

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

REPORT ON AUDITED
FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION

YEAR ENDED FEBRUARY 29, 2016

CONTENTS

	<u>Page</u>
FINANCIAL STATEMENTS:	
Independent Auditor's report	1-2
Management's Discussion and Analysis	3-9
 General Purpose Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Statement of Fiduciary Net Position – Fiduciary Funds	13
Notes to Financial Statements	14-26
 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	27-28



Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102
Clovis, California 93612-4739
(559) 291-0277 • FAX (559) 291-6411

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2016 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Authority'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 Authority'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Authority, as of February 29, 2016 and respective changes in financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office and the state regulations governing special districts.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2019, on our consideration of the Authority's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Sampson, Sampson & Patterson, LLP

Clovis, California
July 1, 2019

San Luis & Delta-Mendota Water Authority

Management's Discussion and Analysis

Year Ended February 29, 2016

Overview

The following management discussion and analysis of the San Luis & Delta-Mendota Water Authority (the Authority or SLDMWA) provides an overview of the financial activities and transactions for fiscal years 2016 and 2015 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 include all of SLDMWA's assets, deferred outflows and liabilities, with the difference reported as net position. The statements of revenues, expenses and changes in net position report all of SLDMWA's revenues and expenses during the period indicated. The statements of cash flows show 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 provide 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 produce products or services that can be sold. Assets include pumping plants, vehicles, equipment, inventory, cash and investments, and accounts receivable.

Liabilities are amounts of money that the Authority owes to others. This includes money owed to suppliers for materials, payments due to members participating in water transfers, deposits from other agencies and amounts due to the Authority's pension plan.

Net Position is the amount of money that would be left if the Authority sold all of its assets and paid off all of its 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 bottom line of the statement shows the Authority's end of year net position.

San Luis & Delta-Mendota Water Authority
Management's Discussion and Analysis

Year Ended February 29, 2016

• **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

	2016	2015	Variance	% Change
Assets				
Current Assets	\$22,340,392	\$27,556,180	\$(5,215,788)	-19%
Capital Assets, Net of Accumulated Depreciation	2,755,827	3,000,602	(244,775)	-8%
Other Assets	<u>35,910,000</u>	<u>36,540,000</u>	<u>(630,000)</u>	-2%
Total Assets	<u>61,006,219</u>	<u>67,096,782</u>	<u>(6,090,563)</u>	
Deferred Outflow of Resources				
Debt Issuance	147,122	152,571	(5,449)	-4%
Liabilities				
Other Current Liabilities	11,680,813	15,660,965	(3,980,152)	-25%
Debt Borrowings, Due within One Year	630,000	605,000	25,000	4%
Debt Borrowings, Long Term	38,623,436	39,353,934	(730,498)	-2%
Other Liabilities, Compensated Absences	<u>1,267,519</u>	<u>1,068,119</u>	<u>199,400</u>	19%
Total Liabilities	<u>52,201,768</u>	<u>56,688,018</u>	<u>(4,486,250)</u>	
Net Position				
Total Net Position	<u>\$ 8,951,573</u>	<u>\$10,561,335</u>	<u>\$(1,609,762)</u>	-15%

San Luis & Delta-Mendota Water Authority
Management's Discussion and Analysis

Year Ended February 29, 2016

Current Assets

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

Fiscal Year 2016 Compared to 2015. At February 29, 2016, current assets totaled \$22.3 million which was \$5.2 million or 19% lower than the prior year. The decrease was primarily due to a \$1.7-million-dollar reduction in cash and cash equivalents, and a decrease in accounts receivable of \$3.5 million at February 29, 2016 as compared to February 28, 2015.

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 2016 Compared to 2015. At February 29, 2016, net capital assets totaled \$2.75 million net of accumulated depreciation which was down approximately \$245 thousand or 8% from the prior year. This decrease resulted from fixed asset additions, retirements, and depreciation for the year.

	2016	2015
Autos/Light Trucks	\$2,338,240	\$2,366,587
Heavy Equipment	1,700,317	1,700,317
Furniture and Equipment	2,039,728	2,038,736
Computers	809,819	809,819
Total Fixed Assets at Cost	6,888,104	6,915,459
Less Accumulated Depreciation	(4,132,277)	(3,914,857)
Net Fixed Assets	\$ 2,755,827	\$ 3,000,602

Major capital asset events during 2015-2016 fiscal year included the following:

- Vehicle retirements totaled \$28,347.
- Furniture and Equipment replacements totaled \$12,924, whereas retirements totaled \$11,932.

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, decreased from \$36,540,000 in fiscal year 2015 to \$35,910,000 in fiscal year 2016 for a total decrease of \$630,000 or 2% by February 29, 2016.

The decrease is a result of the Series 2013A Refunding Revenue Bond principal payment of \$630,000 due in 2016/2017. More information on the Series 2013A can be found in Note 7.

San Luis & Delta-Mendota Water Authority
Management's Discussion and Analysis

Year Ended February 29, 2016

Deferred Outflows of Resources

Fiscal Year 2016 Compared to 2015. At February 29, 2016, deferred outflow of resources decreased \$5,449 or 4%.

This decrease is a result of the deferred outflow of debt issuance costs related to the 2013A Refunding Revenue Bonds.

Current Liabilities

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

Fiscal Year 2016 Compared to 2015. At February 29, 2016, current liabilities totaled \$12.8 million, a decrease of \$16.7 million or 23% from the prior year. Details to support the decrease include:

Accounts Payable decreased \$4,465,695, while Accrued Payroll and Related Liabilities increased \$62,157. The current portion of Interest Payable on long-term debt decreased \$12,100. Unearned Revenue increased \$435,486.

Debt Borrowings – Due within One Year

Debt Borrowings – due within one year increased from \$605,000 to \$630,000 for a total increase of \$25,000 or 4%.

The increase of \$25,000 reflects the net increase in the Series 2013A Refunding Revenue Bond principal due within one year.

Debt Borrowings – Long Term

Debt Borrowings – long-term liabilities decreased \$730,498 or 2%.

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 2016 Compared to 2015. The total net position at the end of fiscal year 2016 was \$8.9 million, a decline of \$1.6 million from the balance at the end of fiscal year 2015. Net position was reduced by a net operating loss of \$665,043 and a non-operating loss of \$944,719.

San Luis & Delta-Mendota Water Authority
Management's Discussion and Analysis

Year Ended February 29, 2016

Revenues and Expenses

The following is a condensed presentation of revenues, expenses and changes in net position for the fiscal years ended February 29, 2016 and February 28, 2015:

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION

	2016	2015	Variance	% Change
Revenues & Expenses				
Operating Revenues	\$ 19,392,243	\$ 18,124,806	\$ 1,267,437	7%
Non-Operating Revenues	2,087,023	5,055,129	(2,968,106)	-59%
Operating Expenses	(20,057,286)	(19,734,520)	(322,766)	2%
Non-Operating Expenses	<u>(3,031,742)</u>	<u>(3,444,474)</u>	<u>412,732</u>	-12%
Net Income (Loss)	<u>\$ (1,609,762)</u>	<u>\$ 941</u>	<u>\$(1,610,703)</u>	
Changes in Net Position				
Net Position – Beginning of Year	\$ 10,561,335	\$ 10,560,394	\$ 941	
Changes in Net Position:				
Net Income (Loss)	<u>(1,609,762)</u>	<u>941</u>	<u>(1,610,703)</u>	
Net Position – End of Year	<u>\$ 8,951,573</u>	<u>\$ 10,561,335</u>	<u>\$(1,609,762)</u>	15%

Operating & Non-Operating Revenues

- **Operating Revenues**

Fiscal Year 2016 Compared to 2015. Fiscal year 2016 operating revenues were \$19.4 million, an increase of nearly \$1.3 million as compared to FY 2015. Membership revenues decreased by \$1.5 million, as a result of excess fund balances from previous years being used to offset current year dues.

San Luis & Delta-Mendota Water Authority's principal source of revenue is from water delivery payments, which typically account for approximately 75 percent of fiscal year revenues. Water payments decreased by \$213,785 for total payments of \$9.86 million. This decrease is significantly due to water allocations being at 25% in fiscal year 2016 as opposed to the 50% allocation in fiscal year 2015. Other revenues, however, increased by \$546,889 or 79%.

- **Non-Operating Revenues**

Fiscal Year 2016 Compared to 2015. Overall non-operating revenues decreased by \$2.97 million or 59% in fiscal year 2016 for a total of \$2.08 million. Of that, \$550,000 decrease is from the change in EO&M Reserve Revenues from \$1.55 million to \$1 million. In fiscal year 2016 the Authority began receiving IRWM grant money of \$914,454.

San Luis & Delta-Mendota Water Authority
Management's Discussion and Analysis

Year Ended February 29, 2016

Operating & Non-Operating Expenses

- **Operating Expenses**

Fiscal Year 2016 Compared to 2015. Total operating expenses for fiscal year 2016 were \$20 million, an increase of \$323 thousand in operating expenses from 2015. Legal costs increased \$5.9 million. Intertie conveyance costs decreased \$67,612. Other professional fees decreased \$212,278. Salaries and benefits decreased \$1.18 million due to vacant key positions.

- **Non-Operating Expenses**

Fiscal Year 2016 Compared to 2015. Total non-operating expenses decreased \$413 thousand or 12% in fiscal year 2016 for a total of \$3 million in non-operating expenses. Interest expense decreased \$25 thousand to \$1.7 million. Extraordinary O&M reserve expense decreased \$330,437. Loss on disposition of fixed assets decreased \$57,781.

Long-Term Debt

In June 2013, the Water Authority issued \$37,550,000 in Series 2013A Refunding Revenue Bonds to advance refund a portion of the \$50,000,000 outstanding Series 2009A Revenue Notes. See Note 7 for more information regarding this transaction.

Economic Factors and Subsequent Years' Water Allocation

Series 2013A Refunding Revenue Bonds

In June 2013, the Authority issued \$37,550,000 in Refunding Revenue Bonds (DHCCP Development Project), Series 2013A, to defease a portion of the San Luis and Delta-Mendota Water Authority Revenue Notes (DHCCP Development Project), Series 2009A, discussed in Note 15. 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 \$605,000 to \$2,335,000 at interest rates ranging from 3% to 5%.

Water Allocation

The Authority's WY14 or fiscal year 2015 O&M cost recovery budget was based on the following water supply allocations: 0% Irrigation, 50% M&I, 50% M&I (SCVWD), 65% Refuge and 65% Exchange/Water Rights.

The Authority's WY15 or fiscal year 2016 O&M cost recovery budget is based on the following water supply allocations: Contract Estimates for Irrigation, 25% M&I, 25% M&I (SCVWD), BOR Estimate for Refuge and Exchange Contractor and SLDMWA estimate for Exchange/Water Rights.

The Authority's WY16 or fiscal year 2017 O&M cost recovery budget is based on the following water supply allocations: 5% Irrigation, 55% M&I, 55% M&I (SCVWD), 100% Refuge and 100% Exchange/Water Rights.

San Luis & Delta-Mendota Water Authority
Management's Discussion and Analysis

Year Ended February 29, 2016

The Authority's WY17 or fiscal year 2018 O&M cost recovery budget is based on the following water supply allocations: 100% Irrigation, 100% M&I, 100% M&I (SCVWD), 100% Refuge and 100% Exchange/Water Rights.

The Authority's WY18 or fiscal year 2019 O&M cost recovery budget is based on the following water supply allocations: 35% Irrigation, 75% M&I, 75% M&I (SCVWD), 100% Refuge and 100% Exchange/Water Rights.

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 San Luis & Delta-Mendota Water Authority Director of Finance at P.O. Box 2157, Los Banos, CA 93635.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
STATEMENT OF NET POSITION
FEBRUARY 29, 2016

ASSETS

Current assets:

Cash and investments	
Unrestricted	\$12,533,410
Restricted	<u>6,087,888</u>
	18,621,298
Receivables:	
Accounts, net	2,672,131
Financing participants	630,000
Due from fiduciary funds	40,750
Prepaid expenses	87,722
Inventory	<u>288,491</u>
Total Current Assets	<u>22,340,392</u>

Noncurrent assets:

Receivables, financing participants	35,910,000
Capital assets (net of accumulated depreciation)	
Depreciable	<u>2,755,827</u>
Total Noncurrent assets	<u>38,665,827</u>

Total Assets 61,006,219

DEFERRED OUTFLOW OF RESOURCES

Debt issuance costs 147,122

Total Assets and Deferred Outflows of Resources 61,153,341

LIABILITIES

Current Liabilities:

Accounts payable	8,620,042
Accrued payroll and related liabilities	483,143
Accrued interest payable	910,350
Unearned revenue	1,667,278
Compensated absences	467,081
Current portion of long-term liabilities	<u>630,000</u>
Total Current Liabilities	<u>12,777,894</u>

Noncurrent liabilities:

Compensated absences	800,438
Long-term liabilities, net of current portion	<u>38,623,436</u>
Total Noncurrent Liabilities	<u>39,423,874</u>

Total Liabilities 52,201,768

NET POSITION

Invested in capital assets	2,755,827
Restricted	1,610,000
Unrestricted	<u>4,585,746</u>
Total Net Position	<u>\$ 8,951,573</u>

See independent auditor's report and notes to the financial statements

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED FEBRUARY 29, 2016

OPERATING REVENUES	
Water payments	\$ 9,866,060
U.S.B.R. service contract	691,767
Memberships	5,762,526
DHCCP revenue	1,832,800
Other revenue	<u>1,239,090</u>
Total Operating Revenues	<u>19,392,243</u>
OPERATING EXPENSES	
Salaries and related benefits	9,589,316
Office expense	58,751
Tools and supplies	19,635
Janitorial and uniform expense	72,525
Legal and professional services	6,117,725
Security	94,390
License and education	74,782
Other services	169,015
Building, machinery and equipment	890,354
Membership and fees	23,727
Travel	52,581
Meetings	27,750
Auto expense	811,741
Parts and materials	224,196
Telephone and communications	102,375
Utilities	102,021
Insurance	177,480
San Luis joint use	157,287
Intertie conveyance	72,451
GBD specific	1,287,726
Depreciation	253,493
Allocated indirect costs	<u>(322,035)</u>
Total Operating Expenses	<u>20,057,286</u>
Operating loss	<u>(665,043)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	139,338
Interest expense	(1,725,651)
IRWM Grant	914,454
Extraordinary O & M reserve revenue	1,000,000
Extraordinary O & M reserve expense	(1,293,586)
CCID turnouts revenue	4,144
CCID turnouts expense	(4,517)
FCWD turnouts revenue	3,517
FCWD turnouts expense	(3,824)
EO&M vehicle usage recovery income	21,713
Columbia Canal Company projects revenue	3,857
Columbia Canal Company projects expense	<u>(4,164)</u>
Total Nonoperating Revenue (Expense)	<u>(944,719)</u>
CHANGE IN NET POSITION	<u>(1,609,762)</u>
NET POSITION – BEGINNING	<u>10,561,335</u>
NET POSITION - ENDING	<u>\$ 8,951,573</u>

See independent auditor's report and notes to the financial statements

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 29, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from water sales	\$ 14,460,944
Cash received from other operating revenues	9,530,389
Cash paid for services and supplies	(14,643,936)
Cash paid for salaries and benefits	<u>(9,327,454)</u>
Net cash provided by operating activities	<u>19,943</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

IRWM Grant	914,454
EO&M Reserve projects revenue	1,000,000
EO&M Reserve projects expenses	(1,293,586)
Other projects revenue	33,231
Other projects expenses	<u>(12,505)</u>
Net cash provided by noncapital financing activities	<u>641,594</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on long-term debt	(605,000)
Interest paid	(1,837,709)
Capital expenditures	<u>(12,924)</u>
Net cash used by capital and related financing activities	<u>(2,455,633)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	<u>139,338</u>
Net cash provided by investing activities	<u>139,338</u>

Net decrease in cash and cash equivalents (1,654,758)

Cash and cash equivalents, beginning of year 20,276,056

Cash and cash equivalents, end of year \$18,621,298

Unrestricted cash and cash equivalents \$12,533,410

Restricted cash and cash equivalents 6,087,888

\$18,621,298

Reconciliation of operating income to net cash provided by operating activities:

Operating loss	\$ (665,043)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	253,493
Loss on disposition of capital assets	4,206
(Increase) decrease in net assets:	
Accounts receivable	4,159,398
Prepaid expenses	(1,310)
Inventory	(18,085)
Deferred outflow of resources	5,449
Increase (decrease) in net liabilities:	
Accounts payable	(4,415,513)
Salaries and related benefits payable	261,862
Unearned revenue	<u>435,486</u>
Total adjustments	<u>684,986</u>

Net cash provided by operating activities \$ 19,943

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FEBRUARY 29, 2016

	Agency Funds			Total Fiduciary Funds
	Other Outside Water Transfers	Self-Funding Power	DWR, San Luis Canal, Dos Amigos	
ASSETS				
Cash and investments	\$ 12,208	\$ 1,658,188	\$ 8,549,200	\$10,219,596
Receivables	123,589	523,659	2,579,005	3,226,253
Prepaid expenses	<u> </u>	<u>9,959,943</u>	<u> </u>	<u>9,959,943</u>
Total Assets	<u>\$135,797</u>	<u>\$12,141,790</u>	<u>\$11,128,205</u>	<u>\$23,405,792</u>
LIABILITIES				
Accounts payable	\$ 52,797	\$	\$	\$ 52,797
Other governments	42,250	825,358	3,409,672	4,277,280
Contractor		9,627,019	7,013,465	16,640,484
Due to enterprise fund	40,750			40,750
Unearned revenue	<u> </u>	<u>1,689,413</u>	<u>705,068</u>	<u>2,394,481</u>
Total Liabilities	<u>\$135,797</u>	<u>\$12,141,790</u>	<u>\$11,128,205</u>	<u>\$23,405,792</u>

See independent auditor's report and notes to the financial statements

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 1 – 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) and the American Institute of Certified Public Accountants.

A. Financial Reporting Entity

The San Luis & Delta-Mendota Water Authority (Authority) was formed through a joint powers agreement on September 17, 1990 for the purpose of acquiring, financing, developing, constructing, operating, and maintaining water and drainage works and facilities for the development and benefit of the members. It also works on behalf or in coordination with member agencies on a wide variety of Federal, State and local water policy issues. The Authority consists of twenty-eight member districts, each of which are represented by membership on the Board of Directors, and one Friend.

The member agencies are as follows:

Division 1 (Northern DMC)

Banta-Carbona Irrigation District
Del Puerto Water District
City of Tracy
Patterson Irrigation District
Byron Bethany Irrigation District
West Stanislaus Irrigation District
West Side Irrigation District

Division 2 (San Luis Unit)

Panoche Water District
San Luis Water District
Westlands Water District
Pleasant Valley Water District

Division 3 (Exchange Contractor and
Grassland Water District)

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)

Santa Clara Valley Water District
San Benito County Water District

Division 5 (Southern DMC/Mendota Pool)

Broadview Water District
Eagle Field Water District
Laguna Water District
Mercy Springs Water District
Oro Loma Water District
Pacheco Water District
Fresno Slough Water District
James Irrigation District
Reclamation District 1606
Tranquillity Irrigation District
Turner Island Water District

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.):

The Authority includes all funds and account groups that are controlled by or dependent on decisions made by the Authority’s governing board for financial reporting purposes. The Authority has considered all potential component units in determining how to define the reporting entity using the criteria set forth in generally accepted accounting principles. The basic criterion for including a potential component unit is whether the governing board is financially accountable for the other entity. The Authority determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the statement of net position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources – This amount represents outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources – This amount represents inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

The Authority is accounted for as an enterprise fund. The Statement of Position, Activities, and Cash Flows report information about the Authority as a whole. They include all activities of the Authority except for agency funds. The Enterprise fund and agency funds are reported using the “economic resources” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Enterprise funds are used to account for activities that are similar to private sector enterprises and are financed primarily through user charges and fees. Agency funds are used and account for assets held by the Authority in a purely custodial nature. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

The agency funds are used to account for collections for Project Use Energy and San Luis Joint Use Facility costs that are due to the United States Bureau of Reclamation, for whom the Authority acts as an agent.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. Operating expenses for the enterprise fund include the cost of operations and maintenance of the Delta Mendota Canal, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.):

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.

C. 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.

D. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Authority. The amount of the liability expected to be paid from current resources is recognized at year end in the fund that will pay the benefit.

Accumulated sick leave benefits are generally not recognized as liabilities of the Authority (except for the sick leave cash-out – see note #9), because the Authority's policy is to record sick leave as an operating expense in the period taken since benefits do not vest.

E. Capital Assets

1. Capital Assets Purchased by the Water Authority

Property, Plant and Equipment purchased is capitalized at cost or estimated cost and depreciated when applicable on a straight line method over the asset's useful life. Depreciation on the assets booked in the enterprise fund has been recorded in the financial statements. Proceeds from the disposition of assets are recorded in the year of disposal.

2. Donated Capital Assets

Capital Assets donated by the United States Bureau of Reclamation is capitalized and recorded as fixed asset additions with a corresponding increase in contributed capital assets. Depreciation on these assets has been computed and reported in the financial statements.

F. Depreciation and Amortization

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. These assets are considered to be donated, have been recorded at their estimated fair market value at March 1, 1998, and are being depreciated using the straight-line method over their useful life.

G. Prepaid Expenses

Prepaid assets of \$87,722 in the proprietary fund represent payments made to the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) for various forms of insurance services that will benefit periods beyond February 29, 2016.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.):

H. Net Position

Net position are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested 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.
- *Unrestricted net position* – This category represents net position of the Authority, not restricted for any project or other purpose.

I. 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.

J. Change in Accounting Principle

During the 2015/16 year, the Authority changed the measurement focus and basis of accounting on certain activities previously reported in governmental funds from the modified accrual basis and “current financial resources” measurement focus to the full accrual basis and “economic resources” measurement focus. As a result, all of the activities of the Authority are now being combined into one enterprise fund using a basis of accounting similar to private sector businesses. Enterprise funds report all assets, liabilities, and net position related to a given activity, whereas governmental funds are focused on those transactions that affect near-term liquidity and exclude items such as capital assets and long-term liabilities from the governmental fund financial statements. In prior years, the activities of the Authority were divided between governmental funds and enterprise fund which were reported on separate financial statements. Management believes that the result of the change in accounting method will be to make the financial statements easier for users to understand. The governmental fund balance in the prior year under the modified accrual basis of accounting was \$39,521,534. The net position of the governmental activities using the full accrual basis of accounting in the prior year was \$4,839,103. The result of the change did not affect the current year beginning balance for the governmental activities under the full accrual basis of accounting.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 2 – CASH AND INVESTMENTS:

Cash and investments are classified in the accompanying financial statements as follows:

	2016
Statement of net position:	
Cash and investments	\$12,533,410
Restricted assets:	
Cash and investments	6,087,888
Fiduciary funds:	
Cash and investments	10,219,596
Total cash and investments	\$28,840,894

	2016
Cash and investments as of February 29, 2016 consist of the following:	
Cash on hand	\$ 700
Deposits with financial institutions	3,665,238
Investments	25,174,956
Total cash and investments	\$28,840,894

Interest Rate Risk: 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. The following table illustrates the distribution of the Authority’s investments by maturity as of February 29, 2016:

	Fair Value	12 Months or less	More than 12 months
External Investment Pools	\$23,323,114	\$23,323,114	\$
Held by Bond Trustee:			
Money Market Funds	1,851,842	1,851,842	_____
Totals	\$25,174,956	\$25,174,956	\$_____

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 as of February 29, 2016.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 2 – CASH AND INVESTMENTS (cont.):

	Fair Value	Minimum Legal Rating	AAAm	AAf	Af	Not Rated
External Investment Pools	\$23,323,114	N/A	\$	\$7,303,947	\$14,935,985	\$1,083,182
Held by Bond Trustee:						
Money Market Funds	<u>1,851,842</u>	N/A	<u>1,851,842</u>			
Totals	<u>\$25,174,956</u>		<u>\$1,851,842</u>	<u>\$7,303,947</u>	<u>\$14,935,985</u>	<u>\$1,083,182</u>

Concentration of Credit Risk: The Authority’s investment policy provides for diversification of investments by security type and institution. There are no investments in any one issuer rather than U.S. Treasury Securities, mutual funds, and external investment pools that represent 5% or more of total Authority investments.

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. In accordance with the California Government Code, the Authority’s financial institution secures deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities must equal at least 110% of the total amount deposited by the public agencies. At February 29, 2016, none of the Authority’s deposits in excess of federal depository insurance were held in uncollateralized accounts.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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. As of February 29, 2016, none of the Authority’s investments were subject to custodial credit risk.

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 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 SLDMWA investment policy states that funds may be invested, to the extent permitted by law and as conditions dictate, in banks, in the State of California Local Agency Investment Fund (LAIF) in accordance with Section 16429.1 of the Government Code. Funds may also be invested, to the extent permitted by law and as conditions dictate, in the Investment Trust of California (CalTrust), a pooled investment program established by California public agencies for the purpose of pooling and investing local assets in accordance with Section 53601(o) of the Government Code.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 3 – ACCOUNTS RECEIVABLE:

Receivables at February 29, 2016, consist of the following:

	<u>Enterprise Fund</u>	<u>Fiduciary Funds</u>	<u>Total</u>
USBR	\$ 357,456	\$2,259,755	\$ 2,617,211
Membership assessments	47,861		47,861
Grant receivable	1,383,665		1,383,665
Water transactions		123,556	123,556
Other receivables	136,337		136,337
Contractor receivable	736,507	836,568	1,573,075
DHCCP – Financing participation	36,540,000		36,540,000
Interest	<u>10,305</u>	<u>6,374</u>	<u>16,679</u>
Total	<u>\$39,212,131</u>	<u>\$3,226,253</u>	<u>\$42,438,384</u>

USBR Service Agreement Trust Fund receivable represents amount due from the USBR for work performed by the Authority under the Service Agreement for O&M of USBR Tracy Fish Facility and associated works.

The membership assessments receivable consists of certain members' assessments not received as of February 29, 2016.

The other governmental fund's receivable represents amounts due from State Agency Grants for projects, specific members for professional services contracted through the Authority, dues from employees for health insurance, Medicare tax and COBRA, and miscellaneous others.

Contractor receivable represents amounts due the Authority from Contractors for conveyance and conveyance pumping, operation, maintenance, and reserves.

DHCCP receivable represents amounts due from certain members (Financing Participants) pursuant to DHCCP Activity Agreements relating to debt service payments on the 2013A Refunding Revenue Bonds.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 4 – CAPITAL ASSETS:

The table below presents summary information on capital assets.

Capital Assets	Balance March 1, 2015	Additions/ Completions	Retirements/ Adjustments	Balance February 29, 2016
Capital Assets, being depreciated:				
Heavy equipment	\$ 1,700,317	\$	\$	\$ 1,700,317
Vehicles/light trucks	2,366,587		(28,347)	2,338,240
Furniture/equipment	2,038,736	12,924	(11,932)	2,039,728
Computers	<u>809,819</u>	<u> </u>	<u> </u>	<u>809,819</u>
Total capital assets, being depreciated	<u>6,915,459</u>	<u>12,924</u>	<u>(40,279)</u>	<u>6,888,104</u>
Less accumulated depreciation for:				
Heavy equipment	(905,736)	(49,994)	825	(954,905)
Vehicles/light trucks	(945,388)	(111,017)	22,770	(1,033,635)
Furniture/equipment	(1,479,936)	(54,540)	15,589	(1,518,887)
Computers	<u>(583,797)</u>	<u>(37,942)</u>	<u>(3,111)</u>	<u>(624,850)</u>
Total accumulated depreciation	<u>(3,914,857)</u>	<u>(253,493)</u>	<u>36,073</u>	<u>(4,132,277)</u>
Capital assets at cost, net	<u>\$ 3,000,602</u>	<u>\$(240,569)</u>	<u>\$ (4,206)</u>	<u>\$ 2,755,827</u>

NOTE 5 – ACCOUNTS PAYABLE:

Accounts payable at February 29, 2016, consist of the following:

	Enterprise Fund	Agency	Total
Other governments	\$	\$ 4,277,280	\$ 4,277,280
Contractor	6,337,005	16,640,484	22,977,489
Vendors	<u>2,283,037</u>	<u>52,797</u>	<u>2,335,834</u>
Total	<u>\$8,620,042</u>	<u>\$20,970,561</u>	<u>\$29,590,603</u>

NOTE 6 – UNEARNED REVENUE:

Unearned revenue at February 29, 2016, consists of the following:

	Enterprise	Agency	Total
Unearned Revenue	\$ 187,002	\$ 5,897	\$ 192,899
Contractor Unearned Revenue	<u>1,480,276</u>	<u>2,388,584</u>	<u>3,868,860</u>
Total	<u>\$1,667,278</u>	<u>\$2,394,481</u>	<u>\$4,061,759</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 7 – LONG-TERM LIABILITIES:

The following is a summary of changes in the Authority’s long-term liabilities for the fiscal year ended February 29, 2016.

	<u>Balance at March 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at February 29, 2016</u>	<u>Due Within One Year</u>
Series 2013A refunding bonds	37,145,000	\$	\$605,000	36,540,000	\$ 630,000
Add issuance premium	<u>2,813,934</u>	<u> </u>	<u>100,498</u>	<u>2,713,436</u>	<u> </u>
	<u>39,958,934</u>	<u> </u>	<u>705,498</u>	<u>39,253,436</u>	<u>630,000</u>
Compensated absences	<u>1,068,119</u>	<u>199,400</u>	<u> </u>	<u>1,267,519</u>	<u>467,081</u>
Total	<u>41,027,053</u>	<u>199,400</u>	<u>705,498</u>	<u>40,520,955</u>	<u>1,097,081</u>

Series 2013A Refunding Revenue Bonds:

In June 2013, the Authority issued \$37,550,000 in refunding revenue bonds. The bonds were issued to provide funds to defease \$39,635,000 of the outstanding Series 2009A Revenue Notes, purchase a municipal bond insurance policy to guarantee payment of principal and interest on the bonds, purchase a municipal bond debt service reserve insurance policy, and pay certain costs of issuing the bonds. The net bond proceeds of \$41,418,580 (including a premium of \$2,989,805 and additional contributions from Westlands Water District and Broadview Water District of \$1,477,886 and reduced by payments of \$599,111 in issuance and insurance costs), were used to purchase U.S. government securities. As a result of the refunding, \$39,635,000 of the 2009A Series Notes are considered defeased and the liability for those notes has been removed from the Statement of Net Position.

The Bonds are special obligations of the Authority payable solely from Revenues (including portions of payments received by the Authority pursuant to the DHCCP Activity Agreement by and between the Authority and the Financing Participants). 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.

The 2013A 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.

The aggregate debt service payments on the new debt are \$32,841,005 more than the old debt. The issuance of the new debt resulted in an economic loss (the difference between the present value of the old and new debt payments) of approximately \$3,473,737.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 7 – LONG-TERM LIABILITIES (cont.):

The annual debt service requirements to maturity for the Series 2013A Revenue Bonds are as follows:

Year Ended Last Day of February,	<u>Series 2013A Refunding Revenue Bonds</u>		Total Debt Service
	<u>Principal</u>	<u>Interest</u>	
2017	\$ 630,000	\$ 1,808,100	\$ 2,438,100
2018	655,000	1,779,125	2,434,125
2019	690,000	1,745,500	2,435,500
2020	725,000	1,710,125	2,435,125
2021	760,000	1,673,000	2,433,000
2022-2026	4,415,000	7,739,375	12,154,375
2027-2031	5,635,000	6,489,375	12,124,375
2032-2036	7,185,000	4,894,375	12,079,375
2037-2041	9,165,000	2,860,125	12,025,125
2042-2043	<u>6,680,000</u>	<u>511,750</u>	<u>7,191,750</u>
	<u>\$36,540,000</u>	<u>\$31,210,850</u>	<u>\$67,750,850</u>

NOTE 8 – RETIREMENT BENEFITS:

- A. The Authority provides retirement benefits for all of its full-time employees through a defined contribution plan and a voluntary Deferred Compensation Plan. In a Defined Contribution Plan, benefits are dependent on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from date of employment. The Plan requires the Authority to contribute an amount equal to 8% of the employee’s “base annual salary.” Employees are also eligible to participate in the voluntary Deferred Compensation 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. Employees are immediately fully vested.
- B. The Authority’s total payroll on the cash basis for the twelve months ended February 29, 2016 was \$7,268,481. The Authority’s contributions were calculated using the base amount of \$6,801,493. The Authority made the required contribution which amounted to \$853,361 or 12.55% of covered payroll.

NOTE 9 – COMMITMENTS AND CONTINGENCIES:

A. Litigation

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 9 – COMMITMENTS AND CONTINGENCIES (cont.):

B. Sick Leave

Sick leave is accumulated for each employee at the rate of one day for each month worked. There is no limit on the accumulation. Leave with pay is provided when employees are absent for health reasons, however, the employees do not gain a vested right to accumulated sick leave, except as explained below.

Beginning with fiscal year ending 2006 (at March 1, 2005), a sick leave cash-out policy was adopted. Upon separation from the Authority, for those employees with (10) years of service and who are 55 years of age, or those employees with a minimum of (15) years of service, sick leave will be paid at the lesser of: one-half of accumulated sick leave on the effective date of retirement or separation, or five hundred hours, at 100% of equivalent cash value.

C. 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 expenditure disallowances under such terms of the grants, it is believed that any required reimbursements will not be material.

D. Grassland Basin Drainage

Litigation filed by a coalition of fishermen's organizations and an individual in late 2011 remained pending in federal court throughout fiscal year 2016 and at present. The case-currently is on appeal to the Ninth Circuit Court of Appeal following the District Court's ruling on cross-motions for summary judgment. The litigation alleges that the Authority and the Federal Bureau of Reclamation (Reclamation) have violated the Clean Water Act by failing to obtain a National Pollution Discharge Elimination System (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. The Ninth Circuit Court of Appeal heard oral arguments on June 10, 2019, and the matter is submitted, with no fixed timetable for a decision. Should the appeal be decided contrary, or partially contrary, to the Authority and Reclamation, further proceedings at the trial court level are expected to be necessary, and the Authority expects to vigorously defend itself in any such litigation. 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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 10 – 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. As of February 28, 2015, the JPIA had 363 members. 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 insurance, the Authority is fully responsible for claims up to Retrospective Allocation Point (RAP) of \$25,000. Coverage between the Authority's RAP and \$2,000,000 is provided through the JPIA risk pool. Coverage from \$2,000,000 to \$60,000,000 is provided through insurance purchased by the JPIA on behalf of its members.

The Authority has established a RAP of \$15,000 for the worker's compensation and employer's liability programs. Coverage between the RAP and \$2,000,000 is provided through the JPIA risk pool and excess coverage is purchased by the JPIA on behalf of its members to the 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 a \$1,000 deductible for the property program. The JPIA has a self-insured retention (SIR) level of \$100,000 for the fiscal year ending March 31, 2015. The JPIA provides coverage above its SIR up to \$100,000,000 through purchased insurance.

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 year ended February 29, 2016.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2016
(Continued)

NOTE 10 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS (cont.):

The most recent condensed financial information for the JPIA is as follows:

Description	As of and for the year ending September 30, 2015
Total Assets	\$195,400,750
Total Liabilities	<u>114,466,932</u>
Net Position	<u>80,933,818</u>
Total Revenues	160,400,697
Total Expenses	<u>164,195,428</u>
Change in Net Position	<u>\$ (3,794,731)</u>

NOTE 11 – EMERGENCY RESERVE FUND:

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 of this fund at February 29, 2016 is \$1,610,000.

NOTE 12 – SUBSEQUENT EVENT:

In May, 2017, \$4,278,914.75 of note proceeds and net investment earnings remaining from the Series 2009A Revenue Notes were available for distribution by the Authority. Based on the financing participant elections, nine districts elected to have their share deposited into an Escrow account held to defease a portion of the 2013A Revenue Bonds. \$3,684,098.86 was deposited into an Escrow account and invested, with maturity at January and February 2023. The maturing amount will be used to defease a portion of the 2013A Refunding Revenue Bonds in March 2023, as this is the earliest redemption date. The 2013A Refunding Revenue Bonds and the amounts that will be defeased, are as follows: March 1, 2042, \$1,810,000.00 and March 1, 2043, \$2,335,000.00. One district elected to support the DHCCP effort. The amount wired to DWR in support of DHCCP was \$390,543.34, and the remaining three districts elected refunds. The total amount of refunds was \$204,272.55.

Additionally, in June, 2018 a minor amount of interest which was posted in June 2018 for May 2018 was also distributed to the financing participants. The total amount distributed was \$2,177.

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

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 San Luis & Delta-Mendota Water Authority (the Authority), as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated July 1, 2019.

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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sampson, Sampson & Patterson, LLP

Clovis, California
July 1, 2019