS

A consolidation of West Side Irrigation District with Byron-Bethany Irrigation District was completed on September 2, 2020. Bryon-Bethany Irrigation District became the successor district after the consolidation. All of the West Side Irrigation District's benefits and obligations related to the Authority accrue to Byron-Bethany Irrigation District after the consolidation.

NOTE 15 – NEW PRONOUNCEMENT

During the year ended February 29, 2020, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Due to the implementation of this Statement, the Authority reevaluated whether activities previously reported in agency funds met the definition of fiduciary activities under GASB Statement No. 84. The Authority determined the activities previously reported in agency funds did not meet the definition of fiduciary activities due to the Authority having administrative involvement in the activities. The Authority had not previously accounted for the activities similar to its enterprise funds during the year ended February 28, 2019, so the 2019 financial statements were not restated to report the activities previously reported in agency funds as part of the enterprise fund. As a result, the Authority began to report the activities previously reported in agency funds as part of the enterprise fund as of March 1, 2019. This resulted in total assets and total liabilities of the agency fund increasing by $16,645,762 as of March 1, 2019, including cash and cash equivalents and accounts payable. The activities had no effect on net position as of March 1, 2019 as any change in net position is reported as unearned revenues. The activities are reported as PUE fees and costs and San Luis joint use facilities fees and costs in the statement of revenues, expenses and changes in net position for the year ended February 29, 2020.

COMPLIANCE REPORT

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

To the Board of Directors
San Luis & Delta-Mendota Water Authority
Los Banos, 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 the business-type activities and the aggregate remaining fund information of the San Luis & Delta-Mendota Water Authority (the Authority) as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 2, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the auditing procedures 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

To the Board of Directors
San Luis & Delta Mendota Water Authority

Compliance and Other Matters

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

Purpose of this Report

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

Richardson & Company, LLP

November 2, 2020