

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

FISCAL YEAR 2022/23 AUDIT SUMMARY

November 6, 2025

Presentation by Richardson & Company, LLP of the Audit, including the following communications required by Generally Accepted Auditing Standards:

Reports issued

Audited Financial Statements with auditors opinion
Compliance reports

Governance letter
Management letter

Independent Auditor's Report - Unmodified (clean) opinion

Discussion of financial statements

Management discussion and analysis (pages 4 to 11)

Statement of Net Position (page 12)

Overall decrease in cash of \$8.3 million - No unrestricted cash

Increased accounts receivable of \$24.3 million due to water year 2022 underbilling

Negative unrestricted reserves \$4.2 million—EOM funds now considered restricted

Statement of Revenues and Expenses (page 13)

Changes in classifications between operating and nonoperating

Increased extraordinary O&M revenue for water year 2022 true-up

Operating expenses increased \$7.2 million—mostly increased energy costs

Net income of \$23.7 million

Note 1 – Charges to members definition added (page 17)

Note 7 – Long-term debt--pay-downs of \$4.5 million (page 27)

Note 8 – New restricted net position footnote (page 34)

Note 10 – Commitments (page 38)

Note 14 – Restatements (page 43)—additional expenses for rewinds and reclassifications

Supplemental 401A plan information (pages 44 and 45)

Employer contributions of \$811,235 and \$149,946

Market value decreased \$803,000 and \$380,000

Compliance Reports

Findings noted

Books to be maintained on fund accounting basis and timely closing

Single audit not submitted within 9 months

Schedule of Federal Awards not completed on accrual basis

Local match not expended before federal funds claim

Governance letter

31 audit adjustments proposed

2 unadjusted differences

No difficulties in performing the audit and no unusual accounting practices

Management letter

Timeliness of closing entries

Compensated absence calculation to include payroll taxes

Prior year comments

Ensure books are kept on fund accounting basis

Develop written accounting procedures

Closing entries to be completed prior to start of audit

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 28, 2023

(This page intentionally left blank.)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY
AUDITED FINANCIAL STATEMENTS
February 28, 2023 and 2022

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
 <u>Basic Financial Statements</u>	
Statements of Net Position.....	12
Statements of Revenues, Expenses and Changes in Net Position.....	13
Statements of Cash Flows.....	14
Notes to Basic Financial Statements.....	16
 <u>Supplementary Information</u>	
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position – Section 401a Retirement Plan 109164.....	44
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position – Section 401a Retirement Plan 109325.....	45

(This page intentionally left blank.)



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the San Luis & Delta-Mendota Water Authority (the Authority), which comprise the statements of net position as of February 28, 2023 and 2022, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of February 28, 2023 and 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements sections of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may include collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Other Matters

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.

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2025, 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 3, 2025

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

Years Ended February 28, 2023 and February 28, 2022

Overview

The following Management's 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 2023 in comparison to fiscal years 2022 and 2021 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, money owed for member agency 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.

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

Years Ended February 28, 2023 and February 28, 2022

• **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 flow from non-operating activities such as water sales and grant activity.
3. **Capital Financing Activities** – shows the cash flow 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

	2023	2022	2022/2023 Variance	% Change	2021	2021/2022 Variance	% Change
Assets							
Current Assets	\$ 69,645,416	\$ 60,619,300	\$ 9,026,116	15%	\$ 63,065,477	\$ (2,446,177)	-4%
Capital Assets, Net A/D	\$ 4,664,102	\$ 4,911,603	\$ (247,501)	-5%	\$ 4,670,563	\$ 241,040	5%
Other Assets	\$ 48,974,597	\$ 46,304,954	\$ 2,669,643	6%	\$ 44,533,421	\$ 1,771,533	4%
Total Assets	\$123,284,115	\$111,835,857	\$ 11,448,258	10%	\$112,269,461	\$ (433,604)	0%
 Deferred Outflows of Resources	 \$ 177,397	 \$ 187,252	 \$ (9,855)	 100%	 \$ 197,108	 \$ (9,856)	 0%
 Liabilities							
Current Liabilities	\$ 38,646,219	\$ 47,606,381	\$ (8,960,162)	-19%	\$ 49,128,888	\$ (1,522,507)	-3%
Debt Borrowings, S/T	\$ 628,469	\$ 2,255,190	\$ (1,626,721)	-72%	\$ 2,336,755	\$ (81,565)	-3%
Debt Borrowings, L/T	\$ 46,351,074	\$ 48,043,993	\$ (1,692,919)	-4%	\$ 47,833,959	\$ 210,034	0%
Other Liab., Comp. Abs.	\$ 1,311,374	\$ 1,276,527	\$ 34,847	3%	\$ 1,307,765	\$ (31,238)	-2%
Total Liabilities	\$ 86,937,136	\$ 99,182,091	\$ (12,244,955)	-12%	\$100,607,367	\$ (1,425,276)	-1%
 Net Position							
Total Net Position	\$ 36,524,376	\$ 12,841,018	\$ 23,683,358	184%	\$ 11,859,202	\$ 981,816	8%

Current Assets

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

Fiscal 2023 Compared to 2022. At February 28, 2023, current assets totaled \$69.65 million which was a \$9.03 million or 15% increase from the prior year. This increase, as compared to February 28, 2022, was primarily due to a decrease of \$8.09 million in cash and cash equivalents, an increase of \$24.30 million in accounts receivable, and a decrease of \$7.25 million in prepaid expenditures. Accounts receivable increased due to a \$6.50 million receivable due from contractors for the (Reclamation) Project Use Energy year-end

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

Years Ended February 28, 2023 and February 28, 2022

true-up and an additional \$2.60 million receivable due for San Luis Joint Use. There were also two years of final accounting receivables outstanding in 2023 in comparison to one year outstanding in 2022.

Fiscal Year 2022 Compared to 2021. At February 28, 2022, current assets totaled \$60.62 million which was a \$2.45 million or 4% decrease from the prior year. This decrease, as compared to February 28, 2021, was primarily due to a decrease of \$9.86 million in current cash and cash equivalents and a decrease of \$7.09 million of restricted cash for San Luis Joint Use due the completion of multiple water year final accounting refunds, offset by a \$9.43 million increase in restricted Project Use Energy cash due to the timing of bills received from the (Reclamation). Areas with an increase in cash from 2021 to 2022 included \$7.54 million in prepaid assets for a credit on account received from Department of Water Resources from the 2022 Project Use Energy credit from Reclamation.

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 2023 Compared to 2022. At February 28, 2023, net capital assets totaled \$4.66 million net of accumulated depreciation, which was a decrease from \$4.91 million in fiscal year 2022 of approximately \$0.25 million. This decrease is a net result of increased disposals and depreciation for the fiscal year.

Fiscal Year 2022 Compared to 2021. At February 28, 2022, net capital assets totaled \$4.91 million net of accumulated depreciation, which was an increase of approximately \$0.24 million from \$4.67 million in fiscal year 2021. This increase is a net result of purchases of heavy equipment and other vehicles, offset by disposals and depreciation for the year.

	2023	2022	2021
Heavy Equipment	\$ 3,416,235	\$ 3,416,235	\$ 3,197,599
Vehicles and Light Trucks	\$ 3,202,000	\$ 3,307,975	\$ 3,162,274
Furniture and Equipment	\$ 1,372,560	\$ 1,361,272	\$ 1,302,857
Computers	\$ 607,805	\$ 500,722	\$ 479,059
Total Fixed Assets at Cost	\$ 8,598,600	\$ 8,586,204	\$ 8,141,789
Less Accumulated Depreciation	\$ (3,934,498)	\$ (3,674,601)	\$ (3,471,226)
Net Fixed Assets	<u>\$ 4,664,102</u>	<u>\$ 4,911,603</u>	<u>\$ 4,670,563</u>

Major capital asset events during fiscal year 2023 include the following:

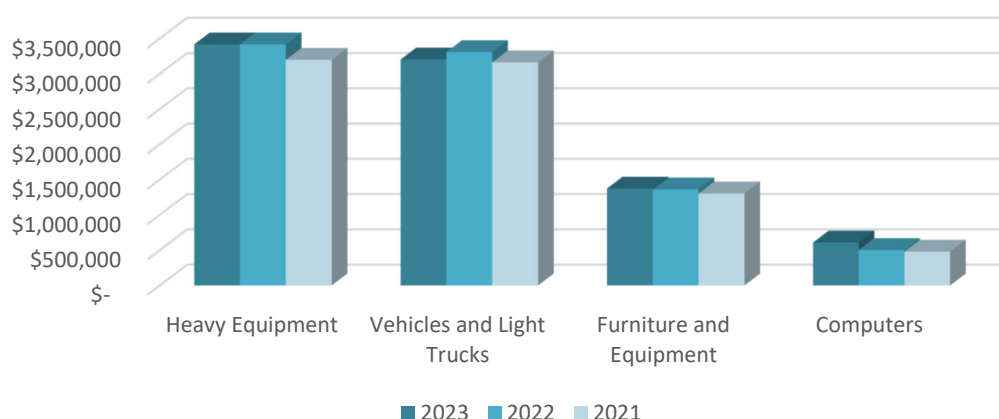
- Vehicle purchases and replacements were \$0.16 million with disposals totaling \$0.27 million.
- Furniture and equipment purchases totaled \$0.01 million, with no disposals.
- Computer purchases totaled \$0.11 million, with no disposals.

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

Years Ended February 28, 2023 and February 28, 2022

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

Total Capital Assets (at cost)



Other Assets

Other assets, which consist primarily of receivables from various financing participants, restricted cash and cash equivalents and investments, and a long-term receivable from members for the Rewind Project financing, increased from \$46.30 million in fiscal year 2022 to \$48.97 million in fiscal year 2023. This was mainly due to an increase in collections on the Rewind Project receivable of \$4.50 million. More information on the Rewind Project can be found in Notes 7 and 14. The increase was offset by a \$1.53 million decrease in receivables from the Delta Habitat Conservation and Conveyance Program (DHCCP) financing participants, and a decrease of \$0.28 million in cash restricted for debt service. Changes related to the DHCCP debt refunding are further described in Note 7.

Current Liabilities

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

Fiscal Year 2023 Compared to 2022. At February 28, 2023, current liabilities totaled \$38.65 million, a decrease of \$8.96 million or 19% from the prior year due to a \$5.39 million decrease in accounts payable, a decrease of \$3.05 million in unearned revenues, and a decrease of \$0.50 million in accrued interest payable.

Fiscal Year 2022 Compared to 2021. At February 28, 2022, current liabilities totaled \$47.61 million, a decrease of \$1.52 million or 3% from the prior year. This change is due to a \$0.72 million increase in accounts payable at fiscal year-end and an increase in accrued interest payable of \$0.45 million offset by a \$2.63 million decrease in unearned revenue from 2021 to 2022.

Debt Borrowings – Due within One Year

Debt Borrowings – due within one year decreased from \$2.26 million in 2022 to \$0.63 million in fiscal year 2023 for an overall decrease of \$1.63 million.

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

Years Ended February 28, 2023 and February 28, 2022

Debt Borrowings – Long-Term

Fiscal Year 2023 Compared to 2022. Debt Borrowings – long-term liabilities decreased \$1.69 million from \$48.04 million in 2022 to \$46.35 million in 2023 due to two years of principal payments made on the Series 2021A Revenue Bonds and Series 2021B Refunding Revenue Bonds, as the March 1, 2023 payment was made on February 28, 2023. More information on the Units 5 and 6 Rewind and Refunding Revenue Bonds can be found in Notes 7 and 14.

Fiscal Year 2022 Compared to 2021. Debt Borrowings – long-term liabilities increased \$0.21 million from \$47.83 million in fiscal year 2021 to \$48.04 million in 2022. This minor increase was due to disbursements on the Unit 3 and 5 Rewind notes totaling \$2.22 million, including a revised unit Rewind payment schedule received from the Bureau of Reclamation once all costs were finalized on the project, offset by payments of \$2.09 million. More information on the Jones Pumping Plant Rewind Project and Refunding Revenue Bonds can be found in Notes 7 and 14.

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 2023 Compared to 2022. The total net position at the end of fiscal year 2023 was \$36.52 million, an increase of \$23.68 million from the end of fiscal year 2022. Net position increased mainly due to a net operating gain of \$24.30 million, offset by a net non-operating loss of \$0.61 million.

Fiscal Year 2022 Compared to 2021. The total net position at the end of fiscal year 2022 was \$12.84 million, an increase of \$0.98 million from the end of fiscal year 2021. Net position increased due to an operating gain of \$1.33 million, offset by a net non-operating loss of \$0.34 million.

Revenues and Expenses

The following is a condensed presentation of revenues, expenses and changes in net position for the fiscal year ended February 28, 2023 in comparison to years ended February 28, 2022 and February 28, 2021:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2023	2022	2021/2022 Variance	% Change	2021	2021/2022 Variance	% Change
Revenues & Expenses							
Operating Revenues	\$ 92,517,190	\$ 62,350,396	\$ 30,166,794	48%	\$ 66,912,881	\$ (4,562,485)	-7%
Non-Operating Revenues	\$ 33,327,698	\$ 130,083,507	\$ (96,755,809)	-74%	\$ 63,602,577	\$ 66,480,930	105%
Operating Expenses	\$ (68,219,526)	\$ (61,025,258)	\$ (7,194,268)	12%	\$ (65,875,487)	\$ 4,850,229	-7%
Non-Operating Expenses	\$ (33,942,004)	\$ (130,426,829)	\$ 96,484,825	-74%	\$ (62,005,190)	\$ (68,421,639)	110%
Net Income (Loss)	<u>\$ 23,683,358</u>	<u>\$ 981,816</u>	<u>\$ 22,701,542</u>		<u>\$ 2,634,781</u>	<u>\$ (1,652,965)</u>	
Net Position - Beg. of Year	\$ 12,841,018	\$ 11,859,202	\$ 981,816	8%	\$ 9,224,421	\$ 2,634,781	29%
Net Position - End of Year	<u>\$ 36,524,376</u>	<u>\$ 12,841,018</u>	<u>\$ 23,683,358</u>	184%	<u>\$ 11,859,202</u>	<u>\$ 981,816</u>	8%

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

Years Ended February 28, 2023 and February 28, 2022

Operating & Non-Operating Revenues

- **Operating 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. A rate component was added to the water rates in 2019 for the Unit 6 Rewind Project to cover payments required on the Unit 6 Rewind debt with Reclamation beginning in 2020, an additional rate component was added in 2020 for the Unit 2 Rewind Project, and rate components for the remaining units were added to water rates in 2021. See Notes 7 and 14 for more information.

Fiscal Year 2023 Compared to 2022. Fiscal year 2023 operating revenues were \$92.52 million, an increase of \$30.17 million as compared to fiscal year 2022. Details to support this increase include:

1. EO&M revenue increased \$23.36 million, due to the interim final water accounting for water year 2022 true-up recognized in fiscal year 2023.
2. Project Use Energy fees increased \$6.72 million.
3. San Luis Joint Use facility fees increased \$1.43 million from \$13.67 million in fiscal year 2022 to \$15.10 million in fiscal year 2023.
4. Water conveyance fees related to the Rewind rate components increased \$0.98 million.
5. Refunds to water users of totaling \$4.25 million creating an overall decrease in operating revenues in fiscal year 2023.

Fiscal Year 2022 Compared to 2021. Fiscal year 2022 operating revenues were \$62.35 million, a decrease of nearly \$4.56 million as compared to fiscal year 2021. Details to support this decrease include:

6. Water conveyance fees increased \$0.63 million.
7. Project Use Energy fees decreased \$5.37 million due to a decrease in the estimated payment schedule received from Reclamation as well as a credit applied to the account resulting in a decrease in revenues and increase in unearned revenues.
8. Membership assessment revenues for the activity budget increased \$0.22 million.

- **Non-Operating Revenues**

Fiscal Year 2023 Compared to 2022. Non-operating revenues decreased \$96.76 million or 75% from fiscal year 2022 for a total of \$33.33 million at February 28, 2023. This decrease is mainly due to significantly reduced water transfer activity.

Fiscal Year 2022 Compared to 2021. Non-operating revenues increased \$66.48 million or 105% from fiscal year 2021 for a total of \$130.08 million at February 28, 2022. This is mainly due to significantly increased water transfer activity in fiscal year 2022.

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

Years Ended February 28, 2023 and February 28, 2022

Operating & Non-Operating Expenses

- **Operating Expenses**

Fiscal Year 2023 Compared to 2022. Total operating expenses for fiscal year 2023 were \$68.22 million, an increase of \$7.19 million from 2022. This is mainly due to a \$6.72 million increase in Project Use Energy costs and a \$1.63 million increase in San Luis Joint Use facility costs.

Fiscal Year 2022 Compared to 2021. Total operating expenses for fiscal year 2022 were \$61.03 million, a decrease of \$4.85 million from 2021. The 2022 decrease is primarily a result of \$5.36 million decrease in Project Use Energy costs.

- **Non-Operating Expenses**

Fiscal Year 2023 Compared to 2022. Total non-operating expenses decreased \$96.48 million or 74% from \$130.43 million in fiscal year 2022 for a total of \$33.94 million in non-operating expenses in fiscal year 2023. This decrease is mainly due to a decrease in expenses incurred from water transfer activities.

Fiscal Year 2022 Compared to 2021. Total non-operating expenses increased \$68.42 million or 110% from \$62.01 million in fiscal year 2021 for a total of \$130.43 million in non-operating expenses in fiscal year 2022. This increase is mainly due to an increase of \$71.36 million of water transfer expenses.

Long-Term Debt

In 2019, the Authority entered into a repayment contract with Reclamation for the Unit 6 Rewind Project of \$4.86 million. The changes in long-term debt in 2020 were mainly scheduled principal payments. There was also a small addition to the Unit 6 Rewind repayment contract as the expenses were not fully incurred at the end of fiscal year 2019. In June 2020, the Authority executed a second repayment contract with Reclamation for the Unit 5 Rewind Project of \$5.27 million. In addition to the two repayment contracts, in January 2021 the Authority issued \$7.69 million in Series 2021A Revenue Bonds in order to fund Units 1 and 4 of the Rewind Project.

In January 2021, the Water Authority issued \$32.73 million in Series 2021B Refunding Revenue Bonds in order to provide funds to defease \$30.08 million of the outstanding Series 2013A Revenue Notes issued to finance the DHCCP program. The bonds will be repaid by the DHCCP financing participants as described in Note 7. In fiscal year 2023, the Authority made payments of \$1.58 million on the debt. See Note 7 for more information regarding long-term debt.

In 2021, the Authority recognized debt of \$5.27 million to Reclamation for the Unit 5 Rewind Project. The total debt is to be repaid over 20 years in installments of \$0.25 million per year at the U.S. Treasury interest rate.

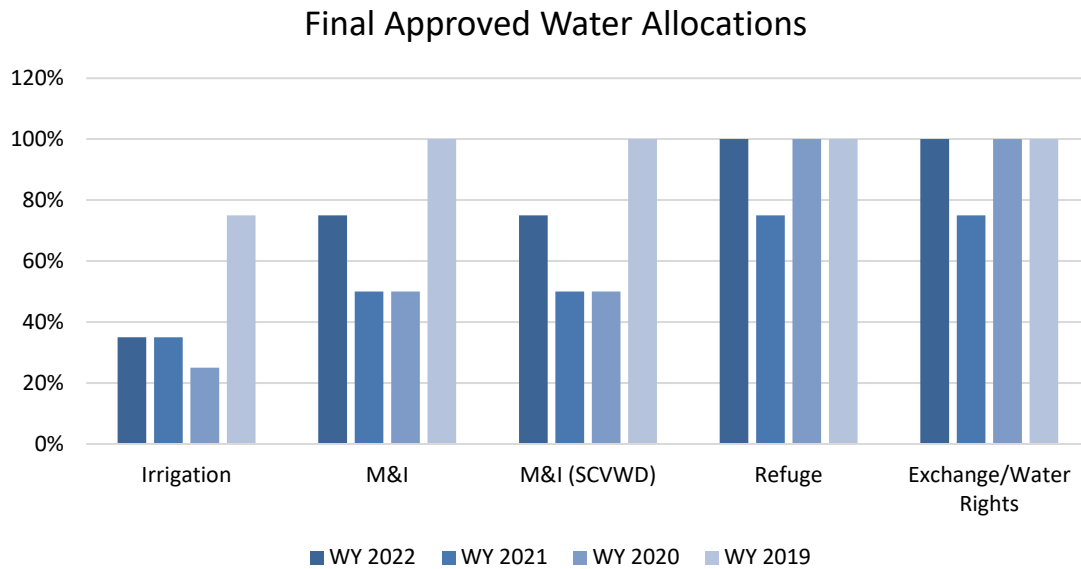
In 2022, the Authority recognized additional debt of \$1.8 million and \$0.37 million to Reclamation for the Unit 3 and Unit 5 Rewind Project. The total debt will be included with the 2021 debt and repaid over 20 years in installments of \$0.28 million per year at the U.S. Treasury interest rate.

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

Years Ended February 28, 2023 and February 28, 2022

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 fiscal 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 28, 2023 and 2022

	2023	2022 (as Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents:		
Restricted - available for activity agreement projects	\$ 6,365,809	\$ 4,147,385
Restricted - available for Project Use Energy	3,131,800	12,765,585
Restricted - available for extraordinary maintenance	22,457,920	10,823,262
Restricted - available for San Luis Joint Use		12,313,462
Accounts receivable, net	36,822,161	12,517,460
Prepaid expenses	431,768	7,686,363
Inventory	435,958	365,783
Total Current Assets	<u>69,645,416</u>	<u>60,619,300</u>
Noncurrent Assets:		
Restricted cash and cash equivalents:		
Emergency reserve fund	2,137,002	2,050,000
Debt service	2,019,052	2,301,444
Grant retention receivable	-	111,540
Restricted receivables:		
Due from other governments--Rewind Projects	16,708,543	12,206,970
Due from other governments--DHCCP financing participants	28,110,000	29,635,000
Capital assets, net	4,664,102	4,911,603
Total Noncurrent Assets	<u>53,638,699</u>	<u>51,216,557</u>
TOTAL ASSETS	<u>123,284,115</u>	<u>111,835,857</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding of debt	<u>177,397</u>	<u>187,252</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	15,672,932	21,062,501
Accrued payroll and related liabilities	343,030	155,141
Accrued interest payable	-	502,916
Unearned revenue	22,500,614	25,552,326
Current portion of compensated absences payable	669,636	891,313
Current portion of long-term debt	628,469	2,255,190
Total Current Liabilities	<u>39,814,681</u>	<u>50,419,387</u>
Noncurrent Liabilities:		
Grant retention payable	129,643	333,497
Compensated absences payable	641,738	385,214
Long-term debt, net of current portion	46,351,074	48,043,993
Total Noncurrent Liabilities	<u>47,122,455</u>	<u>48,762,704</u>
TOTAL LIABILITIES	<u>86,937,136</u>	<u>99,182,091</u>
NET POSITION		
Investment in capital assets	4,664,102	4,911,603
Restricted for activity agreement projects	5,369,980	3,267,431
Restricted for emergency reserve fund	2,137,002	2,050,000
Restricted for debt service	459,247	452,726
Restricted for extraordinary maintenance	28,107,977	6,107,882
Unrestricted	<u>(4,213,932)</u>	<u>(3,948,624)</u>
TOTAL NET POSITION	<u>\$ 36,524,376</u>	<u>\$ 12,841,018</u>

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 28, 2023 and 2022

	2023	2022 (as Restated)
OPERATING REVENUES		
Extraordinary operations and maintenance reserve revenue	\$ 27,668,158	\$ 4,309,461
Project Use Energy (PUE) fees	21,618,417	14,903,129
Water conveyance fees, operations and maintenance	15,266,617	14,987,895
San Luis Joint Use facility fees	15,101,167	13,670,493
Membership assessments, activity budget	8,473,753	8,046,250
Water conveyance fees - Rewind debt service	7,174,362	6,194,779
United States Bureau of Reclamation service contract	301,416	231,409
Delta Habitat Conservation and Conveyance Program (DHCCP) revenue	681,156	717,871
Other revenue	479,479	887,504
Refunds to water users	(4,247,335)	(1,598,395)
TOTAL OPERATING REVENUES	<u>92,517,190</u>	<u>62,350,396</u>
OPERATING EXPENSES		
Project Use Energy (PUE) costs	21,618,417	14,903,129
San Luis Joint Use facility costs	15,230,251	13,600,371
Salaries and related benefits	13,797,761	13,101,375
Jones Pumping Plant Rewind expense	6,969,542	6,073,147
Legal and professional services	4,175,037	5,894,120
Other operating expenses	3,056,256	2,687,526
Extraordinary operations and maintenance reserve expense	1,025,966	2,677,755
Intertie conveyance	926,530	791,976
Grassland Basin Drainage specific	906,957	960,211
Depreciation	512,809	335,648
TOTAL OPERATING EXPENSES	<u>68,219,526</u>	<u>61,025,258</u>
OPERATING INCOME	<u>24,297,664</u>	<u>1,325,138</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	216,025	(237,663)
Interest expense	(878,321)	(1,062,154)
Water transfer revenue	29,328,047	127,986,913
Water transfer expense	(29,328,047)	(127,986,913)
State/Federal grant revenue	2,193,076	2,210,027
State/Federal grant expense	(2,193,076)	(1,201,925)
Los Vaqueros Reservoir Expansion revenue	1,542,560	1,124,230
Los Vaqueros Reservoir Expansion expense	(1,542,560)	(1,124,230)
Other	47,990	(51,607)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(614,306)</u>	<u>(343,322)</u>
CHANGE IN NET POSITION	<u>23,683,358</u>	<u>981,816</u>
NET POSITION AT BEGINNING OF YEAR	<u>12,841,018</u>	<u>11,859,202</u>
NET POSITION AT END OF YEAR	<u>\$ 36,524,376</u>	<u>\$ 12,841,018</u>

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 28, 2023 and 2022

	2023	2022 (as Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 62,916,681	\$ 62,767,831
Cash payments to suppliers for goods and services	(51,763,067)	(54,193,799)
Cash payments to employees for services	(13,587,521)	(13,724,606)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,433,907)</u>	<u>(5,150,574)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on long-term debt	(4,456,396)	(2,091,755)
Interest paid on long-term debt	(1,371,382)	(599,853)
Net water transfer payments	(27,267)	(27,267)
Noncapital grants received	2,725,012	1,441,259
Noncapital grants expended	(2,735,472)	(953,215)
Other projects revenue received	47,990	1,138,905
Other projects expended	-	(1,127,467)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(5,817,515)</u>	<u>(2,219,393)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(265,308)	(644,404)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(265,308)</u>	<u>(644,404)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	227,175	(252,546)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>227,175</u>	<u>(252,546)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,289,555)	(8,266,917)
Cash and cash equivalents, beginning of year	44,401,138	52,668,055
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 36,111,583</u>	<u>\$ 44,401,138</u>
Cash and cash equivalents - financial statement classification:		
Restricted - available for current operations	\$ 6,365,809	\$ 4,147,385
Restricted - available for Project Use Energy	3,131,800	12,765,585
Restricted - available for Rewind Project	22,457,920	10,823,262
Restricted - available for San Luis Joint Use	-	12,313,462
Restricted for emergency reserve fund	2,137,002	2,050,000
Restricted for debt service	<u>2,019,052</u>	<u>2,301,444</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 36,111,583</u>	<u>\$ 44,401,138</u>

(Continued)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended February 28, 2023 and 2022

	2023	2022 (as Restated)
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 24,297,664	\$ 1,325,138
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Depreciation expense	512,809	335,648
Changes in operating assets and liabilities:		
Accounts receivable, net	(23,572,224)	1,540,106
Prepaid expenses	7,254,595	(7,541,046)
Inventory	(70,175)	(65,972)
Due from other governments - DHCCP financing participants	1,525,000	1,515,000
Accounts payable	(4,847,173)	462,215
Accrued payroll and related liabilities	222,736	(181,196)
Unearned revenue	(3,051,712)	(2,633,123)
Retention payable	(203,854)	92,656
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (2,433,907)</u>	<u>\$ (5,150,574)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Loan proceeds receivable from Reclamation	\$ (1,136,756)	\$ (1,845,950)
Grant pass-through receivable	420,396	(106,125)
Water transfer pass-through receivable	(27,267)	(27,267)
Amortization of deferred amount on refunding	9,855	9,856
Unrealized gain (loss) on investments	(26,439)	(56,969)

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

February 28, 2023 and 2022

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).

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 27 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 the Central Valley 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 of the CVP 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):	Division 4 (San Felipe Unit):
Banta-Carbona Irrigation District	San Benito County Water District
Byron Bethany Irrigation District	Santa Clara Valley Water District (Valley Water)
City of Tracy	
Del Puerto Water District	Division 5 (Southern DMC/Mendota Pool):
Patterson Irrigation District	Broadview Water District
West Stanislaus Irrigation District	Eagle Field Water District
	Fresno Slough Water District
Division 2 (San Luis Unit):	James Irrigation District
Panoche Water District	Laguna Water District
Pleasant Valley Water District	Mercy Springs Water District
San Luis Water District	Oro Loma Water District
Westlands Water District	Pacheco Water District
	Reclamation District 1606
Division 3 (Exchange Contractor and	Tranquillity Irrigation District
Grassland Water District):	Turner Island Water District
Central California Irrigation District	
Columbia Canal Company (Friend)	
Firebaugh Canal Water District	
Grassland Water District	
Henry Miller Reclamation District #2131	

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): Association of California Water Agencies (ACWA), ACWA Joint Powers Insurance Authority, the State and Federal Water Contractors Agency and the Los Vaqueros Reservoir Joint Powers Authority. The Authority is generally not responsible for the liabilities for the JPAs under the JPA agreements and only has a residual interest in any assets held by the JPAs upon termination of the agreements. However, see Note 10 for a discussion of the effect of changes due to a state law related to pension liabilities.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

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

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.

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 economic resources measurement focus. Under the 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 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.

Charges to Members: The Authority charges operation, maintenance and replacement (OM&R) water rates for the conveyance of water to recover "OM&R Costs." The First Amended and Restated Memorandum of Understanding (MOU) Between Friant Water Users Authority and San Luis & Delta-Mendota Water Authority Relating to Allocation, Collection and Payment of Operation, Maintenance & Replacement Costs for Water Delivered Through Certain Central Valley Project Facilities (Friant MOU) defines OM&R Costs as "Costs of providing OM&R for the Project Facilities pursuant to the SLDMWA Transfer Agreement, including without limitation conveyance pumping costs associated therewith." This MOU was subsequently amended and became effective July 8, 2024.

The charges are paid by water contractors each month for the next calendar month based on the estimated acre-feet of water deliveries and estimated rates set by the Authority and approved by the Board of Directors, which includes the Authority's estimated OM&R Costs, Department of Water Resources (DWR) and Reclamation's PUE estimated operations and maintenance costs determined at the beginning of the fiscal year, as indicated on the water contractors' advance payment form.

Charges for services provided but unbilled at the end of the year are recorded as revenue on an estimated basis. Amounts received in advance or in excess of the user charge for a billing period are recorded as

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

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

unearned revenues until such time as these amounts are either refunded or applied against future user charges.

The Authority water delivery rates are based on budgeted costs and expected delivery volumes. At the end of each year, as actual costs and volumes are known, a final accounting is performed to true up the actual cost to each contractor. The final accounting can result in amounts due to and from contractors. The resulting receivables or payables to contractors are recorded in the year that the final accounting is performed.

The Authority completed the final accounting for water year 2021 and the interim final accounting for water year 2022 that is reflected in the financial statements for the year ended February 28, 2023. The final accounting resulted in additional unearned revenue of \$8,049,762 related to water year 2021 and an additional billing of \$18,350,496 related to water year 2022. The Water Year 2021/Fiscal Year 2022 final accounting resulted in sixteen contractors with an overpayment of their account while twenty-one contractors had balances due; the net result is \$8 million in overpayments. The large additional billing for water year 2022 was the result of a critically dry water year (Critical), where volumes realized through the O'Neill Pumping Plant were at 71% of forecasted level, combined with USBR San Luis Joint Use expenses being about \$2.6 million higher than budgeted. PUE is billed by USBR on an estimated basis and trued up after the end of the Federal Fiscal Year. The \$6.5 million shortfall on PUE relates to a combination of the under-absorption of budgeted power costs (PUE), and an additional true-up charge from USBR for Water Year 2022/Fiscal Year 2023 of \$2.97 million. As a result of the final and interim final accounting for water years 2021 and 2022, the Authority recognized revenue of \$17.7 million during the year ended February 28, 2023.

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.

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.

Receivables are also recognized from water contractors at year-end when conveyance fees are trued-up based on actual water deliveries and operations and maintenance costs. See Notes 7 and 14 for a description of C.W. "Bill" Jones Pumping Plant Rewind Project and financing participant receivables.

Prepaid Expenses: Prepaid expenses at February 28, 2023 and 2022 represented payments made to the Association of California Water Agencies Joint Powers Insurance Authority for various forms of insurance. Prepaid expenses at February 28, 2022, included an overpayment of PUE costs of \$7,924,775. Activity agreement costs of \$265,763 and \$86,620 that benefited periods beyond year-end were accrued as a prepaid at February 28, 2022 and 2023, respectively.

Restricted Assets: Restricted assets consist of amounts held in the debt service revenue, the emergency reserve fund required under the Reclamation Transfer Agreement, as described in Note 8, and assets restricted under activity agreements with member agencies for specific projects, amounts collected for project use energy that have not been spent, and amounts collected for extraordinary maintenance costs that have not yet been spent.

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

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

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.

<u>Description</u>	<u>Estimated Life</u>
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 certain Central Valley Project facilities 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.

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, rewind reimbursements 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 statement of net position and revenue is recognized.

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

According to the Authority's ICMA Retirement Health Savings Plan (Plan) adopted March 1, 2005, upon retirement from the Authority, the participant's available sick leave cash out 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 and are at least 55 years of age, or 2) employees with fifteen years of service regardless of age.

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 and other capital payables that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

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

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.

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.

New Pronouncements: In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement addresses issues related to public-private and public-public partnership arrangements (PPPs). PPPs are arrangements in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This statement requires that PPPs that meet the definition of a lease apply guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement No. 87, as amended. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements that include an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement will be implemented during the year ended February 29, 2024.

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 will be implemented during the year ended February 29, 2024.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This Statement requires for the purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for*

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

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

Postemployment Benefit Plans Other Than Pension Plans, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. This Statement will be implemented during the year ended February 28, 2023.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and consistency in authoritative literature, pledges of future revenues when resources are not received by the pledging government; clarification of provisions in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, related to the focus of the government-wide financial statements; terminology updates related to provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and terminology used in Statement No. 53 to refer to resource flows statements. This Statement will be implemented during the year ended February 28, 2025.

Amendment of GASB Statement No. 62. This Statement prescribes the accounting and financial reporting for each type of accounting change, including changes in accounting principles, changes in accounting estimates and changes to or within the financial reporting entity, and error corrections. This Statement will be implemented during the year ended February 28, 2025.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, in June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or paid in cash or settled through noncash means and leave that has been used but not paid in cash or settled through noncash means. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in the liability for compensated absences. This Statement will be implemented during the year ended February 28, 2025.

December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The provisions of this Statement are effective for year ended February 28, 2026.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement will implement changes to the financial reporting model including the Management's Discussion and Analysis, Unusual or Infrequent Items, presentation of the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position, Major Component Unit Information, and Budgetary Comparison Information. The provisions of this Statement are effective for year ended February 28, 2027.

In October 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*, that requires certain types of assets to be disclosed separately in the note disclosures and establishes requirements for capital assets held for sale. This Statement is effective for the year ended February 28, 2027.

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 2 – CASH AND INVESTMENTS

Cash and investments were classified as follows at February 28, 2023 and 2022:

	2023	2022
Cash and cash equivalents:		
Restricted - available for current operations	\$ 6,365,809	\$ 4,147,385
Restricted - available for project use energy	3,131,800	12,765,585
Restricted - available for extraordinary maintenance	22,457,920	10,823,262
Restricted - available for San Luis Joint Use	-	12,313,462
Restricted - emergency reserve fund	2,137,002	2,050,000
Restricted - debt service	2,019,052	2,301,444
Total cash and investments	<u>\$ 36,111,583</u>	<u>\$ 44,401,138</u>

Cash and investments consisted of the following:

	2023	2022
Cash on hand	\$ 1,000	\$ 1,000
Deposits with financial institutions	7,144,579	10,646,094
Investments	28,966,004	33,754,044
Total cash and investments	<u>\$ 36,111,583</u>	<u>\$ 44,401,138</u>

Investment Policy: The Authority's investment policy allows the Authority to invest in Federal Deposit Insurance Corporation insured bank deposits, LAIF, 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 agreements, debt proceeds may be invested in direct U.S. Government obligations and highly rated: 1) U.S. Government agency obligations with remaining maturities not exceeding three years; 2) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker's acceptances of domestic commercial banks maturing no more than 360 days after the date of purchase; 3) commercial paper maturing in no more than 270 days from the date of purchase; 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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

<u>February 28, 2023</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>More than 12 to 24 Months</u>	<u>More than 24 to 60 Months</u>
Local Agency Investment Fund	\$ 4,544,425	\$ 4,544,425		
CalTRUST	22,107,403	21,636,710		\$ 470,693
Held by bond trustee:				
Money market funds	2,314,176	2,314,176		
Totals	<u>\$ 28,966,004</u>	<u>\$ 28,495,311</u>	<u>\$ -</u>	<u>\$ 470,693</u>
<u>February 28, 2022</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>More than 12 to 24 Months</u>	<u>More than 24 to 60 Months</u>
Local Agency Investment Fund	\$ 4,519,345	\$ 4,519,345		
CalTRUST	26,933,256	12,961,561		\$ 13,971,695
Held by bond trustee:				
Money market funds	2,301,443	2,301,443		
Totals	<u>\$ 33,754,044</u>	<u>\$ 19,782,349</u>	<u>\$ -</u>	<u>\$ 13,971,695</u>

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:

<u>February 28, 2023</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>AAf</u>	<u>AA-f</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$ 4,544,425	N/A				\$ 4,544,425
CalTRUST	22,107,403	N/A		\$ 21,636,710	\$ 470,693	
Held by bond trustee:						
Money market funds	2,314,176	AAA	\$ 2,314,176			
	<u>\$ 28,966,004</u>		<u>\$ 2,314,176</u>	<u>\$ 21,636,710</u>	<u>\$ 470,693</u>	<u>\$ 4,544,425</u>
<u>February 28, 2022</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>AAf</u>	<u>AA-f</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$ 4,519,345	N/A				\$ 4,519,345
CalTRUST	26,933,256	N/A		\$ 12,961,561	\$ 13,971,695	
Held by bond trustee:						
Money market funds	2,301,443	AAA	\$ 2,301,443			
	<u>\$ 33,754,044</u>		<u>\$ 2,301,443</u>	<u>\$ 12,961,561</u>	<u>\$ 13,971,695</u>	<u>\$ 4,519,345</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 28, 2023 and 2022, the carrying amount of the Authority's deposits was \$7,144,579 and \$10,646,094 and the balance in financial institutions was \$7,238,783 and \$10,919,407, respectively. Of the balance in financial institutions, \$250,000 at February 28, 2023 and 2022 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 281 and 319 days as of February 28, 2023 and 2022, 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 336 and 310 days as of February 28, 2023 and 2022, respectively. The weighted average maturity of medium-term funds in CalTRUST was 810 and 763 days as of February 28, 2023 and 2022, respectively.

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 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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 3 – ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable and other receivables consisted of the following at February 28, 2023 and 2022:

	2023	2022
Other receivables	\$ 20,241	\$ 849,532
Due from other governments	36,790,518	11,665,538
Interest receivable	11,402	2,390
Total accounts receivable	36,822,161	12,517,460
Grant retention receivable	-	111,540
Unit 1, 3, 4, 5 and 6 Rewind Project	16,708,543	12,206,970
DHCCP financing participants	28,110,000	29,635,000
Total	<u>\$ 81,640,704</u>	<u>\$ 54,470,970</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity was as follows:

February 28, 2023

Capital Assets	Balance at March 1, 2022	Additions	Retirements	Balance at February 28, 2023
Capital assets, being depreciated:				
Heavy equipment	\$ 3,416,235			\$ 3,416,235
Vehicles and light trucks	3,307,975	\$ 161,730	\$ (267,705)	3,202,000
Furniture and equipment	1,361,272	11,288		1,372,560
Computers	500,722	107,083		607,805
Total capital assets, being depreciated	<u>8,586,204</u>	<u>280,101</u>	<u>(267,705)</u>	<u>8,598,600</u>
Less accumulated depreciation:				
Heavy equipment	(894,226)	(146,676)		(1,040,902)
Vehicles and light trucks	(1,465,477)	(228,035)	252,912	(1,440,600)
Furniture and equipment	(919,874)	(90,510)		(1,010,384)
Computers	(395,024)	(47,588)		(442,612)
Total accumulated depreciation	<u>(3,674,601)</u>	<u>(512,809)</u>	<u>252,912</u>	<u>(3,934,498)</u>
Capital assets, net	<u>\$ 4,911,603</u>	<u>\$ (232,708)</u>	<u>\$ (14,793)</u>	<u>\$ 4,664,102</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 4 – CAPITAL ASSETS (Continued)

February 28, 2022

Capital Assets	Balance at March 1, 2021	Additions	Retirements	Balance at February 28, 2022
Capital assets, being depreciated:				
Heavy equipment	\$ 3,197,599	\$ 299,424	\$ (80,788)	\$ 3,416,235
Vehicles and light trucks	3,162,274	171,396	(25,695)	3,307,975
Furniture and equipment	1,302,857	151,921	(93,506)	1,361,272
Computers	479,059	21,663		500,722
Total capital assets, being depreciated	8,141,789	644,404	(199,989)	8,586,204
Less accumulated depreciation:				
Heavy equipment	(807,256)	(114,105)	27,135	(894,226)
Vehicles and light trucks	(1,334,099)	(154,818)	23,440	(1,465,477)
Furniture and equipment	(968,568)	(33,004)	81,698	(919,874)
Computers	(361,303)	(33,721)		(395,024)
Total accumulated depreciation	(3,471,226)	(335,648)	132,273	(3,674,601)
Capital assets, net	\$ 4,670,563	\$ 308,756	\$ (67,716)	\$ 4,911,603

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable consisted of the following at February 28, 2023 and 2022:

	2023	2022
Other governments	\$ 13,206,972	\$ 17,232,715
Vendors	2,465,960	3,829,786
Total	\$ 15,672,932	\$ 21,062,501

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 Project Use Energy rate component is based on cost estimates provided by Reclamation 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 at February 28, 2023 and 2022:

	2023	2022
Contractors:		
O&M (including Rewind Project)	\$ 7,870,869	\$ 1,053,657
Project Use Energy	11,290,540	21,631,159
San Luis Joint Use	3,326,178	2,867,510
Activity Agreements	13,027	
Total	\$ 22,500,614	\$ 25,552,326

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES

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

<u>February 28, 2023</u>	Balance at March 1, 2022	Additions	Reductions	Balance at February 28, 2023	Due Within One Year
Revenue Bonds, Series 2021A	\$ 7,690,000		\$ (490,000)	\$ 7,200,000	
Refunding Revenue Bonds, Series 2021B	31,150,000		(3,040,000)	28,110,000	
	38,840,000		(3,530,000)	35,310,000	-
USBR Unit 3 Rewind Note	1,845,950	\$ 1,136,756		2,982,706	
USBR Unit 5 Rewind Note	5,400,663		(283,731)	5,116,932	\$ 248,028
USBR Unit 6 Rewind Note	4,212,570		(642,665)	3,569,905	380,441
Total debt	50,299,183	1,136,756	(4,456,396)	46,979,543	628,469
Grant retention payable	333,497		(203,854)	129,643	
Compensated absences	1,276,527	657,884	(623,037)	1,311,374	669,636
Total	<u>\$ 51,909,207</u>	<u>\$ 1,794,640</u>	<u>\$ (5,283,287)</u>	<u>\$ 48,420,560</u>	<u>\$ 1,298,105</u>

<u>February 28, 2022</u>	Balance at March 1, 2021	Additions	Reductions	Balance at February 28, 2022	Due Within One Year
Revenue Bonds, Series 2021A	\$ 7,690,000			\$ 7,690,000	\$ 245,000
Refunding Revenue Bonds, Series 2021B	32,725,000		\$ (1,575,000)	31,150,000	1,515,000
	40,415,000	-	(1,575,000)	38,840,000	1,760,000
USBR Unit 3 Rewind Note		\$ 1,845,950		1,845,950	
USBR Unit 5 Rewind Note	5,269,256	374,274	(242,867)	5,400,663	214,797
USBR Unit 6 Rewind Note	4,486,458		(273,888)	4,212,570	280,393
Total debt	50,170,714	2,220,224	(2,091,755)	50,299,183	2,255,190
Grant retention payable	240,841	92,656		333,497	
Compensated absences	1,307,765	1,746,444	(1,777,682)	1,276,527	891,313
Total	<u>\$ 51,719,320</u>	<u>\$ 4,059,324</u>	<u>\$ (3,869,437)</u>	<u>\$ 51,909,207</u>	<u>\$ 3,146,503</u>

Revenue Bonds (OM&R Project), Series 2021A (Direct Placement):

On January 26, 2021, the Authority issued the Revenue Bonds (OM&R Project), Series 2021A (the 2021A Bonds) in the amount of \$8,020,000. The 2021A Bonds were issued to provide funds to finance a portion of the cost of certain extraordinary maintenance (Unit 1 and Unit 4 Rewind project) to the Jones Pumping Plant and to fund a deposit into a debt service reserve fund.

The 2021A Bonds are special obligations of the Authority and are secured by operations, maintenance, and replacement (OM&R) revenues received by the Authority for the operation, maintenance, and replacement of certain Central Valley Project facilities pursuant to a Transfer Agreement entered into by the Authority and the United States of America acting through the Department of Interior Bureau of Reclamation. Debt service on the 2021A bond obligations is sourced by a debt service reserve component included in all rates charged for water deliveries within the transferred works. Excluded from this charge are water deliveries to FWA contractors and water deliveries in the Mendota Pool that do not flow through the Delta Mendota

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Canal. The 2021A Bonds are secured by a gross lien on OM&R revenues and are payable from OM&R revenues prior to operation and maintenance costs and are on a parity with the obligation of the Authority to pay principal of and interest on two repayment contracts with Reclamation which financed extraordinary maintenance at the Jones Pumping Plant, aggregating approximately \$17,500,000 in principal amount and other operation and maintenance obligations incurred by the Authority from time-to-time in accordance with the OM&R Master Resolution. The 2021A Bonds have a rate covenant requiring the Authority to collect OM&R revenues equal to 1.10 times payments due on all Operation and Maintenance Obligations (all obligations on parity with the 2021A Bonds) and 1.00 times other operations and maintenance costs as defined in the agreement. The 2021A Bonds bear interest at 1.26% to 3.20% and are payable semi-annually on March 1 and September 1, beginning March 1, 2021, through March 1, 2045. Upon default the 2021A Bonds may be declared to be immediately due and payable and a default interest rate of 8% would apply on past due principal.

Refunding Revenue Bonds (DHCCP Development Project), Series 2021B (Direct Placement):

On January 26, 2021, the Authority issued the Refunding Revenue Bonds (DHCCP Development Project), Series 2021B (the 2021B Bonds) in the amount of \$32,725,000. The 2021B Bonds were issued to provide funds to defease \$30,080,000 of the outstanding Refunding Revenue Bonds (DHCCP Development Project), Series 2013A (the 2013A Bonds). The 2013A Bonds were issued to finance planning, preliminary design and environmental activities of the Delta Habitat Conservation and Conveyance Program (DHCCP), 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. Byron Bethany Irrigation District and Laguna Water District repaid their 2013A bond debt service obligation in the amount of \$501,269 and opted not to participate in the 2021 refunding.

The 2021B 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 (Financing Participant payments) and from amounts in certain funds and accounts established under the Indenture of Trust pursuant to which the 2021B Bonds are issued. 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 2021B Bonds. The Authority then reimburses 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, Mercy Springs Water District, Eagle Field 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 2021B Bond indenture. A receivable is recognized for the funding participants’ obligation to provide 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 2021B Bonds bear interest at .35% to 3.04% and are payable semi-annually on March 1 and September 1, beginning March 1, 2021. The bonds mature at various amounts through March 1, 2042. Upon default the 2021B Bonds may be declared to be immediately due and payable and a default interest rate of 8% would apply on past due principal.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

In January of 2021, \$3,684,099 of unused funds from the previously defeased Revenue Notes (DHCCP Development Project), Series 2009A were deposited to an irrevocable escrow account held by a fiscal agent and will be used, with investment earnings, to repay the 2013A Bonds in the amount of \$4,145,000 by March 1, 2023. The fair value of the amount in the escrow account was \$4,146,711 and \$4,091,339 at February 28, 2023 and 2022, respectively.

Pledged Revenue: The Authority pledged future OM&R revenues to repay the 2021A Bonds in the original amount of \$8,020,000. The 2021A Bonds are payable solely from OM&R revenues through March 1, 2045. Total principal and interest remaining to be paid on the 2021A Bonds was \$10,002,214 and \$10,804,720 at February 28, 2023 and 2022, respectively. Total cash basis principal and interest paid for the 2021A Bonds was \$449,820 and \$452,907 and the total cash basis OM&R revenues was \$42,109,524 and \$53,822,870 for the years ended February 28, 2023 and 2022, respectively.

The Authority pledged future Financing Participation revenues to repay the 2021B Bonds in the original amount of \$32,725,000. The 2021B Bonds are payable from Financing Participant payment amounts held in an escrow account and are payable through March 1, 2042. Total principal and interest remaining to be paid on the 2021B Bonds was \$35,727,070 and \$39,760,643 at February 28, 2023 and 2022, respectively. Total cash basis principal and interest paid for the 2021B Bonds was \$2,178,646 and \$1,959,187 and the total Financing Participant Payments for the Bonds was \$2,184,858 and \$2,182,433 at February 28, 2023 and 2022, 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 Jones Pumping Plant Rewind Note (Private Placement):

In June 2020, the Authority entered into an agreement to receive up to \$12,700,000 for units 2, 3, 4 and 5 from the USBR to rewind the Units of the C.W. “Bill” Jones Pumping Plant. The obligation was on a cost reimbursement basis, with a separate repayment contract created on the substantial completion date for each unit. After entering into the agreement, the Authority chose to self-fund the rewind of Unit 2 and to finance the other three units through this financing method. At February 28, 2022, the rewinds of Units 5 and 6 were completed and separate repayment agreements were in place with the USBR. As of February 28, 2023, Unit 3 rewind was not substantially complete but had incurred costs of \$2,982,706. Subsequently, the rewind of Unit 3 was substantially completed in April of 2024 for a total cost of \$6,288,520. 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 2.125% at February 28, 2023. 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 additional charges to water conveyance fees to repay the existing obligations for Units 3, 5 and 6. A long-term receivable is recognized for the contractors’ obligation to provide sufficient water conveyance fees to repay the Rewind Notes for Units 3, 5 and 6. The receivable is equal to the liability outstanding, less revenue collected for principal payments. Revenue collected for interest payments is recognized in the year the interest payments are due.

USBR Unit 5 Rewind Note (Private Placement):

In June 2020, the Authority entered into an agreement to receive up to \$5.9 million from the USBR to rewind Unit 5 of the C.W. “Bill” Jones Pumping Plant. The obligation was on a cost reimbursement basis and the Authority incurred \$5,612,808 as of February 28, 2023. A preliminary repayment schedule was

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

provided by the USBR showing the amount would be repaid in installments of \$248,028 per year on the last day of February from February 2022 to February 2044. A revised repayment schedule was presented to the Authority in October 2022, updating the annual installment amount to \$282,305 with a stated interest amount of 1.25%. The repayment schedule was further revised in March 2025 and due to internal record keeping issues at the USBR, the USBR agreed to apply all previous payments as a reduction in principal and create a new amortization schedule for the debt. 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 component to the water rates to repay the obligation. A long-term receivable is recognized for the contractors' obligation to provide sufficient water conveyance fees to repay the Unit 5 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.

USBR Unit 6 Rewind Note (Private Placement):

In February 2018, the Authority entered into an agreement to receive up to \$5 million from the USBR to rewind Unit 6 of the C.W. "Bill" Jones Pumping Plant. The obligation was on a cost reimbursement basis and the Authority incurred \$5,154,120, including USBR costs. The remaining amount will be repaid in installments of \$380,441 per year on the last day of February from February 2020 to February 2035. 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% at February 28, 2023. 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 component to the water rates in order to repay the obligation. The repayment schedule was further revised in March 2025 and due to internal record keeping issues at the USBR, the USBR agreed to apply all previous payments to a reduction in principal and create a new amortization schedule for the debt.

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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

The annual debt service requirements to maturity for the long-term debt were as follows:

February 28, 2023

Year Ended Last Day of February,	Revenue Bonds, Series 2021A		Total Debt Service
	Principal	Interest	
2024	\$ -	\$ 100,867	\$ 100,867
2025	250,000	200,158	450,158
2026	255,000	196,977	451,977
2027	255,000	193,763	448,763
2028	260,000	189,323	449,323
2029-2033	1,395,000	856,246	2,251,246
2034-2038	1,605,000	640,720	2,245,720
2039-2043	1,890,000	361,280	2,251,280
2044-2045	1,290,000	62,880	1,352,880
Total	<u>\$ 7,200,000</u>	<u>\$ 2,802,214</u>	<u>\$ 10,002,214</u>

Year Ended Last Day of February,	Refunding Revenue Bonds, Series 2021B		Total Debt Service
	Principal	Interest	
2024	\$ -	\$ 325,202	\$ 325,202
2025	1,325,000	645,236	1,970,236
2026	1,335,000	633,326	1,968,326
2027	1,350,000	618,079	1,968,079
2028	1,365,000	599,473	1,964,473
2029-2033	7,195,000	2,609,865	9,804,865
2034-2038	8,060,000	1,710,585	9,770,585
2039-2043	7,480,000	475,304	7,955,304
Total	<u>\$ 28,110,000</u>	<u>\$ 7,617,070</u>	<u>\$ 35,727,070</u>

Year Ended Last Day of February,	USBR Rewind Note, Unit 3		Total Debt Service
	Principal	Interest	
2024	\$ -	\$ -	\$ -
2025	332,868	-	332,868
2026	221,200	111,668	332,868
2027	225,347	107,521	332,868
2028	229,573	103,296	332,869
2029-2033	1,214,067	450,274	1,664,341
2034-2038	1,332,235	332,106	1,664,341
2039-2043	1,461,904	202,437	1,664,341
2044-2047	1,271,326	60,148	1,331,474
Total	<u>\$ 6,288,520</u>	<u>\$ 1,367,450</u>	<u>\$ 7,655,970</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Note that the Unit 3 amortization schedule provided by Reclamation above included \$3,305,814 of expenses incurred after February 28, 2023. The liability recorded by the Authority at February 28, 2023 does not include this amount.

Year Ended Last Day of February,	USBR Rewind Note, Unit 5		Total Debt Service
	Principal	Interest	
2024	\$ 248,028	\$ -	\$ 248,028
2025	168,796	97,378	266,174
2026	172,172	94,002	266,174
2027	175,615	90,559	266,174
2028	179,127	87,046	266,173
2029-2033	950,829	380,039	1,330,868
2034-2038	1,049,792	281,076	1,330,868
2039-2043	1,159,056	171,813	1,330,869
2044-2047	1,013,517	51,179	1,064,696
Total	<u>\$ 5,116,932</u>	<u>\$ 1,253,092</u>	<u>\$ 6,370,024</u>

Year Ended Last Day of February,	USBR Rewind Note, Unit 6		Total Debt Service
	Principal	Interest	
2024	\$ 380,441	\$ -	\$ 380,441
2025	179,489	75,750	255,239
2026	183,752	71,487	255,239
2027	188,116	67,123	255,239
2028	192,584	62,655	255,239
2029-2033	1,033,739	242,455	1,276,194
2034-2038	1,162,467	113,728	1,276,195
20239	249,317	5,921	255,238
Total	<u>\$ 3,569,905</u>	<u>\$ 639,119</u>	<u>\$ 4,209,024</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

February 28, 2022

Year Ended Last Day of February,	Revenue Bonds, Series 2021A		Total Debt Service
	Principal	Interest	
2023	\$ 245,000	\$ 206,364	\$ 451,364
2024	245,000	203,277	448,277
2025	250,000	200,158	450,158
2026	255,000	196,977	451,977
2027	255,000	193,763	448,763
2028-2032	1,365,000	887,809	2,252,809
2033-2037	1,550,000	691,200	2,241,200
2038-2042	1,835,000	420,880	2,255,880
2043-2046	1,690,000	110,560	1,800,560
Total	<u>\$ 7,690,000</u>	<u>\$ 3,110,988</u>	<u>\$ 10,800,988</u>

Year Ended Last Day of February,	Refunding Revenue Bonds, Series 2021B		Total Debt Service
	Principal	Interest	
2023	\$ 1,515,000	\$ 663,646	\$ 2,178,646
2024	1,525,000	655,131	2,180,131
2025	1,325,000	645,236	1,970,236
2026	1,335,000	633,326	1,968,326
2027	1,350,000	618,080	1,968,080
2028-2032	7,065,000	2,748,592	9,813,592
2033-2037	7,860,000	1,918,173	9,778,173
2038-2042	9,015,000	726,028	9,741,028
2043-2043	160,000	2,431	162,431
Total	<u>\$ 31,150,000</u>	<u>\$ 8,610,643</u>	<u>\$ 39,760,643</u>

Year Ended Last Day of February,	USBR Rewind Note, Unit 5		Total Debt Service
	Principal	Interest	
2023	\$ 214,797	\$ 67,508	\$ 282,305
2024	217,482	64,823	282,305
2025	220,201	62,104	282,305
2026	222,953	59,352	282,305
2027	225,740	56,565	282,305
2028-2032	1,171,739	239,788	1,411,527
2033-2037	1,246,826	164,701	1,411,527
2038-2042	1,326,726	84,802	1,411,528
2043-2044	554,199	10,415	564,614
Total	<u>\$ 5,400,663</u>	<u>\$ 810,058</u>	<u>\$ 6,210,721</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Year Ended Last Day of February,	USBR Rewind Note, Unit 6		Total Debt Service
	Principal	Interest	
2023	\$ 280,393	\$ 100,048	\$ 380,441
2024	287,052	93,389	380,441
2025	293,869	86,572	380,441
2026	300,849	79,592	380,441
2027	307,994	72,447	380,441
2028-2032	1,653,230	248,976	1,902,206
2033-2035	1,089,183	52,141	1,141,324
Total	<u>\$ 4,212,570</u>	<u>\$ 733,165</u>	<u>\$ 4,945,735</u>

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 28, 2023 and 2022 was \$2,137,002 and \$2,050,000, respectively.

Restricted for Debt Service: The Authority is required to maintain a debt service reserve related to the USBR rewind notes.

Restricted for Activity Agreement Projects: The Authority collected amounts from agencies to perform specific projects under activity agreements. The amounts collected and not yet expended are reported as restricted net position.

Restricted for Extraordinary Maintenance: The Authority collects amounts from its member agencies for certain extraordinary maintenance projects as part of the water rates based on a budget approved by the Board. Unexpended amounts are reported as restricted for those projects.

NOTE 9 – 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 by and may be amended by the Board of Directors.

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 109325 requires the employee to contribute 5% of “base annual salary” to the Plan and the Authority

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 9 – RETIREMENT BENEFITS (Continued)

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 with a maximum of \$30,000 per year of combined employer and employee contributions, subject to IRC contribution limits. For the years ended February 28, 2023 and 2022, the employer contributions to the Plans were \$961,181 and \$897,203 and the employee contributions were \$174,899 and \$147,305, respectively.

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 28, 2023 and 2022, the employer contributions were \$310,119 and \$300,761 and the employee contributions were \$674,810 and \$621,507, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation: The Authority is involved in various litigation matters, including two matters where the Authority is a named defendant, respondent, or real party in interest. See below for more detail regarding these 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.

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.

Grassland Basin Drainage Management Activity Litigation: PCFFA et al. v. Nickels et al. litigation filed by a coalition of fishermen's organizations and an individual in late 2011 remained pending in federal court throughout most of Fiscal Year 2026. The litigation alleged that the Authority and the United States Bureau of Reclamation (Reclamation) have violated the Clean Water Act by 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 case has a lengthy litigation history, proceeding from summary judgment proceedings in the U.S. District Court for the Eastern District of California, to the Ninth Circuit Court of Appeals, back to the district court, and again to the Ninth Circuit. Most recently, on September 5, 2025, the Ninth Circuit Court of Appeals issued an opinion and entered judgment in favor of the United States and the Authority. While plaintiffs PCFFA et al. filed a petition for rehearing en banc with the Ninth Circuit on October 20, 2025, at the present time an unfavorable outcome is possible, but not probable, and were there such an unfavorable outcome, the amount of any liability cannot reasonably be determined.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Employment Litigation: On December 27, 2023, an Authority employee filed a complaint alleging that the Authority retaliated against him for whistleblowing activities, in violation of the First Amendment; the Authority and three individually named employees are named defendants. In the complaint, plaintiff seeks damages, expenses, an award of reasonable attorney fees and costs, and any additional relief in law or equity that a jury might award.

Between June 11, 2025, and August 28, 2025, the Authority filed a motion for summary judgment and the parties briefed and argued the matter. On September 25, 2025, the U.S. District Court for the Eastern District of California issued an order and entered judgment in favor of the Authority. Claims against the individually named defendants in their individual capacity were also dismissed. On October 20, 2025, the plaintiff filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit. At the present time, an unfavorable outcome is possible, but not probable, and were there such an unfavorable outcome, the amount of any liability cannot reasonably be determined.

B.F. Sisk Dam Raise and Reservoir Expansion Project Activity: The B.F. Sisk Dam is approximately 382 feet high and 3.5 miles in length and is located in a historically seismically active area. Studies and analysis indicate that a major earthquake could result in substantial consequences, though the possibility of dam failure is remote. The U.S. Bureau of Reclamation (Reclamation) and the California 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 dam failure due to earthquake induced cracking. In connected action to the B.F. Sisk Safety of Dams (SOD) Modification project, the Authority has worked with Reclamation to evaluate an additional 10-foot raise across the entire Dam (the “B.F. Sisk Dam Raise and Reservoir Expansion Project” or “Reservoir Expansion Project”) above the safety purpose to expand the capacity of the San Luis Reservoir by approximately 130,000 acre-feet.

Since November 2019, the Authority has worked with Reclamation to analyze and pursue the Reservoir Expansion Project. This pursuit has included the engagement of consultants including CDM Smith, Inc. and The Hallmark Group, and the preparation of several key documents relating to the Project, including a Supplemental Environmental Impact Study/Environmental Impact Report (SEIS/EIR), feasibility study. The Final SEIS/EIR and the Feasibility Study were completed in December 2020, and the Secretary of Interior deemed the project feasible. Reclamation and the Authority signed a Record of Decision and Notice of Determination for the Project, respectively, on October 20, 2023.

In March of 2022, the Authority organized an activity agreement among members interested in funding the project, with an initial funding budget of \$1,000,000.

In January 2025, the Authority and Reclamation executed an Agreement for the Management of the Expanded San Luis Reservoir and Cost Share of Charges Associated with Raising of the B.F. Sisk Dam and Increased Storage Capacity of the Federally Administered San Luis Reservoir (Management and Cost Share Agreement), Contract No. 24-WC-20-6280. The Authority’s activity agreement was also amended in January 2025.

Subsequently, Reclamation and the Authority negotiated and in August 2025, executed, a Contributed Funds Agreement and Spend Plan, Exhibits A and B to the Management and Cost Share Agreement, respectively. As of October 2025, the Authority continues to work with Reclamation and activity agreement members to pursue the Project.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Los Vaqueros Reservoir Expansion Project Activity: Between April 2019 and August 2023, the Authority executed the Cost Share Agreement for Los Vaqueros Reservoir Expansion Project Planning and five amendments, committing to payments in a total amount of approximately \$4,503,692. The obligation for such payments was the responsibility of the Los Vaqueros Reservoir Expansion Activity Agreement members.

In August 2021, the Authority and four of its members executed the First Amended and Restated Los Vaqueros Reservoir Project Activity Agreement; a fifth member was added in November 2021. This Activity Agreement authorized the Authority to execute the Los Vaqueros Reservoir Joint Exercise of Powers Agreement and participate in the Los Vaqueros Reservoir Joint Powers Authority as a member on behalf of the Activity Agreement members. Accordingly, in October 2021, to meet state funding program requirements, members including the Authority, on behalf of activity agreement members, executed the Los Vaqueros Reservoir Joint Exercise of Powers Agreement to form the Los Vaqueros Reservoir Joint Powers Authority (Los Vaqueros JPA), to provide for its governance and administration, and to assist in the design, construction, operation, and administration of the Phase 2 Los Vaqueros Project.

In January 2025, the Contra Costa Water District's (CCWD) Board of Directors took action to end CCWD's participation in the Phase 2 Project, and to, among other things, withdraw CCWD's application for additional state funding. Subsequently, the Los Vaqueros JPA's Board of Directors adopted Resolution No. 1-25-01 to terminate the Los Vaqueros JPA's Joint Exercise of Powers Agreement and to direct staff to proceed with the dissolution, winding down and liquidation of the Los Vaqueros JPA on the terms specified in that resolution, including terms relating to the future use of plans and designs for certain facilities that were funded and paid for by the members. Following dissolution of the Los Vaqueros JPA, the Authority's related activity agreement terminated as well, and the Phase 1 Los Vaqueros Project Cost Share Agreement terminated as well.

Remaining contributed funds were returned to members pursuant to the Cost Share Agreement, including \$2,913,685.14 to the Authority, which was returned in equal parts to the five activity agreement members in April 2025. A final return of contributed funds is expected in October 2025.

Extraordinary Operation and Maintenance Projects: The Authority has recently completed and is in the process of pursuing various significant extraordinary operation and maintenance (EO&M) projects, which are described in the following Sections.

Jones Pumping Plant Rewind Project: The Jones Pumping Plant Unit Rewind Project (JPP Rewind Project) consists of the rehabilitation of the 22,500 HP motors on each of the six pumping units at the Jones Pumping Plant that have reached the end of their service life. The Project consisted of removing and replacing the 32-ton stator core, removing and replacing 228 stator coils, rehabilitating the 70-year-old stator frame, and removing, refurbishing, and re-installing the 40 rotor field poles. Water deliveries are not anticipated to be reduced during the rehabilitation work of the Jones Pumping Plant.

Each unit motor was rehabilitated individually over the course of approximately 61 months. The Authority and Reclamation completed the necessary rehabilitation on the first unit (Unit 6) in February 2019. The rehabilitation of Unit 6 was paid by the Authority from the proceeds of a loan, in the approximate amount of \$5.15 million, from Reclamation made to the Authority pursuant to the first Reclamation Repayment Contract, dated February 5, 2018 (the 2018 Reclamation Repayment Contract). The Authority collected the cost of the rehabilitation of the second unit (Unit 2), which was completed in June 2020, through OM&R rates. The rehabilitation work on the third unit (Unit 5) began in March 2020, and was completed in May

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

2021. The rehabilitation of Unit 5 was paid by the Authority using proceeds of a second loan, in the approximate amount of \$5.59 million, from Reclamation made to the Authority pursuant to the Reclamation Repayment Contract, dated June 29, 2020 (the 2020 Reclamation Repayment Contract). The proceeds from the 2020 Reclamation Repayment Contract provides funding for the rehabilitation work on two units, the third unit (Unit 5) and the sixth unit (Unit 3).

The rehabilitation of the fourth unit (Unit 1) began in November 2020 and was completed in April 2022. The fifth unit (Unit 4) rehabilitation began in June 2021. The fourth and fifth units were funded using proceeds from revenue bonds (Bonds) and payments received and to be received from FWA, as set forth in that certain Funding Agreement dated November 6, 2020, by and between the Authority and FWA (the FWA JPP Funding Agreement). Pursuant to the FWA JPP Funding Agreement, FWA paid \$1,755,108 to the Authority in November 2020 and is obligated to make four additional payments to the Authority on or before the dates the Authority makes progress payments to the contractor for the rehabilitation of Unit 1 and Unit 4, for a total contribution from FWA of \$4,939,866, subject to adjustment to reflect FWA 's share of the actual cost of rehabilitation of the fourth and fifth units. Pursuant to the FWA JPP Funding Agreement, FWA also paid \$104,536, a proportionate share of the cost of issuing the Bonds.

The rehabilitation work on the sixth and final unit (Unit 3), began in February 2022 and was paid for using the proceeds of a loan from the 2020 Reclamation Repayment Contract.

On September 9, 2020, Reclamation confirmed to the Authority that the Project constitutes extraordinary maintenance work. As extraordinary maintenance work, the Authority is permitted to collect OM&R revenues to pay the principal of and interest on the Bonds pursuant to the Transfer Agreement and the Friant MOU.

As of October 21, 2025, the Authority has completed the five-year process of rewinding the six units of the Jones Pumping Plant. The Unit 1, 3, and 4 approved contract amounts were \$4,382,771, \$4,564,875, and \$4,428,956 and the remaining commitments, including unpaid retention, were \$1,464,430, \$2,830,222, and \$2,745,041.

Delta-Mendota Canal Subsidence Correction Project: The Delta-Mendota Canal (DMC) is a 116.5-mile-long canal that conveys water from the Delta region near Tracy, California to the Mendota Pool near Mendota, California. The DMC is one of the major components of the Delta Division of the U.S. Bureau of Reclamation's (Reclamation) Central Valley Project (CVP), and is considered critical infrastructure. The DMC was originally designed to convey a variable flow rate, starting at 4,600 cubic feet per second (cfs) at the upstream end and reducing to 3,211 cfs at the downstream end. Since its construction, several factors (including land subsidence) have impacted the ability of the DMC to meet the needs of the communities and ecosystems which rely on it for their water supply. Parts of the DMC have experienced differential changes in land surface elevation, forcing the facility to be operated at a lower level to ensure that water does not overflow the canal banks and cause damage. The first phase of this multi-phased project has received approximately \$5 million in federal funding. 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.

Appraisal level studies were completed in September 2021, and the Feasibility Study was completed and accepted by Reclamation Policy in late 2024. In order to complete the Feasibility Report, environmental compliance activities and associated reviews, the Authority and Reclamation entered into a Memorandum of Agreement and a Cooperative Agreement (CA) in September 2021. The CA is a cost share agreement

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

between Reclamation and the Authority in which both agencies will contribute \$2.8 million to the project over the next two years. This includes over \$1,000,000 provided within the Authority's FY21 and FY22 EO&M budgets. The Authority is funded \$1,572,000 for this project during FY23. Completion of the environmental activities within the existing CA are ongoing and the Authority will be requesting an extension to the agreement.

The Authority has been working in partnership with Reclamation to restore the conveyance capacity of the DMC by raising the canal lining and embankments, as well as other structures such as bridges, overchutes, and pipe crossings. Most recently, Phase 1 has been developed and will be implemented first. Phase 1 consists of raising the lining and embankment from milepost 3.5 to milepost 7.2 and in certain areas along the upper DMC with significant sags in the liner, and performing underwater lining repairs along the upper and lower DMC.

The Authority executed a Funding Agreement with DWR for the DMC Subsidence Correction Project in April 2022, with an initial funding amount of \$3,037,925. In May 2025, an amendment to the agreement was executed with a total funding amount of \$45,220,000. As of August 2025, DWR has reimbursed the Authority \$9,597,301 and retained \$1,066,366. The remaining \$34,556,333 is required to be liquidated by DWR by June 2027.

Reclamation has awarded \$279 million to the Project through the Infrastructure Investment and Jobs Act (IIJA), although a Repayment Contract has not yet been negotiated or executed. IIJA funds were awarded through three application periods, \$25M in FY23, \$50M in FY24, and \$204M in FY25. The FY26 application award is pending.

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 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 fully fund its public retirement system pension obligation.

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 was required to demonstrate a minimum grant match of

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

\$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. The Authority has already received its share of the project cost reimbursement and the grant is expected to end March 31, 2026.

NOTE 11 – 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 \$2,000,000 to \$55,000,000 is provided through insurance purchased by the JPIA on behalf of its members. The Authority also has cyber liability and crime coverage up to \$5,000,000 with deductibles of \$100 to \$50,000.

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 28, 2023 and 2022. The JPIA provides coverage above its SIR up to \$500,000,000 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 years ended February 28, 2023 and 2022.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 12 - 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.

Settlement Water is provided to Settlement Contractors, as defined in the Friant MOU, under settlement and exchange agreements with Reclamation. 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 Settlement Water to specified Settlement Contractors. 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 13 – SUBSEQUENT EVENTS

The Authority has the following subsequent events:

Jones Pumping Plant Excitation Cabinet and Control Panel Refurbishment Project: Reclamation approved allocations to the Authority of \$25 million for the Jones Pumping Plant Excitation Cabinet and Control Panel Refurbishment Project in November 2024 from funding provided to Reclamation through the Infrastructure Investment and Jobs Act. Two advance payments have been received to date for the total amount of \$1.125 million.

In August 2025 the Authority executed a construction agreement in the amount of \$25,250,000 to begin refurbishing the excitation cabinet and control panels for Jones Pumping Plant. The \$250,000 in excess of the funding award is to be collected through water rates.

O'Neill Pumping-Generating Plant Power Transformers Rehabilitation Project: In May 2023, the Board of Directors approved a construction agreement for O'Neill Pumping-Generating Plant Power Transformer Rehabilitations with expenditure of up to \$3,155,800. Since 2023, three contract change orders have been issued bringing the total contract amount to \$5,358,818. The last contract change order was issued August 2025.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 13 – SUBSEQUENT EVENTS (Continued)

The Authority began the construction for the rehabilitation of the six units of the O'Neill Pumping/Generating Plant in 2025. The funding source for this project is the EO&M budget.

O'Neill Pumping–Generating Plant (OPP) Unit Upgrades: The OPP Unit Upgrades includes the following four projects; 1. Pump Bowl Fabrication, 2. Governor Modernization, 3. Unit Rewinds, and 4. Pump and Penstock Rehabilitation. Reclamation approved allocations to the Authority for \$11.6M for the OPP Unit Upgrades in the USBR FY24 application period, with the FY26 award pending. No IJA funds have been accessed as the negotiation of the repayment agreement is pending. The Authority has advanced the Pump Bowl Fabrication and Governor Modernization Project and executed a two phase agreement with the original manufacturer in the amount of \$21,466,457. Expenditures in FY26 will be \$1.7M, and FY27 will be \$8.1M. Efforts are being made to complete repayment negotiations, however the FY27 progress payments will be budgeted in the EO&M budget as a contingency plan in the event negotiations are delayed.

Second Amended and Restated Memorandum of Understanding with Friant Water Authority: As noted above in Note 12, the Authority and FWA are parties to an MOU relating to the allocation, collection and payment of operation, maintenance and replacement (OM&R) costs for water delivered through certain Central Valley Project (CVP) facilities (First Amended MOU).

Following facilitated negotiations, in January 2024 FWA and the Authority reached agreement in principle and executed a Memorandum of Agreement that confirmed the general terms of proposed amendments to the First Amended MOU, settlement terms regarding the disputes, and amendments to other Authority and FWA governing documents.

Second Amended and Restated Joint Exercise of Powers Agreement: Article V.A.1. of the Second Amended MOU provides that the FWA is entitled to representation on the Board in that a FWA representative may vote on any action item funded in whole or in part, from any OM&R fund or Reserves to which Friant Division Contractors have or will have contributed. In order to allow for FWA participation in Board meetings as described in Article V.A.1 of the Second Amended MOU, the Authority amended the Amended and Restated JPA, which did not allow for such FWA participation.

The Authority Board of Directors adopted a resolution authorizing adoption of the Second Amended and Restated Joint Exercise of Powers Agreement on May 13, 2024 (Resolution No. 2024-529). Article 35 of the Amended and Restated JPA states that it may be amended upon written approval by a majority of all members of the Authority. The Authority has twenty-seven member agencies, thus, adoption of the Second Amended and Restated JPA was contingent upon the Authority receiving written approval from at least fourteen of its member agencies. The Authority received the required written approval, and the Second Amended and Restated JPA became effect on July 8, 2025. Following the Second Amended and Restated JPA becoming effective, the Authority complied with state filing requirements and shared a copy of the Second Amended and Restated JPA with member agencies and FWA.

In order to allow for FWA participation in Board meetings and for the development of the Planning Committee as described in Article V.A.1 and Article V.A.4 of the Second Amended MOU, the Board also adopted a Resolution authorizing amendment of the Authority's Bylaws, which initially did not allow for such actions, with such amendment taking effect concurrently with the Second Amended and Restated JPA becoming effective (Resolution No. 2024-530).

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 28, 2023 and 2022

NOTE 14 – RESTATEMENTS

During the year ended February 28, 2023, the Authority discovered that \$835,371 of federal contributions revenue and \$803,629 of revenue for the Unit 1 and 4 rewind related to fiscal year February 28, 2022, had not been accrued because certain project costs for the year ended February 28, 2022 were excluded from the determination of accruals for the reimbursement of these project costs. As a result of correcting these errors, amounts as of and for the year ended February 28, 2022 were restated from amounts previously reported.

In addition, the Authority changed its approach for classifying the extraordinary O&M funds from unrestricted to restricted. As a result, \$6,107,882 of net position was reclassified from unrestricted net position to net position restricted for extraordinary maintenance as of February 28, 2022. Unrestricted cash totaling \$3,864,297 was reclassified to cash restricted for extraordinary maintenance as of February 28, 2022. Net position restricted for debt service was also reclassified from unrestricted to restricted net position. Also, certain revenues and expenses were reclassified from nonoperating to operating.

The impact of the error corrections and the reclassifications is summarized as follows:

	February 28, 2022		February 28, 2022	
	As Previously Reported	Error Corrections	Reclassifications	As Restated
Unrestricted cash	\$ 3,864,297		\$ (3,864,297)	\$ -
Restricted cash - Rewind projects	6,958,965		3,864,297	10,823,262
Accounts receivable, net	11,682,089	\$ 835,371		12,517,460
Due from other governments-Rewind Project	11,403,341	803,629		12,206,970
Net position restricted for debt service			452,726	452,726
Net position restricted for extraordinary maintenance			6,107,882	6,107,882
Unrestricted net position	972,984	1,639,000		2,611,984
Operating revenue	58,835,701	1,639,000	1,875,695	62,350,396
Operating expenses	57,539,326	803,629	2,682,303	61,025,258
Nonoperating revenues (expenses)	(1,953,559)	803,629	806,608	(343,322)
Change in net position for the year	(657,184)	1,639,000		981,816

(This page intentionally left blank.)

SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SUPPLEMENTARY INFORMATION
STATEMENT OF FIDUCIARY NET POSITION - SECTION 401A RETIREMENT PLAN 109164
February 28, 2023 and 2022

	2023	2022
ASSETS		
Loan balance	\$ 517,384	\$ 608,816
Investments:		
Money market funds	121,130	75,384
Target date funds	2,496,261	2,420,759
Stock mutual funds	11,114,696	10,104,197
Bond funds	1,000,944	1,486,962
International stock funds	889,575	1,915,931
Total Investments	<u>15,622,606</u>	<u>16,003,233</u>
TOTAL ASSETS	<u>16,139,990</u>	<u>16,612,049</u>
TOTAL NET POSITION RESTRICTED FOR RETIREMENT BENEFITS	<u>\$ 16,139,990</u>	<u>\$ 16,612,049</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - SECTION 401A RETIREMENT PLAN 109164

For the Year Ended February 28, 2023 and 2022

	2023	2022
ADDITIONS		
Contributions - employer	\$ 811,235	\$ 755,120
Contributions - employee	24,953	
Contributions - rollovers into plan		111,942
Net (loss) appreciation in fair value of investments	(803,487)	633,176
Loans issued	202,997	214,262
Loans interest	22,041	
Other credits	72,050	
TOTAL ADDITIONS	<u>329,789</u>	<u>1,714,500</u>
DEDUCTIONS		
Benefit payments	512,949	267,531
Loan repayments	272,531	255,033
Administrative expenses	16,368	16,898
Other debits		20,275
TOTAL DEDUCTIONS	<u>801,848</u>	<u>559,737</u>
NET (DECREASE) INCREASE IN NET POSITION	(472,059)	1,154,763
Net position restricted for retirement benefits - beginning of year	<u>16,612,049</u>	<u>15,457,286</u>
NET POSITION RESTRICTED FOR RETIREMENT BENEFITS - END OF YEAR	<u>\$ 16,139,990</u>	<u>\$ 16,612,049</u>
Number of Participants in Retirement Plan:		
Active	86	101
Retiree	32	37

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SUPPLEMENTARY INFORMATION
STATEMENT OF FIDUCIARY NET POSITION - SECTION 401A RETIREMENT PLAN 109325
February 28, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Investments:		
Money market funds	\$ 44,372	\$ 26,639
Target date funds	1,305,968	1,342,285
Stock mutual funds	2,623,988	2,501,360
Stable value	929,621	1,134,822
Bond funds	290,086	367,592
International stock funds	239,245	248,397
Real estate fund	8,777	2,762
Total Investments	<u>5,442,057</u>	<u>5,623,857</u>
TOTAL ASSETS	<u>5,442,057</u>	<u>5,623,857</u>
TOTAL NET POSITION RESTRICTED FOR RETIREMENT BENEFITS	<u>\$ 5,442,057</u>	<u>\$ 5,623,857</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - SECTION 401A RETIREMENT PLAN 109325

February 28, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ADDITIONS		
Contributions - employer	\$ 149,946	\$ 142,083
Contributions - employee	149,946	147,305
Increase in fair value of investments	(380,723)	257,050
Other credits	185	18
TOTAL ADDITIONS	<u>(80,646)</u>	<u>546,456</u>
DEDUCTIONS		
Benefit payments	96,581	208,940
Administrative expenses	4,573	4,713
TOTAL DEDUCTIONS	<u>101,154</u>	<u>213,653</u>
NET (DECREASE) INCREASE IN NET POSITION	(181,800)	332,803
Net position restricted for retirement benefits - beginning of year	<u>5,623,857</u>	<u>5,291,054</u>
NET POSITION RESTRICTED FOR RETIREMENT BENEFITS - END OF YEAR	<u>\$ 5,442,057</u>	<u>\$ 5,623,857</u>

Number of Participants in Retirement Plan:

Active	18	21
Retiree	11	9



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

GOVERNANCE LETTER

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

We have audited the financial statements of the San Luis & Delta-Mendota Water Authority (the Authority) for the year ended February 28, 2023. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated February 27, 2023 and to a member of the Board of Directors during the audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. The Authority did not implement any new accounting standards during the year and the application of existing policies was not changed during the year. We noted no transaction entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were lives used to depreciate capital assets, water conveyance fees charged to members, the computation of receivables and unearned revenue, the computation of payables, especially project use energy, joint facility use fee payables and pump rewind project payables, qualifying expenses incurred under grants, and computation of the emergency reserve fund reported as restricted net position. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were the disclosures related to the Revenue Bonds, Series 2021A, Revenue Refunding Bonds, Series 2021B and the sources of repayment in Note 7, disclosure of the rewind project financing in Note 7, the emergency reserve fund disclosed in Note 8, retirement benefits reported in Note 10, commitments and contingencies in Note 11 and subsequent events in Note 14. The financial statement disclosures are neutral, consistent, and clear.

Note 1 of the financial statements discusses the impact of the final accounting for water year 2021 and the interim final billing for water year 2022 on the financial statements as of February 28, 2023 that resulted in a large additional billing.

Note 15 of the financial statements discusses the restatement of 2022 amounts as a result of additional costs related to the Units 1 and 4 rewind project being identified, which resulted in an increase in net position of \$1,639,000. This footnote also discusses the change in approach for classifying extraordinary O&M funds from unrestricted to restricted. This change results in a negative unrestricted net position of \$4,213,932 and \$3,948,624 for the years ended February 28, 2023 and 2022, respectively.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the volume of adjustments and closing entries posted and compressed timeline were difficulties encountered in completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We posted 31 adjustments and closing entries during the audit. Entries were made to accrue receivables and payables, adjust unearned revenue and revenue, adjust, record DHCCP debt transactions, and various reclassifications for reporting purposes.

The attached schedule summarizes an uncorrected misstatement of the financial statements. Management has determined that its effects are immaterial to the financial statements taken as a whole. The uncorrected misstatement or the matters underlying it could potentially cause future period financial statements to be materially misstated, even though, in our judgment, the uncorrected misstatement is immaterial to the financial statements under audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements our financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the supplementary information listed in the table of contents of the financial statements related to the Authority's retirement plans, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

November 3, 2025

SAN LUIS AND DELTA-MENDOTA WATER AUTHORITY
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES - GOVERNMENTAL ACTIVITIES
YEAR ENDED FEBRUARY 28, 2023

Description (Nature) of Audit Difference	Financial Statements Effect - Amount of Overstatement (Understatement) of:			
	Total Assets	Total Liabilities	Equity	Net Income (Loss)
Engineering costs related to Unit 3 Rewind incurred in 2023 and recorded in 2024		\$ (59,160)	\$ 59,160	\$ 59,160
Long-term lease liability not accrued under GASB 87	\$ (250,900)	(259,689)	8,789	8,789
Net Unadjusted Audit Differences - This Year	(250,900)	(318,849)	67,949	67,949
Financial Statement Captions	112,023,109	(99,182,091)	(12,841,018)	(981,816)
Net Audit Differences as % of F/S Captions	-0.22%	0.32%	-0.53%	-6.92%



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of the San Luis & Delta-Mendota Water Authority (the Authority) as of and for the year ended February 28, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those 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.

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

Timeliness of Closing Entries

The Authority has delayed closing the books for the audit until information is received from the US Bureau of Reclamation. We recommend that the Authority use estimated amounts for its closing entries so that audits can be completed on a more timely basis. Estimates can then be trued-up in a subsequent fiscal year.

The Authority also needs to ensure that all closing and fund balancing entries are made prior to the start of the audit. A number of adjustments were made during the course of the audit, which delayed completion of the audit.

Compensated Absence Calculation

The Authority needs to ensure that the calculation of the compensated absence liability includes all payroll taxes.

The following items noted in a prior audit warrant additional consideration:

Recording of Transactions by Fund

We noted a number of adjustments and closing entries were due to the practice of “realigning” balances between funds. This practice makes it difficult to trace a transaction through the general ledger detail to the source document. We recommend implementing procedures to record direct revenues and expenses in the fund generating those transactions at the date of the initial receipt or payment to avoid having to realign balances in preparation for the audit. We understand the Authority has made progress in posting transactions in the appropriate fund at the date of initial receipt or payment subsequent to year-end. However, it appears true fund accounting is not being done during the year, as entries are needed as part of the closing process to bring the funds into balance. The Authority needs to ensure that the funds are in balance prior to the start of the audit.

Accounting Procedures

We recommend as a best practice that accounting procedures used to account for major transaction classes and complicated agreements with other agencies be documented for use in case of employee turnover. We understand many of these procedures have been documented and others are in progress. Transaction classes that the Authority should consider documenting how to process include the rate setting process, capital assets, unearned revenues, project use energy, joint facility use, DHCCP debt and member payment transactions and any other complicated transactions.

Closing Process

We noted that the closing entries to balance the individual funds and to record the final revenue transactions was not completed before the beginning of the audit. This caused a delay in the audit procedures. We recommend that all closing entries be posted prior to the start of the audit in the future.

* * * * *

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than the specified parties.

Richardson & Company, LLP

November 3, 2025

DRAFT

**SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY**

COMPLIANCE REPORTS

February 28, 2023

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

COMPLIANCE REPORTS

February 28, 2023

TABLE OF CONTENTS

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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance for Each Major Program, Internal Control Over Compliance and Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Schedule of Findings and Questioned Costs.....	6
Schedule of Expenditures of Federal Awards.....	11
Notes to Schedule of Expenditures of Federal Awards	12
Corrective Action Plan.....	13



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727

FAX: (916) 564-8728

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 San Luis & Delta-Mendota Water Authority (the Authority) as of and for the year ended February 28, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated _____, 2025.

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) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002, that we consider to be significant deficiencies.

Report on Compliance

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

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

financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 to 2023-005.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

_____, 2025



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM,
INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the San Luis & Delta-Mendota Water Authority (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct material effect on each of the District's major federal programs for the year ended February 28, 2023. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended February 28, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 to 2023-0025. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as described below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 to 2023-005, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended February, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated _____, 2025, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

_____, 2025

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended February 28, 2023

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|--|--------------------------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section 200.516(a)? | Yes |
| 4. Identification of major programs: | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 15.574 | Water Storage Enhancement |
| 5. Dollar Threshold used to distinguish between Type A and Type B programs? | \$750,000 |
| 6. Auditee qualified as a low-risk auditee under 2 CFR, Section 200.516(a)? | No |

B. CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding 2023-001 – Significant Deficiency– Internal Controls over Financial Reporting and Year-End Closing Procedures

Condition: The design and implementation of internal controls is crucial to the effective operation of city government and for accurate financial reporting. Turnover in personnel, the shortage of qualified support staff and the complexity of the Authority's accounting process has resulted in a significant number of adjustments being identified during the audit process and has delayed completion of the

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended February 28, 2023

audit. The large number of adjustments identified during the course of the audit indicates that the Authority does not have internal controls in place to prevent or detect misstatements on a timely basis.

We noted a number of adjustments and closing entries were due to the practice of “realigning” balances between funds. This practice makes it difficult to trace a transaction through the general ledger detail to the source document.

Criteria: Internal controls over financial reporting should be in place to ensure the Authority has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The Finance Department staff did not identify and record all year-end closing entries prior to the start of the audit.

Cause: The Authority has had turnover in the accounting staff and has experienced delays in getting needed information from other agencies.

Effect: A number of audit adjustments needed to be posted to properly report balances in the Authority’s financial statements. The volume of entries also increases the risk of error in preparing the financial statements.

Recommendation: We recommend implementing procedures to record direct revenues and expenses in the fund generating those transactions at the date of the initial receipt or payment to avoid having to realign balances in preparation for the audit. We understand the Authority has made progress in posting transactions in the appropriate fund at the date of initial receipt or payment subsequent to year-end. However, it appears true fund accounting is not being done during the year, as entries are needed as part of the closing process to bring the funds into balance. The Authority needs to ensure that the funds are in balance prior to the start of the audit. The Authority needs to ensure that all balance sheet accounts are reviewed and reconciled to supporting schedules prior to the beginning of the audit. The Authority needs to ensure it has sufficient qualified staff so that the books can be closed timely and accurately.

Views of Responsible Officials and Planned Corrective Action:

COMPLIANCE AND OTHER MATTERS

See Findings 2023-002 to 2023-004 under the CURRENT YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM section below.

C. CURRENT YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM

COMPLIANCE

Finding 2023-002 – Significant Deficiency - Untimely Audit Submission in Accordance with OMB Uniform Guidance

Federal Grantor: U.S. Department of the Interior, Bureau of Reclamation

Compliance Requirement: Reporting

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended February 28, 2023

Condition: The Authority did not electronically submit their February 28, 2023 Single Audit reporting package (Single Audit Report, Data Collection Form, and a Corrective Action Plan) within the required time period.

Criteria: The Authority was required to submit its February 28, 2023 audited financial statements and single audit reporting package to the federal audit clearinghouse no later than November 30, 2023, 9 months after the fiscal year-end (2 Code of Federal Regulations 200.512(a)).

Cause: The Authority was not able to complete its single audit by the reporting deadline due to staff shortages.

Effect: Federal awarding agencies may deny the Authority future federal awards or subject the Authority to additional monitoring requirements.

Recommendation: We recommend that management strengthen the related internal controls over monitoring of its year-end reconciliation of its financial statements to ensure that the general ledger accounts reflect proper and complete activity consistent with their basis of accounting. We believe that reviews, evaluations of transactions, and reconciliations of accounts should be performed on a regular basis during the year. This would expedite the year-end closing process and ensure compliance with the audit report submission requirements of OMB Uniform Guidance.

Views of Responsible Officials and Planned Corrective Actions: The Authority agrees with the finding and is in the process of implementing processes to ensure timely close-out of the books.

Finding 2023-003 – Significant Deficiency – Corrections needed to SEFA

Award No.: 15.574

Federal Grantor: U.S. Department of the Interior, Bureau of Reclamation.

Compliance Requirement: Other compliance requirements.

Condition: The schedule of Expenditures of Federal Awards (SEFA) was not complete, and expenditures reported on the SEFA were revised during the single audit.

Criteria: 2 CFR Part 200, Subpart F (Uniform Guidance) Section 200.502 states, “The auditee should prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee’s financial statements.” Internal controls over the SEFA should be in place to ensure accrual basis expenses incurred under the federal program are properly reported as expenses on the SEFA and are properly reported as revenue in the financial statements prior to the start of the single audit.

Cause: SEFA was not fully reconciled and finalized until after the single audit began.

Effect: Expenses were omitted from the SEFA that should have been included. The SEFA had to be revised over the course of the audit. This delayed the audit testing and could have resulted in the auditor not selecting the correct expenses for testing and could have resulted in the single audit not satisfying the requirements of the Uniform Guidance.

Context: The Authority recorded federal contributions on a cash basis method of accounting, which resulted in allowable federal expenditures being subsequently discovered in the amount of \$835,371 that should have been accrued as revenue as of year ended February 28, 2022. Additionally, \$1,256,145 of allowable federal expenditures were discovered in the year ending February 28, 2023 that were

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended February 28, 2023

accrued as revenue during the audit. The full amount of \$2,091,516 of prior year and current year allowable federal expenditures were tested during the February 28, 2023 single audit.

Recommendation: We recommend additional review procedures be implemented to ensure the SEFA is complete and accurate when the single audit begins, which includes reconciling all expenses incurred under each federal award down to the invoice, payroll check and lowest level of other costs claimed, cutting-off each expense at year-end and claiming the reconciled qualifying expenses within 45 days after each quarter end. At year-end, programs should be reviewed for cost adjustments, extensions, and other changes that should be reflected on the SEFA when reconciling expenses for the SEFA. Separate program codes should be used for each grant on the SEFA that summarizes expenses down to the individual invoice level that should be provided to the auditor for the single audit. If overclaimed amounts are identified, the grantor and/or pass-through agency should be contacted to determine whether to return the funds or apply the overclaimed amounts to future claims.

Views of Responsible Officials and Planned Corrective Actions: Management's response and planned corrective action is included in the Corrective Action Plan included at the end of the report.

Finding 2023-004 – Significant Deficiency - Federal Funds Spent before Local Funds

Award No.: 15.574

Federal Grantor: U.S. Department of the Interior, Bureau of Reclamation.

Compliance Requirement: Matching, Level of Effort, Earmarking.

Condition: The federal share of expenditures was expended before the Authority's local match.

Criteria: The executed assistance agreement between the United States Department of the Interior, Bureau of Reclamation, and the Authority for CFDA No. 15.574, Water Storage Enhancement, states in section 7.2 Cost Sharing Requirement, "The Federal Share of allowable costs shall not be expended in advance of the Recipient's non-Federal Share."

Cause: Reimbursement requests for the federal share of expenditures were submitted prior to the expenditure of the Authority's non-Federal Share.

Effect: The Authority received reimbursement for federal expenditures before the non-Federal share had been satisfied.

Context: The Authority submitted reimbursement requests for federal expenditures to the grantor and had not fully expended the non-Federal share.

Recommendation: We recommend management implement additional controls over the reimbursement process that ensures reimbursement requests are not submitted prior to the expenditure of the non-Federal share. We further recommend the Authority establish a policy for internal review and sign-off for each submitted request to ensure clerical accuracy.

Views of Responsible Officials and Planned Corrective Actions: Management's response and planned corrective action is included in the Corrective Action Plan included at the end of the report.

Finding 2023-005 – Significant Deficiency – Untimely Submission of Semi-annual Federal Financial Reports

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended February 28, 2023

Award No.: 15.574

Federal Grantor: U.S. Department of the Interior, Bureau of Reclamation.

Compliance Requirement: Reporting.

Condition: The semi-annual Federal Financial Reports (SF-425) for the first five reporting periods of October 1, 2021, to March 31, 2022, April 1, 2022, to September 30, 2022, October 1, 2022, to March 31, 2023, April 1, 2023, to September 30, 2023, and October 1, 2023, to March 31, 2024, were all submitted on June 19, 2024.

Criteria: According to 2 CFR Part 200.303, the Authority is required to establish and maintain effective internal controls over Federal awards that provides reasonable assurance that the Authority is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Water Storage Enhancement Grant program resolutions require the Authority to file financial reports throughout the year. Semi-annual Federal Financial Reports (SF-425) shall be submitted no later than 30 days after the end of each reporting period.

Cause: The Authority experience turnover and vacancies in key positions for reporting during the fiscal year.

Effect: The Authority was not fully in compliance with reporting requirements.

Recommendation: The Authority needs to ensure that reports are complete by the due date.

Views of Responsible Officials and Planned Corrective Actions: Management's response and planned corrective action is included in the Corrective Action Plan included at the end of the report.

INTERNAL CONTROL OVER COMPLIANCE

See Findings 2023-002 to 2023-005 under the CURRENT YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM section above.

D. STATUS OF PRIOR YEAR FINDINGS

FINANCIAL STATEMENT AUDIT

None.

INTERNAL CONTROL OVER FINANCIAL REPORTING

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
COMPLIANCE

None.

INTERNAL CONTROL OVER COMPLIANCE

None.

For the Year Ended February 28, 2023

See accompanying notes to schedule of expenditures of federal awards.

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended February 28, 2023

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the San Luis & Delta-Mendota Water Authority (the Authority) under programs of the federal government for year ended February 28, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the Authority's operations, it is not intended to be and does not present the financial position, changes in financial position, or cash flows of the Authority.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenses reported on the Schedule are reported on the accrual basis. Such expenses are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenses are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST ALLOCATION

The Authority elected to use the 10 percent de minimis indirect cost rate as covered 2 CFR § 200.414.

NOTE D – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Authority's portion, may be more than shown.

NOTE E – CLUSTERS OF PROGRAMS

There were no clusters of the Authority's federal programs during the year ended February 28, 2023.

NOTE F – SUBRECIPIENTS

There were no subrecipients of the Authority's federal programs during the year ended February 28, 2023.

NOTE G – PRIOR YEAR EXPENSES INCLUDED ON 2023 SEFA

The 2023 SEFA includes the following prior year expenses not obligated to the grantor until the year ended February 28, 2023:

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal Assistance List Number</u>	<u>Expenses</u>
Delta-Mendota Canal Subsidence Correction Project - Direct Award	15.574	<u>\$ 835,371</u>
Total Prior Year Expenses on SEFA		<u><u>\$ 835,371</u></u>

**San Luis & Delta-Mendota Water Authority
Single Audit Corrective Action Plan
For the Fiscal Year Ended 2023**

AUDIT FINDINGS

Finding Reference Number:

2023-001

Description of Finding:

There is a significant deficiency in internal controls over financial reporting and year-end closing procedures resulting in multiple realigning and adjusting entries.

Statement of Concurrence or Nonconcurrence:

Staff agrees the identified issue of deficient internal controls and year-end closing procedures is accurate.

Corrective Action:

- Monthly finance department meetings have been implemented to ensure all deadlines are being met and allow for open communication between finance department staff.
 - During meetings staff review upcoming deadlines, outstanding items, month-end close processes, and review of internal accounting processes.
- Staff is working with an outside consultant to generate reports within the Authority's accounting program and decrease the amount of offline and manual reporting.
- Implementation of a month-end closing process to encourage more real time reporting both internally and to the Board.
 - Finance staff was assigned the task of developing a duties list for items completed at their desk on a monthly, quarterly, or annual basis. From there, a step-by-step process was developed in order to complete each task. These processes will then be used to begin cross training within the department.
- Standard operating procedures are being implemented throughout the Authority to encourage seamless and efficient processes.
- Implementation of an accounting calendar with deadlines for the entire fiscal year. The dates have been added to an accounting planner to give upcoming reminders allowing staff to allocate their time accordingly.
- Accounts are being delegated to staff in order to ensure accounts are being reconciled on a monthly basis.
- The Authority has since created another accounting manager position to decrease workload for all staff.

Finding Reference Number:

2023-002

Description of Finding:

The Authority did not complete and submit the February 28, 2023 audited financial statements and single audit by the required deadline of November 30, 2023 or 9 months from fiscal year end.

Statement of Concurrence or Nonconcurrence:

Authority staff agrees the audited financial statement and single audit were significantly delayed.

Corrective Action:

- Development of audit timeline and “needs” list to be compiled from all staff prior to audit submittal.
- Engage with auditors earlier in order to meet required reporting deadlines.
- Implementation of month-end closing process rather than waiting for year-end to complete all reconciliations.
- Begin contacting vendors for estimates on any potential accruals prior to the end of the fiscal year.

Finding Reference Number:

2023-003

Description of Finding:

The Schedule of Expenditures of Federal Awards (SEFA) was not reconciled and complete prior to the beginning of the audit.

Statement of Concurrence or Nonconcurrence:

The identified issue pertaining to the incomplete SEFA is accurate and clearly defined.

Corrective Action:

- The Authority has since contracted with a consultant to assist staff with project and budget management of the same project the grant was funding.
- Reporting requirements will be completed by the consultant or finance department going forward rather than the engineering manager.
- Monthly meetings are held with staff from both accounting, engineering, and the grantor to discuss grant expenditures, invoice submittals and reimbursements, and project updates.
- Director of Finance has looked into grant management certification courses in order to further educate staff on grant tracking and reporting requirements.

Finding Reference Number:

2023-004

Description of Finding:

The federal share of grant funds was expended prior to the Authority's local match requirement.

Statement of Concurrence or Nonconcurrence:

Authority staff agrees to the finding as described.

Corrective Action:

- Although the grant referenced in the finding has ended, the Authority staff will use this as a learning opportunity for future grant awards.
- The finance department has worked to enhance our recordkeeping to allow us to monitor and substantiate the funding compliance when matching funds are required.
- An internal grant manager has been appointed to enable closer financial oversight and we will work closely with engineering and outside consultants to ensure future grant compliance.
- Outside consultants have been contracted to assist in grant management and reconciliations.
- Monthly meetings are held with Authority staff, consultant, and grantor to ensure all parties have received necessary updates, review invoice submittals, and confirm grant fund receipts and expenditures to date.

Finding Reference Number:

2023-005

Description of Finding:

The Semi-annual Federal Financial Reports (SF-425) was not submitted timely.

Statement of Concurrence or Nonconcurrence:

Authority staff agrees to the finding as described.

Corrective Action:

- An internal grant manager has been appointed to enable closer financial oversight and we will work closely with engineering and outside consultants to ensure future grant compliance.
- Director of Finance has looked into grant management certification courses in order to further educate staff on grant tracking and reporting requirements.
- The Authority has since contracted with outside consultants to assist with grant management.

CONTACT INFORMATION

Raymond Tarka, Director of Finance
Phone: (209)826-7867
Email: ray.tarka@sldmwa.org

PROJECTED COMPLETION DATE

The anticipated date for resolving the audit findings is February 28, 2026 and will be reviewed on a monthly basis following the end of the fiscal year as an ongoing process.

If there are any questions regarding this plan, please contact Director of Finance, Raymond Tarka at the phone number or email listed above.

Regards,

Raymond Tarka

*Director of Finance
San Luis & Delta-Mendota Water Authority*