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SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 29, 2024

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SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 29, 2024 and February 28, 2023

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
 <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.....	49
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position – Section 401a Retirement Plan 109325.....	50
 <u>Other Reports</u>	
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>	51
Schedule of Findings and Responses.....	53

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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), as of February 29, 2024 and February 28, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of February 29, 2024 and February 28, 2023, 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 audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 charges 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 _____, 2026, 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.

_____, 2026

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

Years Ended February 29, 2024 and February 28, 2023

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 2024 in comparison to fiscal years 2023 and 2022 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 29, 2024 and February 28, 2023

• **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

	2024	2023 (As Restated)	2023/2024 Variance	% Change	2022	2022/2023 Variance	% Change
Assets							
Current Assets	\$ 66,008,597	\$ 69,645,416	\$ (3,636,819)	-5%	\$ 60,619,300	\$ 9,026,116	15%
Capital Assets, Net A/D	\$ 5,739,106	\$ 5,418,578	\$ 320,528	6%	\$ 4,911,603	\$ 506,975	10%
Other Assets	\$ 50,363,663	\$ 48,974,597	\$ 1,389,066	3%	\$ 46,304,954	\$ 2,669,643	6%
Total Assets	\$122,111,366	\$124,038,591	\$ (1,927,225)	-2%	\$111,835,857	\$ 12,202,734	11%
Deferred Outflows of Resources	\$ 167,542	\$ 177,397	\$ (9,855)	-6%	\$ 187,252	\$ (9,855)	-5%
Liabilities							
Current Liabilities	\$ 40,374,076	\$ 38,516,576	\$ 1,857,500	5%	\$ 47,606,381	\$ (9,089,805)	-19%
Debt Borrowings, S/T	\$ 3,272,446	\$ 1,398,023	\$ 1,874,423	134%	\$ 2,255,190	\$ (857,167)	-38%
Noncurrent Liabilities	\$ 48,795,299	\$ 47,794,778	\$ 1,000,521	2%	\$ 49,320,520	\$ (1,525,742)	-3%
Total Liabilities	\$ 92,441,821	\$ 87,709,377	\$ 4,732,444	5%	\$ 99,182,091	\$(11,472,714)	-12%
Net Position							
Total Net Position	\$ 29,837,087	\$ 36,506,611	\$ (6,669,524)	-18%	\$ 12,841,018	\$ 23,665,593	184%

Current Assets

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

Fiscal Year 2024 Compared to 2023. At February 29, 2024, current assets totaled \$66.01 million which was a \$3.64 million or 5% decrease from the prior year. This decrease, as compared to February 28, 2023, was primarily due to a decrease of \$3.13 million in current cash and cash equivalents restricted for project use energy, in addition to a net decrease of \$17.13 million in cash restricted for EO&M offset by an increase

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

Years Ended February 29, 2024 and February 28, 2023

in accounts receivable of \$14.49 million and an increase in cash restricted for San Luis Joint Use of \$1.77 million.

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 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.

Capital Assets Net of Depreciation

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

Fiscal Year 2024 Compared to 2023. At February 29, 2024, net capital assets totaled \$5.75 million net of accumulated depreciation, which was an increase of approximately \$0.33 million from \$5.42 million in fiscal year 2023. This increase is a net result of purchases in vehicles and other furniture and equipment, and the addition of a lease asset.

Fiscal Year 2023 Compared to 2022. At February 28, 2023, net capital assets totaled \$5.42 million net of accumulated depreciation, which was an increase from \$4.91 million in fiscal year 2022 of approximately \$0.51 million. This increase is a net result of a GASB regulation which required the Authority to track and depreciate subscription and lease assets in fiscal year 2023.

	2024	2023 (As Restated)	2022
Heavy Equipment	\$ 3,633,897	\$ 3,416,235	\$ 3,416,235
Vehicles and Light Trucks	\$ 3,557,272	\$ 3,202,000	\$ 3,307,975
Furniture and Equipment	\$ 1,432,541	\$ 1,372,560	\$ 1,361,272
Computers	\$ 667,538	\$ 607,805	\$ 500,722
Subscription Assets	\$ 962,607	\$ 962,607	\$ -
Lease Asset - Building	\$ 269,061	\$ -	\$ -
Total Capital Assets at Cost	<u>\$ 10,522,916</u>	<u>\$ 9,561,207</u>	<u>\$ 8,586,204</u>
Less Accumulated Depreciation	<u>\$ (4,783,810)</u>	<u>\$ (4,142,629)</u>	<u>\$ (3,674,601)</u>
Net Capital Assets	<u><u>\$ 5,739,106</u></u>	<u><u>\$ 5,418,578</u></u>	<u><u>\$ 4,911,603</u></u>

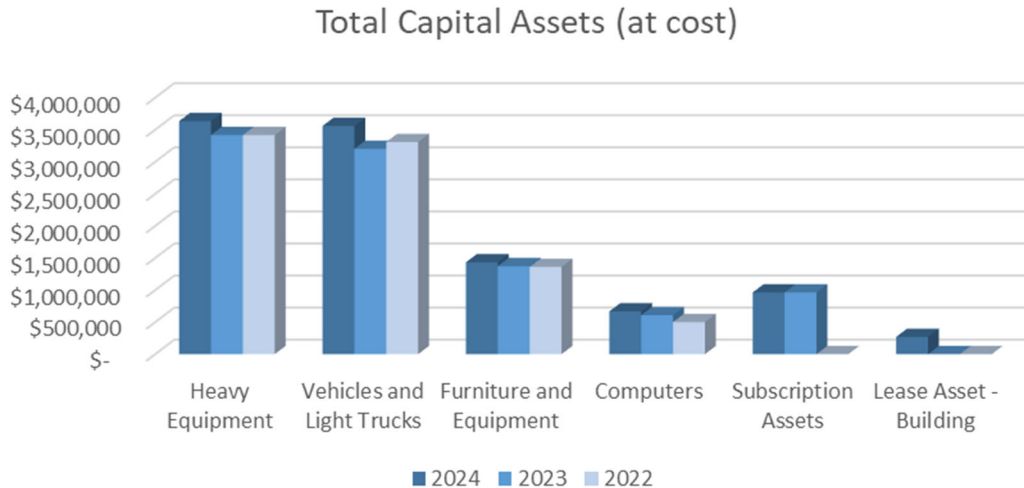
Major capital asset events during fiscal year 2024 include the following:

- Heavy equipment purchases totaled \$0.22 million with no disposals.
- Vehicle purchases and replacements were \$0.38 million with disposals totaling \$0.03 million.
- Furniture and equipment purchases totaled \$0.06 million with no disposals.
- Computer purchases totaled \$0.06 million with no disposals.
- A new lease asset was capitalized in the amount of \$0.27 million.

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

Years Ended February 29, 2024 and February 28, 2023

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



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 \$48.97 million in fiscal year 2023 to \$50.36 million in fiscal year 2024. This was mainly due to an increase in collections on the Rewind Project receivable of \$2.06 million, an increase of \$0.35 million in grant retention receivable, offset by a \$1.33 million decrease in receivables from the Delta Habitat Conservation and Conveyance Program (DHCCP) financing participants. 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 2024 Compared to 2023. At February 29, 2024, current liabilities totaled \$40.37 million, an increase of \$1.86 million or 5% from the prior year. This change is due to a \$17.09 million increase in accounts payable at fiscal year-end offset by a decrease in unearned revenues of \$15.82 million.

Fiscal Year 2023 Compared to 2022. At February 28, 2023, current liabilities totaled \$38.52 million, a decrease of \$9.09 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.

Debt Borrowings – Due within One Year

Debt Borrowings – due within one year increased from \$1.40 million in 2023 to \$3.27 million in fiscal year 2024 for an overall increase of \$1.87 million.

Non-Current Liabilities

Fiscal Year 2024 Compared to 2023. Non-current liabilities increased \$1.00 million from \$47.79 million in fiscal year 2023 to \$48.80 million in 2024. This minor increase was due to disbursements on the Unit 3

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

Years Ended February 29, 2024 and February 28, 2023

and 5 Rewind notes. More information on the Jones Pumping Plant Rewind Project and Refunding Revenue Bonds can be found in Note 7.

Fiscal Year 2023 Compared to 2022. Debt Borrowings – long-term liabilities decreased \$1.53 million from \$49.32 million in 2022 to \$47.79 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.

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 2024 Compared to 2023. The total net position at the end of fiscal year 2024 was \$29.84 million, a decrease of \$6.67 million from the end of fiscal year 2021. Net position decreased due to an operating loss of \$10.49 million, offset by a net non-operating gain of \$3.82 million.

Fiscal Year 2023 Compared to 2022. The total net position at the end of fiscal year 2023 was \$36.51 million, an increase of \$23.66 million from the end of fiscal year 2022. Net position increased mainly due to a net operating gain of \$24.32 million, offset by a net non-operating loss of \$0.64 million.

Revenues and Expenses

The following is a condensed presentation of revenues, expenses and changes in net position for the fiscal year ended February 29, 2024 in comparison to years ended February 28, 2023 and February 28, 2022:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2024	2023 (As Restated)	2023/2024 Variance	% Change	2022	2022/2023 Variance	% Change
Revenues & Expenses							
Operating Revenues	\$ 88,535,704	\$ 92,517,190	\$ (3,981,486)	-4%	\$ 62,350,396	\$ 30,166,794	48%
Non-Operating Revenues	\$ 10,649,609	\$ 33,327,697	\$(22,678,088)	-68%	\$ 130,083,507	\$ (96,755,810)	-74%
Operating Expenses	\$ (99,020,801)	\$ (68,199,719)	\$(30,821,082)	45%	\$ (61,025,258)	\$ (7,174,461)	12%
Non-Operating Expenses	\$ (6,834,036)	\$ (33,969,148)	\$ 27,135,112	-80%	\$(130,426,829)	\$ 96,457,681	-74%
Net Income (Loss)	<u>\$ (6,669,524)</u>	<u>\$ 23,676,020</u>	<u>\$(30,345,544)</u>		<u>\$ 981,816</u>	<u>\$ 22,694,204</u>	
Net Position - Beg. of Year	\$ 36,506,611	\$ 12,841,018			\$ 11,859,202		
Restatement per GASB 96		\$ (10,427)					
Net Position - Beg. of Year, as restated	<u>\$ 36,506,611</u>	<u>\$ 12,830,591</u>	<u>\$ 23,676,020</u>	185%	<u>\$ 11,859,202</u>	<u>\$ 971,389</u>	8%
Net Position - End of Year	<u>\$ 29,837,087</u>	<u>\$ 36,506,611</u>	<u>\$ (6,669,524)</u>	-18%	<u>\$ 12,841,018</u>	<u>\$ 23,665,593</u>	184%

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

Years Ended February 29, 2024 and February 28, 2023

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, extraordinary O&M, 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. Additional components have also been included in the O&M rates to cover payments required on the Jones Pumping Plant Rewind Project debt repayment with Reclamation beginning in 2020 and the Series 2021A bond financing beginning in 2021. See Note 7 for more information.

Fiscal Year 2024 Compared to 2023. Fiscal year 2024 operating revenues were \$88.54 million, a decrease of \$3.98 million as compared to fiscal year 2023. Details to support this decrease include:

1. Water conveyance fees increased \$4.75 million.
2. Project Use Energy fees increased \$10.49 million due to an increase in the estimated payment schedule received from Reclamation, as well as, an additional invoice accrued for the year end power true-up.
3. EO&M revenue decreased \$21.25 million as there was no interim final accounting true-up in the current fiscal year as described in fiscal year 2023.
4. San Luis Joint Use facility fees increased an additional \$2.43 million in fiscal year 2024 from \$15.14 million in fiscal year 2023.

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:

5. 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.
6. Project Use Energy fees increased \$6.72 million.
7. 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.
8. Water conveyance fees related to the Rewind rate components increased \$0.98 million.
9. Refunds to water users of totaling \$4.25 million creating an overall decrease in operating revenues in fiscal year 2023.

• **Non-Operating Revenues**

Fiscal Year 2024 Compared to 2023. Non-operating revenues decreased \$22.68 million or 68% from fiscal year 2023 for a total of \$10.65 million at February 29, 2024. This is largely due to the continued decrease in water transfer activity in fiscal year 2024.

Fiscal Year 2023 Compared to 2022. Non-operating revenues decreased \$96.76 million or 74% 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.

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

Years Ended February 29, 2024 and February 28, 2023

Operating & Non-Operating Expenses

- **Operating Expenses**

Fiscal Year 2024 Compared to 2023. Total operating expenses for fiscal year 2024 were \$99.02 million, an increase of \$30.82 million from 2023. Increase is primarily a result of increased Project Use Energy costs and EO&M reserve expenses from a change in estimate in the amount recognized in 2023 as described in Note 15.

Fiscal Year 2023 Compared to 2022. Total operating expenses for fiscal year 2023 were \$68.20 million, an increase of \$7.17 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.

- **Non-Operating Expenses**

Fiscal Year 2024 Compared to 2023. Total non-operating expenses decreased \$27.14 million or 80% from \$33.97 million in fiscal year 2023 for a total of \$6.83 million in non-operating expenses in fiscal year 2024. This increase is mainly due to a decrease of \$25.50 million in water transfer expenses throughout the fiscal year.

Fiscal Year 2023 Compared to 2022. Total non-operating expenses decreased \$96.46 million or 74% from \$130.43 million in fiscal year 2022 for a total of \$33.97 million in non-operating expenses in fiscal year 2023. This decrease is mainly due to a decrease in expenses incurred from water transfer activities.

Long-Term Debt

Long-term debt increased from \$47.79 million in fiscal year 2023 to \$48.80 million in fiscal year 2024 for an overall increase of \$1.00 million. This increase is attributed to the completion of unit 3 of the Jones Pumping Plant Rewind project and the repayment contract executed with Reclamation to fund the project.

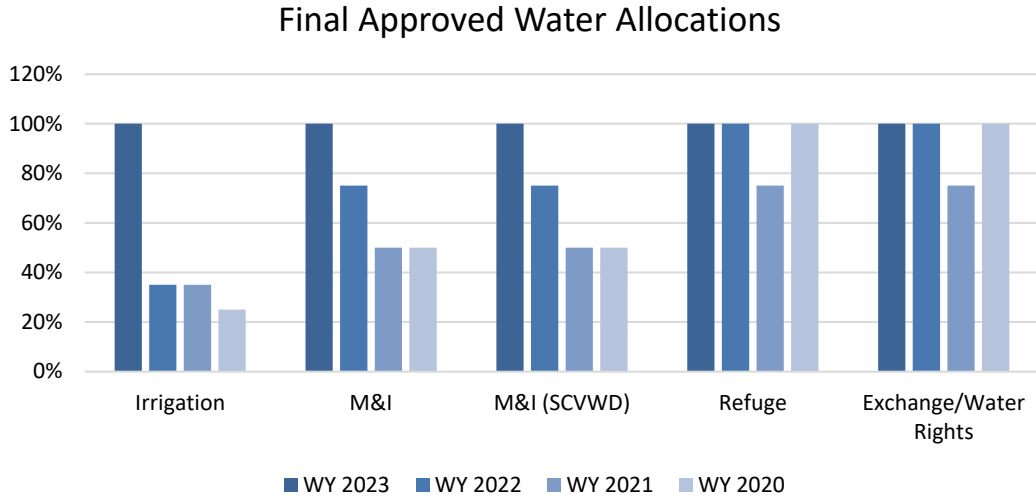
Please see Note 7 for additional information on the Authority's long-term debt.

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

Years Ended February 29, 2024 and February 28, 2023

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 29, 2024 and February 28, 2023

	2024	2023 (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents:		
Unrestricted	\$ 1,243	
Restricted - available for activity agreements	6,714,484	\$ 6,365,809
Restricted - available for Project Use Energy		3,131,800
Restricted - available for extraordinary maintenance	5,328,503	22,457,920
Restricted - available for San Luis Joint Use	1,769,532	
Accounts receivable, net	51,308,610	36,822,161
Prepaid expenses	440,577	431,768
Inventory	445,648	435,958
Total Current Assets	66,008,597	69,645,416
Noncurrent Assets:		
Restricted cash and cash equivalents:		
Emergency reserve fund	2,280,327	2,137,002
Debt service	2,179,549	2,019,052
Grant retention receivable	347,677	
Restricted receivables:		
Due from other governments, Jones Pumping Plant Rewind Project	18,771,110	16,708,543
DHCCP financing participants	26,785,000	28,110,000
Capital assets, net	5,739,106	5,418,578
Total Noncurrent Assets	56,102,769	54,393,175
TOTAL ASSETS	122,111,366	124,038,591
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding of debt	167,542	177,397
LIABILITIES		
Current Liabilities:		
Accounts payable	32,765,412	15,672,932
Accrued payroll and related liabilities	497,152	343,030
Accrued interest payable	426,071	
Unearned revenue	6,685,441	22,500,614
Current portion of long-term liabilities	3,272,446	1,398,023
Total Current Liabilities	43,646,522	39,914,599
Noncurrent Liabilities:		
Long-term liabilities, net of current portion	48,795,299	47,794,778
Total Noncurrent Liabilities	48,795,299	47,794,778
TOTAL LIABILITIES	92,441,821	87,709,377
NET POSITION		
Investment in capital assets	4,888,476	4,646,337
Restricted for activity agreements	5,529,129	5,369,980
Restricted for emergency reserve fund	2,280,327	2,137,002
Restricted for extraordinary maintenance	22,520,874	28,567,224
Unrestricted	(5,381,719)	(4,213,932)
TOTAL NET POSITION	\$ 29,837,087	\$ 36,506,611

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended February 29, 2024 and February 28, 2023

	2024	2023 (As Restated)
OPERATING REVENUES		
Project Use Energy (PUE) fees	\$ 32,109,051	\$ 21,618,417
Water conveyance fees, operations and maintenance	20,014,196	15,266,617
San Luis Joint Use facility fees	17,528,093	15,101,167
Extraordinary operations and maintenance reserve revenue	6,420,375	27,668,158
Water conveyance fees - Rewind debt service	3,721,184	7,174,362
Membership assessments, activity budget	7,195,369	8,473,753
Delta Habitat Conservation and Conveyance Program (DHCCP) revenue	651,946	681,156
United States Bureau of Reclamation service contract	633,403	301,416
Other operating revenue	862,087	479,479
Refunds to water users	(600,000)	(4,247,335)
TOTAL OPERATING REVENUES	88,535,704	92,517,190
OPERATING EXPENSES		
Project Use Energy (PUE) costs	32,109,051	21,618,417
San Luis Joint Use facility costs	17,938,614	15,141,772
Salaries and related benefits	15,598,412	13,797,678
Extraordinary operations and maintenance reserve expense	16,361,652	1,114,484
Legal and professional services	4,961,112	4,175,037
Intertie conveyance	3,773,722	926,530
Jones Pumping Plant Rewind expense	3,115,260	6,969,542
Other operating expenses	2,097,518	1,777,943
Building, machinery and equipment	840,972	549,820
Grassland Basin Drainage specific	963,134	906,957
Auto expenses	619,384	604,665
Depreciation	641,970	616,874
TOTAL OPERATING EXPENSES	99,020,801	68,199,719
OPERATING INCOME (LOSS)	(10,485,097)	24,317,471
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,264,589	216,025
Interest expense	(906,251)	(905,465)
Water transfer revenue	3,823,802	29,328,047
Water transfer expense	(3,823,802)	(29,328,047)
State/Federal grant revenue	4,322,218	2,193,076
State/Federal grant pass-through expense	(846,969)	(2,193,076)
Los Vaqueros Reservoir Expansion revenue	1,239,000	1,542,560
Los Vaqueros Reservoir Expansion expense	(1,239,000)	(1,542,560)
Other nonoperating expenses	(18,014)	47,989
TOTAL NONOPERATING REVENUES (EXPENSES)	3,815,573	(641,451)
CHANGE IN NET POSITION	(6,669,524)	23,676,020
NET POSITION AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	36,506,611	12,841,018
Change in accounting principle (GASB 96)		(10,427)
Net position at beginning of year, as restated	36,506,611	12,830,591
NET POSITION AT END OF YEAR	\$ 29,837,087	\$ 36,506,611

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended February 29, 2024 and February 28, 2023

	<u>2024</u>	<u>2023</u> (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 58,333,283	\$ 62,916,681
Cash payments to suppliers for goods and services	(69,157,785)	(51,639,195)
Cash payments to employees for services	(11,898,435)	(13,587,521)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(22,722,937)</u>	<u>(2,310,035)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on long-term debt	(810,378)	(4,456,396)
Interest paid on long-term debt	(470,325)	(1,495,253)
Long-term debt issued	1,136,756	
Net water transfers	(27,267)	(27,267)
Noncapital grants received	5,111,663	2,725,012
Noncapital grant expended	(593,711)	(2,735,472)
Other nonoperating revenue received	1,239,000	47,989
Other nonoperating revenue expended	(1,229,357)	
NET CASH (USED) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>4,356,381</u>	<u>(5,941,387)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(721,095)	(265,308)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(721,095)</u>	<u>(265,308)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,249,706	227,175
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>1,249,706</u>	<u>227,175</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,837,945)	(8,289,555)
Cash and cash equivalents, beginning of year	<u>36,111,583</u>	<u>44,401,138</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 18,273,638</u></u>	<u><u>\$ 36,111,583</u></u>
Cash and cash equivalents - financial statement classification:		
Unrestricted	\$ 1,243	
Restricted - available for current operations	6,714,484	\$ 6,365,809
Restricted - available for Project Use Energy		3,131,800
Restricted - available for Rewind Project	5,328,503	22,457,920
Restricted - available for San Luis Joint Use	1,769,532	
Restricted for emergency reserve fund	2,280,327	2,137,002
Restricted for debt service	2,179,549	2,019,052
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 18,273,638</u></u>	<u><u>\$ 36,111,583</u></u>

(Continued)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended February 29, 2024 and February 28, 2023

	2024	2023 (As Restated)
RECONCILIATION OF OPERATING INCOME/(LOSS) TO		
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (13,553,593)	\$ 24,317,471
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Depreciation expense	641,971	616,874
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,406,434)	(28,073,797)
Prepaid expenses	(8,809)	7,254,595
Inventory	(9,690)	(70,175)
Due from other governments, DHCCP financing participants	1,325,000	1,525,000
Accounts payable	16,839,222	(4,847,173)
Accrued payroll and related liabilities	154,122	187,889
Unearned revenue	(15,815,173)	(3,051,712)
Retention payable	(77,039)	(203,854)
Compensated absences	187,486	34,847
	<u>\$ (22,722,937)</u>	<u>\$ (2,310,035)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Noncash loan proceeds receivable from Reclamation	\$ (3,068,496)	\$ (1,136,756)
Change in long-term receivable for Rewind notes payable	(3,305,814)	1,136,756
Interest capitalized in Rewind notes payable	237,318	
Grant pass-through receivable	(106,125)	420,396
Water transfer pass-through receivable	(27,267)	(27,267)
Acquisition of assets with lease liability	(269,061)	
Amortization of deferred amount on refunding	9,855	9,855
Unrealized gain (loss) on investments	(54,862)	(26,439)

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

February 29, 2024 and February 28, 2023

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 Grassland Water District):	Tranquillity Irrigation District
Central California Irrigation District	Turner Island Water 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, and the State and Federal Water Contractors Agency and the Los Vaqueros Reservoir Joint Powers Authority, which was dissolved in 2025. 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 29, 2024 and February 28, 2023

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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

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

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

The Authority's 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 was \$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 trueed 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 trueed-up based on actual water deliveries and operations and maintenance costs. See Notes 7 and 11 for a description of C.W. "Bill" Jones Pumping Plant Rewind Project and financing participant receivables.

Prepaid Expenses: Prepaid expenses at February 29, 2024 and February 28, 2023 represented payments made to the Association of California Water Agencies Joint Powers Insurance Authority for various forms of insurance. Prepaid expenses at February 29, 2024 and February 28, 2023 also included activity agreement costs that benefited periods beyond year-end.

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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

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

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

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

Right-to-use lease assets are recognized at the lease commencement date and represent the Authority’s right to use an underlying asset for the lease term. Right-to-use lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right-to-use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period of the Authority’s building lease is 4 years.

Right-to-use subscription IT assets are recognized at the subscription commencement data and represent the Authority’s right to use the underlying IT asset for the subscription term. Right-to-use subscription IT assets are measured at initial value of the subscription liability plus and payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right-to-use subscription term or useful life of the underlying asset using the straight-line method. The amortization period of the District’s IT assets is 6 years.

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 incurrance 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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

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

Lease and Subscription Liabilities: Lease liabilities represent the Authority's obligation to make lease payments arising from leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The lease payments are discounted at the rate inherent in the lease agreement or, if not determinable, at an estimated incremental borrowing rate.

Subscription liabilities represent the Authority's obligation to make subscription payments arising from subscription contracts. Subscription liabilities are recognized at the subscription commencement date based on the present value of the future subscription payments expected to be made during the subscription term. The subscription payments are discounted at the rate inherent in the lease agreement or, if not determinable, at an estimated incremental borrowing rate.

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.

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 contractual provisions or enabling legislation.

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

Reclassifications: Certain 2023 expenses were reclassified during 2024 to conform with the current presentation. These reclassifications had no effect on 2023 total expenses or change in net position.

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

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

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 was implemented during the year ended February 29, 2024 and had no effect on the Authority's financial statements.

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 was implemented during the year ended February 29, 2024 and resulted in recording a SBITA asset and liability as described in Notes 4 and 7.

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, including the classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument; clarification of provisions of Statement 87, *Leases*, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset and identification of lease incentives; clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement term, classification as short-term and recognition of a subscription liability; extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt; accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP); disclosures related to nonmonetary transactions; 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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

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

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections, an 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 requires changes in accounting principles and error corrections to be reported retroactively by restating prior periods; requires changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period; and requires changes in accounting estimates to be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of new pronouncements in absence of specific transition provisions in the new pronouncement. This Statement also requires the aggregate amount of adjustments to and restatements of beginning net position, fund balance or fund net position, as applicable, to be displayed by reporting unit in the financial statements. Furthermore, this Statement requires information presented in required supplementary information or supplementary information to be restated for error corrections, if practicable, but not for changes in accounting principles. This Statement will be implemented during the year ended February 28, 2025.

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 requires that a liability for certain types of compensated absences, including parental leave, military leave and jury duty leave, not be recognized until the leave commences. Certain salary related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. Governments are allowed to disclose the net change in the liability if identified as such in the footnotes to the financial statements. This Statement will be implemented during the year ended February 28, 2025.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes a primary government, or reporting unit that reports a liability for revenue debt, vulnerable to the risk of a substantial impact and 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 occur within 12 months of the date the financial statements are issued. If the criteria in the Statement have been met for a concentration or constraint, the government should disclose information in notes to financial statements in sufficient detail to enable users of financial statements understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The provisions of this Statement are effective for years beginning after June 15, 2024.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This Statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability, including 1) certain topics and disclosures in Management's Discussion and Analysis; 2) requiring the

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

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

display of inflows and outflows of unusual and infrequent items to be reported separately as the last presented flow(s) of resources prior to the net change in resources flows in the government-wide, governmental fund, and proprietary fund statement of resources flows; 3) changing the definition of proprietary fund nonoperating revenues and expenses to include subsidies received and provided, contributions to permanent and term endowments, revenues and expenses related to financing, resources from the disposal of capital assets and inventory and investment income and expenses and defines operating revenues and expenses as revenue and expenses other than nonoperating revenue and expenses; 4) requires major component units to be presented separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements; and 5) requires budgetary comparison schedules to be reported as Required Supplementary Information (RSI), requires the presentation of variances between original and final budget amounts and final budget and actual amounts in the RSI and requires the explanation of significant variances to be reported in notes to the RSI. The provisions of this Statement are effective for years beginning after June 15, 2025.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires lease assets recognized in accordance with GASB Statement No. 87, *Leases*, right-to-use assets recognized in accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, subscription assets recognized in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and other intangible assets to be disclosed separately in capital assets footnote disclosures. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should disclose the ending historical cost and accumulated depreciation by major class of asset and the carrying amount of debt for which the assets are pledged as collateral by major class of asset held for sale under this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2025.

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The provisions of this Statement are effective for fiscal years beginning after June 15, 2026.

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 2 – CASH AND INVESTMENTS:

Cash and investments were classified as follows as of the last day of February:

	2024	2023
Cash and cash equivalents:		
Unrestricted	\$ 1,243	
Restricted - available for current operations	6,714,484	\$ 6,365,809
Restricted - available for project use energy		3,131,800
Restricted - available for extraordinary maintenance	5,328,503	22,457,920
Restricted - available for San Luis Joint Use	1,769,532	
Restricted - emergency reserve fund	2,280,327	2,137,002
Restricted - debt service	2,179,549	2,019,052
Total cash and investments	\$ 18,273,638	\$ 36,111,583

Cash and investments were classified as follows under GASB Statement No. 40 as of the last day of February:

	2024	2023
Cash and investments consisted of the following:		
Cash on hand	\$ 1,000	\$ 1,000
Deposits with financial institutions	3,295,147	7,144,579
Investments	14,977,491	28,966,004
Total cash and investments	\$ 18,273,638	\$ 36,111,583

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

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority’s investment policy. Under the Authority’s Indenture of Trust 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 29, 2024 and February 28, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued):

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

<u>February 29, 2024</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	\$ 64,678	\$ 64,678		
CalTRUST	12,783,539	12,291,836		\$ 491,703
Held by bond trustee:				
Money market funds	2,129,274	2,129,274		
Totals	\$ 14,977,491	\$ 14,485,788	\$ -	\$ 491,703
<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	\$ 28,966,004	\$ 28,495,311	\$ -	\$ 470,693

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 29, 2024</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	\$ 64,678	N/A				\$ 64,678
CalTRUST	12,783,539	N/A	\$ 11,754,139	\$ 537,697	\$ 491,703	
Held by bond trustee:						
Money market funds	2,129,274	AAA	2,129,274			
	<u>\$ 14,977,491</u>		<u>\$ 13,883,413</u>	<u>\$ 537,697</u>	<u>\$ 491,703</u>	<u>\$ 64,678</u>
<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>

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 2 – CASH AND INVESTMENTS (Continued):

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

At February 29, 2024 and February 28, 2023, the carrying amount of the Authority's deposits was \$3,295,147 and \$7,144,579 and the balance in financial institutions was \$4,964,948 and \$7,238,783 respectively. Of the balance in financial institutions, \$250,000 at February 29, 2024 and February 28, 2023 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 218 and 281 days as of February 29, 2024 and February 28, 2023, respectively.

The Authority also invests in the CalTRUST liquidity, 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 in the liquidity funds in CalTRUST was 40 and 15 days as of February 29, 2024 and February 28, 2023, respectively. The weighted average maturity of short term-funds in CalTRUST was 318 and 336 days as of February 29, 2024 and February 28, 2023, respectively. The weighted average maturity of medium-term funds in CalTRUST was 861 and 810 days as of February 29, 2024 and February 28, 2023, 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 29, 2024 and February 28, 2023

NOTE 3 – ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES:

Accounts receivable and other receivables consisted of the following as of the last day of February:

	2024	2023
Other receivables	\$ 66,593	\$ 20,241
Due from other governments	51,233,273	36,790,518
Interest receivable	8,744	11,402
Total accounts receivable	51,308,610	36,822,161
Grant retention receivable	347,677	
Long-term Jones Pumping Plant Rewind Project receivable	18,771,110	16,708,543
Long-term DHCCP financing participants receivable	26,785,000	28,110,000
Total	\$ 97,212,397	\$ 81,640,704

NOTE 4 – CAPITAL ASSETS:

Capital asset activity was as follows during the years ended the last day of February:

<u>February 29, 2024</u>	Balance at March 01, 2023 (As Restated)	Additions	Retirements	Balance at February 29, 2024
<u>Capital Assets</u>				
Capital assets, being depreciated:				
Heavy equipment	\$ 3,416,235	\$ 217,662		\$ 3,633,897
Vehicles and light trucks	3,202,000	383,719	\$ (28,447)	3,557,272
Furniture and equipment	1,372,560	59,981		1,432,541
Computers	607,805	59,733		667,538
Subscription assets	962,607			962,607
Lease asset - building		269,061		269,061
Total capital assets, being depreciated	9,561,207	990,156	(28,447)	10,522,916
Less accumulated depreciation:				
Heavy equipment	(1,040,902)	(151,312)		(1,192,214)
Vehicles and light trucks	(1,440,600)	(185,458)	790	(1,625,268)
Furniture and equipment	(1,010,384)	(47,054)		(1,057,438)
Computers	(442,612)	(64,393)		(507,005)
Subscription assets	(208,131)	(104,067)		(312,198)
Lease asset - building		(89,687)		(89,687)
Total accumulated depreciation	(4,142,629)	(641,971)	790	(4,783,810)
Capital assets, net	\$ 5,418,578	\$ 348,185	\$ (27,657)	\$ 5,739,106

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 4 – CAPITAL ASSETS (Continued):

<u>February 28, 2023</u>	Balance at			Balance at
Capital Assets	March 1, 2022	Additions	Retirements	February 28, 2023
	(As Restated)			(As Restated)
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
Subscription assets	962,607			962,607
Total capital assets, being depreciated	<u>9,548,811</u>	<u>280,101</u>	<u>(267,705)</u>	<u>9,561,207</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)
Subscription assets	(104,066)	(104,065)		(208,131)
Total accumulated depreciation	<u>(3,778,667)</u>	<u>(616,874)</u>	<u>252,912</u>	<u>(4,142,629)</u>
Capital assets, net	<u>\$ 5,770,144</u>	<u>\$ (336,773)</u>	<u>\$ (14,793)</u>	<u>\$ 5,418,578</u>

NOTE 5 – ACCOUNTS PAYABLE:

Accounts payable consisted of the following as of the last day of February:

	<u>2024</u>	<u>2023</u>
Other governments	\$ 30,287,260	\$ 13,206,972
Vendors	<u>2,478,152</u>	<u>2,465,960</u>
Total	<u>\$ 32,765,412</u>	<u>\$ 15,672,932</u>

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 as of the last day of February:

	<u>2024</u>	<u>2023</u>
Contractors:		
O&M (including Rewind Project)	\$ 3,143,451	\$ 7,870,869
Project Use Energy	1,701,895	11,290,540
San Luis Joint Use	1,840,095	3,326,178
Activity Agreements		13,027
Total	<u>\$ 6,685,441</u>	<u>\$ 22,500,614</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES:

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

<u>February 29, 2024</u>	Balance at March 1, 2023 (as Restated)	Additions	Reductions	Balance at February 29, 2024	Due Within One Year
Revenue Bonds, Series 2021A	\$ 7,200,000			\$ 7,200,000	\$ 250,000
Refunding Revenue Bonds, Series 2021B	28,110,000			28,110,000	1,325,000
	<u>35,310,000</u>			<u>35,310,000</u>	<u>1,575,000</u>
USBR Unit 3 Rewind Note	2,982,706	\$ 3,305,814		6,288,520	332,868
USBR Unit 5 Rewind Note	5,116,932		\$ (248,028)	4,868,904	168,796
USBR Unit 6 Rewind Note	3,569,905		(380,441)	3,189,464	179,489
Total debt	46,979,543	3,305,814	(628,469)	49,656,888	2,256,153
Grant retention payable	129,643		(77,039)	52,604	
Lease liability		269,061	(81,991)	187,070	89,460
Subscription liability	772,241		(99,918)	672,323	103,214
Compensated absences	1,311,374	187,486		1,498,860	823,619
Total	<u>\$ 49,192,801</u>	<u>\$ 3,762,361</u>	<u>\$ (887,417)</u>	<u>\$ 52,067,745</u>	<u>\$ 3,272,446</u>
<u>February 28, 2023</u>	Balance at March 1, 2022 (as Restated)	Additions	Reductions	Balance at February 28, 2023 (as Restated)	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	
	<u>38,840,000</u>		<u>(3,530,000)</u>	<u>35,310,000</u>	
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	
Subscription liability	868,968		(96,727)	772,241	99,918
Compensated absences	1,276,527	657,884	(623,037)	1,311,374	669,636
Total	<u>\$ 52,778,175</u>	<u>\$ 1,794,640</u>	<u>\$ (5,380,014)</u>	<u>\$ 49,192,801</u>	<u>\$ 1,398,023</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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

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 Poll that do not flow through the Delta Mendota 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. The 2021A Bonds 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 29, 2024 and February 28, 2023

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 were used to fully repay the 2013A Bonds in the amount of \$4,145,000 on March 1, 2023.

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 \$9,901,347 and \$10,002,214 at February 29, 2024 and February 28, 2023, respectively. Total cash basis principal and interest paid on the 2021A Bonds was \$448,276 and \$449,820 and the total cash basis OM&R revenues was \$51,348,959 and \$42,109,524 for the years ended February 29, 2024 and February 28, 2023, 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 \$35,311,868 and \$35,727,070, at February 29, 2024 and February 28, 2023, respectively. Total cash basis principal and interest paid for the 2021B was \$2,180,131 and \$2,178,646 and the total Financing Participant Payments in total on the Bonds was \$1,975,404 and \$2,184,858 at February 29, 2024 and February 28, 2023, 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 Notes (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 at February 28, 2024, the rewind of Unit 3 was completed and repayment agreements were in place with the United States Bureau of Reclamation. 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 principal outstanding, less revenue previously collected for principal payments. Revenue collected for interest payments is recognized in the year the interest payments are due.

USBR Unit 3 Rewind Note (Private Placement):

In June 2020, the Authority entered into an agreement to receive up to \$6.8 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 \$6,288,520, including Reclamation costs. The remaining amount will be repaid in installments of \$332,868 per year on the last day of February from February 2025 to February 2047. 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 1.875%. The agreement requires an additional 0.5% interest rate per month to be paid if the obligation becomes delinquent more than 60 days.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

The Authority has added additional charges to water conveyance fee to repay the obligation. A long-term receivable is recognized for the contractors' obligation to provide sufficient water conveyance fees to repay the Unit 3 Rewind Note. The receivable is equal to the principal outstanding, less revenue previously collected from the contractors 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 29, 2024. A preliminary repayment schedule was 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 rate of 1.25%. The repayment schedule was further revised in March 2025 and the USBR agreed to apply all previous payments as a reduction in principal and create a new amortization schedule for the debt with annual installment payments of \$266,174 at 2.0% interest. 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 principal outstanding, less revenue previously 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 Reclamation costs. The Note was scheduled to be paid in annual installments of \$380,441 but was revised during 2025 and the remaining amount will be repaid in installments of \$255,239 per year on the last day of February from February 2020 to February 2039. Interest due is at the average U.S. Department of Treasury interest rate based on average market yields of obligations of comparable maturities at the beginning of the fiscal year when work began on the project, adjusted to the nearest 1/8 of 1 percent, which is 2.375%. The agreement requires an additional 0.5% interest rate per month to be paid if the obligation becomes delinquent more than 60 days. The Authority has added an additional component to the water rates in order to repay the obligation.

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

Lease Liability:

On February 23, 2023, the Agency entered into a lease extension agreement with the California Association of Realtors to lease office space with payments of \$8,525 per month starting in 2023 with yearly CPI increase through February 28, 2026. The Authority recorded a lease asset and a lease liability for the present value of the lease payments over the lease term. For purposes of discounting future lease payments, the Authority used the prime plus 1% as of the start of the lease term of 8.75%. The lease asset is being

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

amortized over 4 years, which is the term of the current lease. As of February 29, 2024, the cost and accumulated amortization of the lease assets were \$269,061 and \$89,687, respectively.

Subscription Based Information Technology Arrangement (SBITA):

The Authority entered into a SBITA contract for accounting software in May 2020 that was extended during May 2025 through April 2030. The Authority implemented GASB Statement No. 96 during the year ended February 29, 2024, which resulted in the Authority recording a restatement to recognize a SBITA asset and liability as of March 1, 2022. The Authority is required to make quarterly payments ranging from \$30,968 to \$30,952 through February 2030. The SBITA term ends in May 2030. The subscription agreement was discounted using a rate of 3.25%. The discount rate was based on the prime rate at the March 1, 2022 GASB 96 implementation date. The subscription asset cost was \$962,607 and accumulated amortization was \$312,197 and \$208,131 as of February 29, 2024 and February 28, 2023, respectively.

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

<u>February 29, 2024</u>			
Year Ended Last Day of February,	Revenue Bonds, Series 2021A		Total Debt Service
	Principal	Interest	
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	265,000	183,600	448,600
2030-2034	1,430,000	820,966	2,250,966
2035-2039	1,660,000	588,480	2,248,480
2040-2044	1,950,000	299,840	2,249,840
2045	875,000	28,240	903,240
Total	<u>\$ 7,200,000</u>	<u>\$ 2,701,347</u>	<u>\$ 9,901,347</u>

Year Ended Last Day of February,	Refunding Revenue Bonds, Series 2021B		Total Debt Service
	Principal	Interest	
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	1,390,000	577,696	1,967,696
2030-2034	7,340,000	2,456,849	9,796,849
2035-2039	8,275,000	1,486,697	9,761,697
2040-2043	5,730,000	274,512	6,004,512
Total	<u>\$ 28,110,000</u>	<u>\$ 7,291,868</u>	<u>\$ 35,401,868</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

Year Ended Last Day of February,	USBR Rewind Note, Unit 3		Total Debt Service
	Principal	Interest	
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	233,877	98,991	332,868
2030-2034	1,236,831	427,510	1,664,341
2035-2039	1,357,214	307,127	1,664,341
2040-2044	1,489,315	175,026	1,664,341
2045-2047	962,295	36,311	998,606
Total	<u>\$ 6,288,520</u>	<u>\$ 1,367,450</u>	<u>\$ 7,655,970</u>

Last Day of February,	USBR Rewind Note, Unit 5		Total Debt Service
	Principal	Interest	
2025	\$ 168,796	\$ 97,378	\$ 266,174
2026	172,171	94,002	266,173
2027	175,615	90,559	266,174
2028	179,127	87,046	266,173
2029	182,710	83,464	266,174
2030-2034	969,846	361,023	1,330,869
2035-2039	1,070,788	260,080	1,330,868
2040-2044	1,182,237	148,632	1,330,869
2045-2047	767,614	30,907	798,521
Total	<u>\$ 4,868,904</u>	<u>\$ 1,253,091</u>	<u>\$ 6,121,995</u>

Year Ended Last Day of February,	USBR Rewind Note, Unit 6		Total Debt Service
	Principal	Interest	
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	197,158	58,081	255,239
2030-2034	1,058,290	217,904	1,276,194
2035-2039	1,190,075	86,119	1,276,194
Total	<u>\$ 3,189,464</u>	<u>\$ 639,119</u>	<u>\$ 3,828,583</u>

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

Year Ended Last Day of February,	Lease Liability		Total Debt Service
	Principal	Interest	
2025	\$ 89,460	\$ 12,837	\$ 102,297
2026	97,610	4,688	102,298
Total	\$ 187,070	\$ 17,525	\$ 204,595

Year Ended Last Day of February,	Subscription Liability		Total Debt Service
	Principal	Interest	
2025	\$ 103,214	\$ 20,657	\$ 123,871
2026	106,556	17,253	123,809
2027	110,071	13,738	123,809
2028	113,702	10,107	123,809
2029	117,453	6,356	123,809
2030	121,327	2,481	123,808
Total	\$ 672,323	\$ 70,592	\$ 742,915

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	\$ 7,200,000	\$ 2,802,214	\$ 10,002,214

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	\$ 28,110,000	\$ 7,617,070	\$ 35,727,070

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

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	\$ 6,288,520	\$ 1,367,450	\$ 7,655,970

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	\$ 5,116,932	\$ 1,253,092	\$ 6,370,024

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
2039	249,317	5,921	255,238
Total	\$ 3,569,905	\$ 639,119	\$ 4,209,024

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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 7 – LONG-TERM LIABILITIES (Continued):

Year Ended Last Day of February,	Subscription Liability		Total Debt Service
	Principal	Interest	
2024	\$ 99,918	\$ 23,953	\$ 123,871
2025	103,214	20,657	123,871
2026	106,556	17,253	123,809
2027	110,071	13,738	123,809
2028	113,702	10,107	123,809
2029-2030	238,780	8,837	247,617
Total	<u>\$ 772,241</u>	<u>\$ 94,545</u>	<u>\$ 866,786</u>

NOTE 8 – RESTRICTED NET POSITION

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 Emergency Reserve Fund: The Reclamation Transfer Agreement requires the Authority to maintain an emergency reserve fund to finance (1) unusual operations, maintenance and repair (OM&R) costs; (2) costs associated with addressing conditions which threaten or cause interruption of water service; (3) unforeseen or extraordinary OM&R costs; and (4) costs associated with addressing conditions which threaten the safety or integrity of Project works. As stated in the Authority’s transfer agreement, the Authority is required to maintain a targeted minimum reserve fund amount equal to 15% of the most current three years average annual actual OM&R costs incurred for the Project Works. The balance of this fund at February 29, 2024 and February 28, 2023 was \$2,280,327 and \$2,137,002, respectively.

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 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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 9 – RETIREMENT BENEFITS (Continued):

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 29, 2024 and February 28, 2023, the employer contributions to the Plans were \$1,116,861 and \$961,181 and the employee contributions were \$175,858 and \$174,899, 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, 2024 and 2023, the employer contributions were \$371,410 and \$310,119 and the employee contributions were \$755,392 and \$674,810, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

Litigation: The Authority is involved in various litigation matters, including one matter where the Authority is a named defendant. See below for more detail regarding this matter. 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: California Sportfishing Protection Alliance et al. v. Nickels et al. (formerly 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 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. 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. Subsequently, plaintiffs filed a petition for rehearing en banc with the Ninth Circuit that the Ninth Circuit Court denied. Most recently, on February 17, 2027, plaintiffs filed a petition for certiorari with the United States Supreme Court; 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.

Employment Litigation: The Authority understands that on February 25, 2026, a former Authority employee filed a complaint alleging various California Labor Code and common law employment violations in Merced County Superior Court. As of March 4, 2026, the Authority has not been served with

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

this lawsuit, but understands that in the complaint plaintiff seeks damages, unpaid overtime wages and meal/rest period premiums, waiting time penalties, pre-judgment and post-judgment interest, reasonable attorney fees and costs, and such other and further relief as the Court deems just and proper. 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 February 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 March, 2026, the Authority continues to work with Reclamation and Activity Agreement members to pursue the Project.

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

removing, refurbishing, and re-installing the 40 rotor field poles. Water deliveries were not reduced during the rehabilitation work of the Jones Pumping Plant.

Each unit motor was rehabilitated individually over the course of approximately 5 years. The Authority and Reclamation completed the necessary rehabilitation on the first unit (Unit 6) in February 2019. The rehabilitation of Unit 6 was financed by the Authority through a repayment contract, 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 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. The following table summarizes the Jones Pumping Plant Rewind project at completion:

Unit Sequence	Unit No.	Begin Date	Completion Date	Cost	Funding Source
1st	6	Dec-17	Feb-19	\$5.15M	Financed through Reclamation
2nd	2	Aug-19	Jun-20	\$5.17M	Self-Funded
3rd	5	Mar-20	May-21	\$5.61M	Reclamation Loan
4th	1	Nov-20	Feb-22	\$4.38M	Financed by Public Bond
5th	4	Jul-21	Oct-22	\$4.56M	Financed by Public Bond
6th	3	Apr-22	Aug-23	\$6.29 M	Financed through Reclamation
			TOTAL	<u>\$31.16M</u>	

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

Jones Pumping Excitation Cabinet and Control Panel Project:

On March 31, 2023, the Commissioner of the Bureau of Reclamation approved and authorized \$25,000,000 for planning, design, and subsequent implementation of the Jones Pumping Plant Excitation Cabinet and Control Panel Refurbishment. This project to replace the existing rotating direct current excitation system with a static-type excitation system that includes automatic Volt-Amperes Reactive Power (VAR) control on each of the six (6) main pumping units allowing more accurate control of VARs during unit operation. Work will also include replacing the existing unit control boards with new walk-in control panels, installation of a new Programmable Logic Controller (PLC)-based control system, new protective relays, along with all the components contained within and on the cabinets. The new control panels will have a new annunciator, new control switches and relays and a new HMI (Human Machine Interface). The SCADA control boards will also be upgraded to include a new PLC for improved feedback on and control of the plant. Work will be completed by a contractor, and the Water Authority intends to hire a consultant to manage the construction contract. The Authority entered contract 23-WC-20-6181 with Reclamation on November 15, 2024 to fund and ultimately repay the cost of this project over a period of 27 years. The contract allows for an advance of funds to meet cash requirements for the project and requires quarterly progress reports to be submitted to Reclamation.

In 2018, the Water Authority contracted with Reclamation's Technical Services Center (TSC) to complete the design for the Project. The deliverables from TSC included the Project technical specifications, drawings, and final construction cost estimate. Upon receiving the 100% design package, the Water Authority prepared contract documents, solicited contractors, and awarded the contract in the amount of \$25.25M to Power Pros on August 18, 2025.

The funding of \$25 million through the Infrastructure Investment and Jobs Act (BIL) awarded in 2018 will be utilized to see this project through final construction, which is estimated to take three years with the additional amount of \$250,000 to be sourced from EO&M funds. The excitation system replacement and associated upgrades will be completed sequentially, progressing to the next unit immediately upon completion of the previous unit. The unit order of the excitation system replacement was determined based upon the system performance record analyzed prior to award of the construction contract and could be subject to change if the system performance warrants an order change. The age of the components in the cabinets have created the following conditions: wires/conductors are old and brittle and too short to relocate, screw heads are worn and difficult to tighten, and the ice cube relays are not rated for the job they are performing. The ceiling wiring troughs of the control panels also need to be redesigned to accommodate new wiring paths.

O'Neill Pumping Plant Transformer Replacement Project:

The O'Neill Pumping-Generating Plant (Plant) is a vital part of the Central Valley Project as it allows for the storage and delivery of both project and non-project water. The power transformers have been in service since 1968, and a 2019 condition assessment determined that the transformers were at the end of their useful life and recommended that they be rehabilitated. The design of the rehabilitation of all four (4) transformers was completed by TSC and solicited by the Authority in 2023. This scope of work includes retro-filling all four transformers with synthetic ester fluid, along with the replacement of gaskets, low side and neutral bushings, valves, liquid level gauges, thermowells gauges, temperature gauges, coatings, oil preservation system (conservator), fans and temperature controls, and a protective relay upgrade. An emergency hot oil recondition was performed in 2020 to ensure the transformers remained eligible for rehabilitation and proved successful in prolonging the life of the transformers. Because it is unknown how much time is

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

extended with the hot oil reconditioning, quarterly testing of the oil is required. A 2024 analysis of the quarterly test results by TSC determined that the transformers were still stable and should last another year while ongoing efforts are made to complete the project.

The project costs were estimated at \$7.7M and were funded from EO&M revenues. The full amount was collected during fiscal years 2021, 2022, 2023, 2024, and 2026.

On July 25, 2024, the Authority awarded a 5 year project management and engineering support services contract to DHR Hydro for \$139,200 and on June 25, 2025 the Authority entered a letter of agreement with TSC to advance funds to TSC and Reclamation for design and administrative work pertaining to this project in the amount of \$1,415,668, paid in installments from July 1, 2025 through March 1, 2029 as follows:

TSC	CGB-Region	CGB-Area Office	Total	Advancement Date
\$424,721	\$91,000	\$15,000	\$530,721	7/1/2025
\$313,141	\$52,800	\$15,000	\$380,941	3/1/2026
\$320,232	\$43,200	\$15,000	\$378,432	3/1/2027
\$152,101	\$43,200	\$15,000	\$210,301	3/1/2028
\$162,673	\$79,600	\$15,000	\$257,273	3/1/2029

The Authority awarded a contract for the rehabilitation work to Cal Electro Inc. (CEI) on May 8, 2023 for \$3.1M, subject to change orders. Due to technical problems encountered during the first transformer replacement and anticipated remobilization costs, CEI has issued three additional change orders totaling \$2.2M, bringing the contract total to \$5.36M. The sum of the expected costs of the DHR, BOR, and CEI contracts are still within the budgeted funding for this project at this date.

O’Neill Pumping/Generating Plant Pump Upgrades Project:

The O’Neill pump/generating units need complete rehabilitation with the completion of four sub-projects including a Unit Rewind, a Governor Upgrade, new Pump Bowl Design & Fabrication, and Pump Assembly and Penstock Rehabilitation. The projects will include a combination of repairs, replacements, and improvements. The Unit Rewind is a replacement of the existing windings and a refurbishment of the rotor field poles. The Governor System Upgrade is an improvement or modernization of the existing pump vane controls consisting of replacing all electrical and mechanical controls with new improved components. The Pump Bowl Design & Fabrication project is a full replacement of the existing pump bowl with newly fabricated bowls that incorporate a modification for improved and safer maintenance access. The Pump Assembly and Penstock Rehabilitation is a repair or rehabilitation of the existing pump assembly and penstock with a new coating and replacement components as needed.

The Authority applied for FY24 Aging Infrastructure Account (AIA) funding of \$67.3M for the total project, which was subsequently revised to \$85.8M, and on May 15, 2024, was awarded \$11.6M as a scalable award. The scalable feature of the award allows for future tranches to be awarded for this project to address the total request. The scalable amount includes the planning and design of the project and the completion of one unit. On July 17, 2024, the Authority awarded a contract to Pentair to design and construct the replacement pump bowls for the six pumps at the O’Neill facility. The contract includes design costs of \$667,650 and manufacturing costs of \$3M per bowl. On January 14, 2026 the Authority entered

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

into repayment agreement 26-WC-20-6390 governing the repayment of the first award but also allows for subsequent awards under this funding source to be governed by this same agreement. The agreement allows for advance funding for the project and requires quarterly status reporting.

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 50/50 cost share agreement 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 funded \$1,572,000 for this project during FY23. Completion of the environmental activities within the existing CA are ongoing. The Authority requested a no cost time extension to the agreement, which was executed on 12/18/2025 and extends the agreement through 02/28/2027.

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 \$9,596,920 and retained \$1,066,366. The remaining \$34,556,755 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.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

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 \$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 \$25,000. Coverage between \$25,000 and \$5,000,000 is provided through the JPIA risk pool and coverage over \$5,000,000 to \$55,000,000 is provided through insurance purchased by the JPIA on behalf

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 11 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS (Continued):

of its members. The Authority also has cyber liability and crime coverage up to \$3,000,000 with deductibles of \$50,000 to \$100,000.

The Authority has coverage up to \$2,000,000 for workers' compensation and employer's liability 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 \$10,000,000 for the fiscal years ending February 29, 2024 and February 28, 2023. 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 29, 2024 and February 28, 2023.

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 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).

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 12 - MEMORANDUM OF UNDERSTANDING WITH FRIANT WATER AUTHORITY
(Continued)

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 – RESTATEMENT

The Authority implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, during the year ended February 29, 2024., which resulted in the Authority accruing a subscription agreement as subscription asset and liability as of March 1, 2022. The effect on total assets, liabilities, and the change in net position for the year ended February 28, 2023 were restated as follows:

	As Previously Reported	Change in Accounting Principle for GASB 96	As Restated
Total Assets as of February 28, 2023	\$ 123,284,115	\$ 754,476	\$ 124,038,591
Total Liabilities as of February 28, 2023	\$ 86,937,136	\$ 772,241	\$ 87,709,377
Net Position as of March 1, 2022	\$ 12,841,018	\$ (10,427)	\$ 12,830,591
Change in net position for the year ended February 28, 2023	\$ 23,683,358	\$ (7,338)	\$ 23,676,020

NOTE 14 – 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 needed in excess of the funding award is to be collected through water rates. The project is scheduled to be completed in FY29.

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

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

February 29, 2024 and February 28, 2023

NOTE 14 – SUBSEQUENT EVENTS (Continued)

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. The project is schedule to be completed in FY30.

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 from the Infrastructure Investment and Jobs Act (IIJA) for the OPP Unit Upgrades in the USBR FY24 application period, with the FY26 award pending. A repayment agreement has been negotiated and was executed on 01/14/2026. One advance payment request has been submitted to Reclamation with distribution of funds 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. The Governor and first pump bowl will be delivered in 2026. \$1.2M was expended in FY26, with \$8.3M budgeted for FY27.

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. The Second Amended and Restated Memorandum of Understanding with Friant Water Authority became effective July 8, 2024.

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, 2024. 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 29, 2024 and February 28, 2023

NOTE 14 – SUBSEQUENT EVENTS (Continued):

On March 17, 2026, the Department of Interior announced an award package for critical water infrastructure projects of \$889 million provided by (PL 119-21) One Big Beautiful Bill. Included in the award was \$235 million earmarked for the DMC Subsidence Correction Project. The funding represents a non-reimbursable award that will support the project.

Advance by Westlands Water District: In February 2026, the Westlands Water District's Board of Directors approved an advance to the Authority for the DMC Subsidence Correction Project of \$4.1 million at 4.35% over 5 years, with delegated authority to increase the amount up to \$11 million, if necessary. The advance will be repaid with credits on Westlands Water District's O&M Reserve payments.

NOTE 15 – CHANGE IN ESTIMATE

During the year ended February 29, 2024, the Authority determined that estimated extraordinary operations and maintenance (EO&M) reserve revenue recognized during the year ended February 28, 2023 should be reduced by \$8,420,249. This change in estimate was recognized as additional EO&M reserve expense during the year ended February 29, 2024 as it would have resulted in negative EO&M revenue in 2024.

SUPPLEMENTARY INFORMATION

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SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SUPPLEMENTARY INFORMATION
STATEMENT OF FIDUCIARY NET POSITION - SECTION 401A RETIREMENT PLAN 109164

February 29, 2024 and February 28, 2023

	2024	2023
ASSETS		
Contributions receivable - employer	\$ 32,340	
Loan balance	581,781	\$ 517,384
Investments:		
Money market funds	150,820	121,130
Target date funds	2,903,652	2,496,261
Stock mutual funds	11,963,111	11,114,696
Bond funds	890,184	1,000,944
International stock funds	1,832,786	889,575
Total Investments	17,740,553	15,622,606
TOTAL ASSETS	18,354,674	16,139,990
TOTAL NET POSITION RESTRICTED FOR RETIREMENT BENEFITS		
	\$ 18,354,674	\$ 16,139,990

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

For the Years Ended February 29, 2024 and February 28, 2023

ADDITIONS		
Contributions - employer	\$ 941,002	\$ 811,235
Contributions - employee		24,953
Contributions - rollovers into plan	51,964	
Net appreciation in fair value of investments	2,025,842	(803,487)
Loans issued	611,229	202,997
Loan interest	28,345	22,041
Other credits		72,050
TOTAL ADDITIONS	3,658,382	329,789
DEDUCTIONS		
Benefit payments	815,160	512,949
Loan repayments	611,229	272,531
Administrative expenses	17,309	16,368
TOTAL DEDUCTIONS	1,443,698	801,848
NET INCREASE (DECREASE) IN NET POSITION	2,214,684	(472,059)
Net position restricted for retirement benefits - beginning of year	16,139,990	16,612,049
NET POSITION RESTRICTED FOR RETIREMENT BENEFITS - END OF YEAR	\$ 18,354,674	\$ 16,139,990
Number of Participants in Retirement Plan:		
Active	95	86
Retiree	26	32

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

SUPPLEMENTARY INFORMATION
STATEMENT OF FIDUCIARY NET POSITION - SECTION 401A RETIREMENT PLAN 109325

February 29, 2024 and February 28, 2023

	2024	2023
ASSETS		
Contributions receivable - employer	\$ 12,085	
Investments:		
Money market funds	65,666	\$ 44,372
Target date funds	1,450,076	1,305,968
Stock mutual funds	3,122,538	2,623,988
Stable value	1,016,793	929,621
Bond funds	275,969	290,086
International stock funds	257,543	239,245
Real estate fund	9,846	8,777
Total Investments	6,198,431	5,442,057
TOTAL ASSETS	6,210,516	5,442,057
TOTAL NET POSITION RESTRICTED FOR RETIREMENT BENEFITS		
	\$ 6,210,516	\$ 5,442,057

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

For the Years Ended February 29, 2024 and February 28, 2023

ADDITIONS		
Contributions - employer	\$ 175,858	\$ 149,946
Contributions - employee	175,858	149,946
Increase/(decrease) in fair value of investments	758,467	(380,723)
Other credits		185
TOTAL ADDITIONS	1,110,183	(80,646)
DEDUCTIONS		
Benefit payments	337,190	96,581
Administrative expenses	4,534	4,573
TOTAL DEDUCTIONS	341,724	101,154
NET INCREASE (DECREASE) IN NET POSITION	768,459	(181,800)
Net position restricted for retirement benefits - beginning of year	5,442,057	5,623,857
NET POSITION RESTRICTED FOR RETIREMENT BENEFITS - END OF YEAR	\$ 6,210,516	\$ 5,442,057

Number of Participants in Retirement Plan:

Active	19	18
Retiree	11	11

COMPLIANCE REPORT

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the San Luis & Delta-Mendota Water Authority (the Authority) as of and for the year ended February 29 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April ____ 2026.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2024-001, that we consider to be a significant deficiency.

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

Report on Compliance and Other Matters

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

The Authority's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the finding 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.

April ____, 2026

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended February 29, 2024

CURRENT YEAR FINDINGS

FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding 2024-001: 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 a government and for accurate financial reporting. Although improvement was noted, turnover in personnel, the shortage of qualified support staff and the complexity of the Authority’s accounting processes has resulted in a significant number of adjustments being identified during the audit process and has delayed completion of the audit. The large number of adjustments identified during the course of the audit indicates that the Authority does not have adequate internal controls in place to prevent or detect misstatements on a timely basis.

Although improvement was noted, we identified a number of adjustments and closing entries that appeared to be due to the practice of posting transactions in the operations and maintenance fund and subsequently “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: Note that the year ended February 29, 2024 was completed prior to the February 28, 2023 audit being completed so the same recommendations have been included in the February 29, 2024 financial statements. We recommend implementing procedures and staff training necessary 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.

Management’s Response: A number of corrective actions have been taken, including:

- Monthly finance department meetings have been implemented to ensure all deadlines are being met and allow for open communication between finance department staff.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

Year Ended February 29, 2024

- 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.

COMPLIANCE AND OTHER MATTERS

None.

STATUS OF PRIOR YEAR FINDINGS

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 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.

Current Status: Finding 2024-001 is a continuation of this Finding.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

Year Ended February 29, 2024

COMPLIANCE AND OTHER MATTERS

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

Condition: The Authority did not electronically submit its 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)).

Current Status: The Authority submitted its single audit reporting package for the year ended February 28, 2023 and did not require a single audit during the year ended February 29, 2024. Consequently, this finding is considered resolved.

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.

Current Status: The Authority submitted its single audit reporting package for the year ended February 28, 2023 and did not require a single audit during the year ended February 29, 2024. Consequently, this finding is considered resolved.

Finding 2023-004 – Significant Deficiency – Untimely Submission of Semi-annual Federal Financial Reports

Award No.: 15.574

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

Compliance Requirement: Reporting.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

Year Ended February 29, 2024

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.

Current Status: The Authority submitted the untimely financial reports for the year ended February 28, 2023 and did not require a single audit during the year ended February 29, 2024. Consequently, this finding is considered resolved.

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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 29, 2024. 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 letter to you dated December 13, 2025. 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. During the year ended February 29, 2024, the Authority implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which resulted in the Authority reporting a SBITA asset and liability in the financial statements, as described in Notes 4 and 7 to the financial statements. 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 9, commitments and contingencies in Note 10 and subsequent events in Note 14. The financial statement disclosures are neutral, consistent, and clear.

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 29 adjustments and closing entries during the audit. Entries were made to accrue receivables and payables, adjust unearned revenue and revenue, record a subscription-based information technology arrangement (SBITA) and a lease payable, account for debt-related transactions, adjust long-term liabilities and related current portions, record capital asset and depreciation activity, update restrictions of net position and reclassify certain accounts for financial statement presentation purposes.

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that the effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, the uncorrected misstatements are 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 _____, 2026.

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.

_____, 2026

SAN LUIS AND DELTA-MENDOTA WATER AUTHORITY
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
YEAR ENDED FEBRUARY 29, 2024

Description (Nature) of Audit Difference	Financial Statements Effect - Amount of Overstatement (Understatement) of:			
	Total Assets	Total Liabilities	Equity	Change in Net Position
Engineering costs related to Unit 3 Rewind incurred in 2023 and recorded in 2024.				\$ (59,160)
Cost reimbursement grant revenue recognized in 2024 for expenses incurred in 2023.				498,770
Long-term subscription liabilities not accrued as required by GASB 96.	\$ (224,064)	\$ (186,542)	\$ (37,522)	
Net Unadjusted Audit Differences - This Year	(224,064)	(186,542)	(37,522)	439,610
Financial Statement Captions	\$ 122,111,366	\$ 92,441,821	\$ 29,837,087	\$ 6,669,524
Net Audit Differences as % of F/S Captions	-0.18%	-0.20%	-0.13%	6.59%

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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, 2024, 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:

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.

Other Recommendations

We recommend the Authority use the auditor trial balance and make account names consistent with how reported in the financial statements so the purpose of the account is apparent from the account name without obtaining and reviewing supporting documentation for the account.

To the Board of Directors
San Luis & Delta-Mendota Water Authority
Page 2

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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.

_____, 2026