Notice of Regular Finance & Administration Committee Meeting and Joint Regular Finance & Administration Committee Meeting-Special Board Workshop

Monday, January 6, 2020, 12:00 p.m.

SLDMWA Boardroom
842 6th Street, Los Banos, CA

[telephonic participation locations identified below]

Agenda

NOTE: Any member of the public may address the Finance & Administration Committee/Board concerning any item on the agenda before or during consideration of that item. Public comment is limited to no more than three minutes per person per item. For good cause, the Chair of the Finance & Administration Committee may waive this limitation.

NOTE FURTHER: Because the notice provides for a regular meeting of the Finance & Administration Committee ("FAC") and a joint regular FAC Meeting/Special Board Workshop, Board Directors/Alternates may discuss items listed on the agenda; however, only FAC Members/Alternates may correct or add to the agenda or vote on action items.

1. Pledge of Allegiance

2. Call to Order/Roll Call

3. Finance & Administration Committee to Consider Corrections or Additions to the Agenda for the Regular Finance & Administration Committee Meeting only, as Authorized by Government Code Section 54950 et seq.

4. Opportunity for Public Comment – Any member of the public may address the Finance & Administration Committee/Board concerning any matter not on the Agenda, but within the Finance & Administration Committee's or Board's jurisdiction. Public comment is limited to no more than three minutes per person. For good cause, the Chair of the Finance & Administration Committee may waive this limitation.

ACTION ITEMS

5. **Finance & Administration Committee to Consider Approval of the December 9, 2019 Meeting Minutes**

6. **Finance & Administration Committee to Consider Recommendation to the Board of Directors to Approve Changes to the Proposed FY21 Operations and Maintenance (O&M) Budget and Salary Adjustments for FY21 including Executive Compensation for Various Positions**

7. **Finance & Administration Committee to Consider Recommendation to the Board of Directors to Accept FY18 and FY19 Audited Financial Statements**

REPORT ITEMS

8. Review Proposed FY21 Activity Budget

9. Executive Director's Report, Barajas
(May include reports on activities within the Finance & Administration Committee's jurisdiction related to 1) CVP/SWP water operations; 2) regulation of the CVP/SWP; 3) existing or possible new State and Federal policies; 4) Water Authority activities)

10. Committee Member Reports

11. **CLOSED SESSION**

PUBLIC EMPLOYEE PERFORMANCE EVALUATION
Title: Executive Director
Title: General Counsel

12. Return to Open Session

13. Report from Closed Session, if any Required by Government Code Section 54957.1

14. Reports Pursuant to Government Code Section 54954.2(a)(3)

15. ADJOURNMENT

Persons with a disability may request disability-related modification or accommodation by contacting Cheri Worthy or Felicia Luna at the San Luis & Delta-Mendota Water Authority Office, 842 6th Street, P.O. Box 2157, Los Banos, California, telephone: 209/826-9696 at least 3 days before a regular meeting or 1 day before a special meeting/workshop.

Telephonic Participation Locations:[1]

Friant Water Authority
Lindsay Main Facility
854 N. Harvard Ave.
Lindsay, CA 93247

San Benito County W.D.
30 Mansfield Rd.
Hollister, CA 95023

[1] Attention telephonic participants: This Notice and Agenda must be posted at the telephonic participation location, which must be accessible to the public.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY
ADJOURNED REGULAR FINANCE & ADMINISTRATION COMMITTEE MEETING AND JOINT ADJOURNED REGULAR FINANCE & ADMINISTRATION COMMITTEE MEETING - SPECIAL BOARD WORKSHOP MINUTES FOR DECEMBER 9, 2019

The Adjourned Regular Finance & Administration Committee Meeting and Joint Adjourned Regular Finance & Administration Committee Meeting and Special Board Workshop of the San Luis & Delta-Mendota Water Authority convened at approximately 12:05 p.m. at 842 6th Street in Los Banos, California with Chair Rick Gilmore presiding.

Members and Alternate Members in Attendance

Ex Officio
Cannon Michael

Division 1
Rick Gilmore, Member - Anthea Hansen, Alternate

Division 2
Bobbie Ormonde, Alternate

Division 3
Chris White, Member

Division 4
Sara Singleton, Member - Dana Jacobson, Alternate

Division 5
Bill Pucheu, Member

Friant Water Authority
Jason Phillips, Member

Board of Directors Present

Division 1

Anthea Hansen, Director

Rick Gilmore, Director

Division 2

Absent

Division 3

Chris White, Alternate

Cannon Michael, Director

Division 4

Sara Singleton, Alternate

Division 5
Bill Pucheu, Director

Authority Representatives Present
Federico Barajas, Executive Director

Rebecca Akroyd, General Counsel
Pablo Arroyave, Chief Operating Officer
Joyce Machado, Director of Finance
Scott Petersen, Water Policy Director

Others in Attendance
Don Willard, Friant Water Authority
Minnie Moreno, Del Puerto Water District

1. Call to Order

Chair and Member Rick Gilmore called the meeting to order at approximately 12:05 pm.

2. Pledge of Allegiance

The Pledge of Allegiance was recited.

3. Additions or Corrections to the Agenda

There were no additions or corrections.

4. Opportunity for Public Comment

There was no public comment.

ACTION ITEMS

5. Finance & Administration Committee to Consider Approval of the November 4, 2019 Meeting Minutes.

Member Chris White made the motion to approve the November 4, 2019 meeting minutes. The motion was seconded by Member Bill Pucheu and passed unanimously. The Committee action is reported as follows:

AYES: Michael, Gilmore, Ormonde, White, Singleton, Pucheu, Phillips

NOES: None

ABSTENTIONS: None

6. Finance & Administration Committee to Consider Recommendation to the Board of Directors to Adopt a Records Retention Schedule, Authorize Destruction of Certain Agency Records, and Rescind Resolution 2011-350.

General Counsel Rebecca Akroyd presented an overview of the proposed comprehensive records retention schedule. This retention policy was developed with an outside agency with the purpose of improving efficiencies, eliminate duplication of effort, and to take advantage of current technology. The policy is fully compliant with California law.

Member Bill Pucheu made the motion to recommend the Board of Directors Adopt a Records Retention Schedule, and Rescind Resolution 2011-350. The motion was seconded by Alternate Bobbie Ormonde and passed unanimously. The Committee action is reported as follows:

AYES: Michael, Gilmore, Ormonde, White, Singleton, Pucheu, Phillips

NOES: None

ABSTENTIONS: None

7. **Finance & Administration Committee to Consider Recommendation to the Board of Directors to Authorize Execution of Agreement Between the United States of America and San Luis & Delta-Mendota Water Authority to Transfer the Operation, Maintenance and Replacement and Certain Financial and Administrative Activities Related to the San Luis and Delta-Mendota Canals, C.W. "Bill" Jones Pumping Plant, Delta-Mendota Canal/California Aqueduct Intertie Pumping Plant, O'Neill Pumping/Generating Plant, San Luis Drain and Associated Works.**

Executive Director Federico Barajas provided an overview of the draft renewed OM&R Transfer Agreement. He explained that the Authority had approached Reclamation for an early renewal of the OM&R transfer agreement in order to support pursuing funding for water infrastructure investments. A draft of the agreement is available for public comment until December 20th with the goal of having a signed agreement at the beginning of the new calendar year. Akroyd then reviewed categories of noteworthy changes, including term of agreement, various clarifications, and the addition of standard article language.

Member Jason Phillips made the motion to recommend the Board of Directors authorize execution of agreement between the United States of America and San Luis & Delta-Mendota Water Authority to transfer the operation, maintenance and replacement and certain financial and administrative activities related to the San Luis and Delta-Mendota Canals, C.W. "Bill" Jones Pumping Plant, Delta-Mendota Canal/California Aqueduct Intertie Pumping Plant, O'Neill Pumping/Generating Plant, San Luis Drain and Associated Works. The motion was seconded by Member Chris White and passed unanimously. The Committee action is reported as follows:

AYES: Michael, Gilmore, Ormonde, White, Singleton, Pucheu, Phillips

NOES: None

ABSTENTIONS: None

REPORT ITEMS

8. FY19 Budget to Actual Reports through 10/31/19

Director of Finance Joyce Machado reported on the Budget to Actual Comparison Summary for March 1, 2019 through October 31, 2019 for the member funded activities. Machado stated that for the eight-month period, the budget was trending positive with overall spending through October 31, 2019 at 56.10% of the approved budget. The areas trending under-budget are legal, technical, and GBD Specific, with a total of about $740,000 under-budget through the eight-month period.

9. O&M Self-Funding Update

Director of Finance Joyce Machado reported to the Committee that for WY19 the self-funded routine O&M expenses through October 31, 2019 were under budget by $1,458,268. Machado stated that for WY18 draft contractor records 30-day review resulted with just a few minor revisions, none of which were related to water deliveries or payment figures. staff has begun the preliminary processes to complete the draft Contractor records. Machado stated that for WY17 the final accountings are being completed as the fiscal year 2018 audit work papers are being finalized. Machado added that the Intertie cost allocation still remains as an outstanding item.

10. Audits Status Update

Director of Finance Joyce Machado provided an audit status update, stating the Fiscal Year 2018 and 2019 audits are being completed concurrently and on schedule to be presented at the January Finance and Board meetings.

11. Executive Director's Report

Executive Director Federico Barajas provided several updates to the Finance committee. The first being an introduction of the new Chief Operating Officer, Pablo Arroyave. He will be transitioning with Assistant Executive Director Frances Mizuno who is scheduled to retire March of 2020. Secondly, Reclamation is holding a workshop in the board room on December 12th to discuss the CVPIA true-up. Next, the B.F. Sisk Dam raise project is continuing to advance forward. The Authority is working with Reclamation on a contributed funds agreement, as well as with MBK and CDM on different alternatives scenarios of the expansion. Barajas was able to meet with DWR in order to discuss coordination with state operations. Lastly, Barajas informed the committee that he is planning to do a 2020 Board and Committee calendar rollout within the upcoming week, and there will be a presentation on Sites Reservoir and Del Puerto Canyon Reservoir during this Thursday's Board meeting.

12. Committee Member Reports

No report given.

13. Reports Pursuant to Government Code Sec 54954.2

No report given.

14. Adjournment.

The meeting was adjourned at approximately 1:05 p.m.

MEMORANDUM

TO: Finance Committee Members, Alternates

FROM: Frances Mizuno, Assistant Executive Director

DATE: January 6, 2020

RE: Proposed FY 21 O&M Budget and Salary Adjustment

BACKGROUND

The Finance Committee approved for recommendation to the Board of Directors the proposed FY21 O&M budget on November 4, 2019. Subsequent to this approval, additional expenses of $201,678 were identified that is necessary for inclusion in the FY21 budget including a final determination of a salary adjustment.

The additional approximate expenses are summarized below:

1. Increased training by $8,000 for HR Training (New OSHA and management training)
2. Added $41,400 for vehicle for the new Facilities O&M Director
3. Increase of $17,872 in health insurance for COO
4. Increase of $24,000 resulting from salary difference between Assistant Executive Director and COO and adding part-time work for Frances Mizuno
5. Increase of $34,400 for salary adjustment increase from 2% to 2.3%
6. Increase of $76,000 for Sacramento office rent in anticipation of possible need to move office location

Total = $201,678

The Authority salary policy adopted in 2004 and amended in 2006 provides for salary adjustments based on salary surveys every three years and in the in-between years based on Consumer Price Index (CPI) for Pacific Cities (West with less than 2,500,000 Populations). In addition, the policy requires the use of the CPI data for the four-months average of August-November as the basis for any salary adjustments.

The initial proposed FY 21 O&M budget, which was approved for recommendation to the Board of Directors by the Finance Committee at the November 4, 2019 meeting, included a 2% placeholder salary adjustment.

The 2019 CPI for August through November is 2.3%, 2.1%, 2.3% and 2.3% respectively for an average of 2.25% and rounded up to 2.3%.

ISSUE FOR DECISION

Whether the Committee should recommend approval to the Board the proposed budget increase of $201,678including a 2.3% salary adjustment across the board for all employees in the FY21 O&M budget.

RECOMMENDATION

We recommend the approval of the budget increase of $201,678 including the 2.3% salary adjustment across the Board for all employees. The exception may be for the Executive Director and General Counsel as their salaries may be granted separately by the Board of Directors.

ANALYSIS /IMPLICATIONS

The proposed budget increases are necessary for the following reasons:

1. To provide for sufficient fund for newly required OSHA safety training and legal requirements for management training. If the $8,000 increase is not approved, we will need to forgo other planned training to accommodate for this required training.
2. New vehicle necessary for the new Facilities O&M Director position. If this vehicle is not approved, a pool vehicle will need to be assigned and therefore reduce the pool vehicle availability and impacting users of pool vehicles.
3. Increase in health insurance cost for COO for dependent coverage. This is necessary to cover for actual cost.
4. Anticipation of hiring Frances Mizuno as part-time employee (up to 20 hour/week) to assist with special projects with fifty (50) percent in O&M and fifty (50) percent in Activities Budget. If not approved, the part-time work will not be offered and special projects and Activity Agreement work will be performed by existing staff.
5. The proposed FY21 O&M budget already includes a 2% placeholder salary adjustment. Therefore, the additional 0.3% salary adjustment is an increase of $34,400 to the proposed budget. As a point of reference, a 3% adjustment was approved for the FY20 budget. If a salary adjustment is not granted for FY21, the expected impact is during the next salary survey year which is FY22, the Authority's salaries will likely be very low in comparison to surveyed agencies thereby requiring a higher than normal salary increases in FY22 in order to provide competitive salaries and have a larger impact to the FY22 budget.

6. The Authority is currently subleasing the Sacramento office spaces from Kronick Moskovitz Tiedemann Girard. In anticipation of the possible need to relocate the Sacramento Office, an increase in rent cost and need to purchase new furniture is included.

With the proposed additions to the FY 21 O&M budget, the proposed FY21 total O&M Budget is $26,448,977 compared to the FY20 budget of $21,578,488, for an overall increase of 22.57%.

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

FY2020 APPROVED, PROPOSED FY2021 & Preliminary FY2022 TOTAL BUDGET SUMMARY

O&M Budget Summary	Approved FY20 Budget	Proposed FY21 Budget	% Change 20 - 21	Preliminary FY22 Budget	% Change 21 - 22
Routine O&M (Water Users)	$ 13,086,535	$ 15,219,856	16.30%	$ 15,073,386	-0.96%
USBR Funded O&M (Service Contract)	$ 586,047	$ 412,407	-29.63%	$ 408,814	-0.87%
TOTAL	**$ 13,672,581**	**$ 15,632,263**	14.33%	**$ 15,482,200**	-0.96%
Extraordinary O&M (Water Users)	$ 2,692,707	$ 4,578,314	70.03%	$ 7,934,490	73.31%
Capital Improvements Projects	$ 5,213,200	$ 6,238,400	19.67%	$ 7,089,600	13.64%
TOTAL	**$ 21,578,488**	**$ 26,448,977**	22.57%	**30,506,290**	15.34%
Total Self Funded Budget (Water Users, BOR)	**$ 20,992,441**	**$ 26,036,570**	**24.03%**	**$ 30,097,476**	**15.60%**

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DISCUSSION DRAFT

SAN LUIS & DELTA-MENDOTA

WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

Years Ended February 28, 2019 and February 28, 2018

SAN LUIS & DELTA-MENDOTA WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 28, 2019 and 2018

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RICHARDSON & COMPANY LLP
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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the San Luis & Delta-Mendota Water Authority (the Authority) and its fiduciary funds, as of and for the years ended February 28, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of February 28, 2019 and 2018, 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.

Correction of Errors

As described in Note 13 to the financial statements, the Authority corrected certain errors in the February 28, 2017 financial statements. Our opinion is not modified with respect to that matter.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

__________, 2020

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF NET POSITION

February 28, 2019 and 2018

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents:		
Unrestricted	$ 15,083,038	$ 8,629,606
Restricted - available for current operations	7,688,207	5,345,274
Receivables:		
Accounts, net	2,023,385	343,050
Due from fiduciary funds	1,461,264	3,722,247
Prepaid expenses	122,628	104,915
Inventory	323,859	285,380
Total Current Assets	26,702,381	18,430,472
Noncurrent Assets:		
Cash and cash equivalents - restricted for emergency reserve fund	1,715,000	1,605,000
Cash and cash equivalents - restricted for debt service	1,785,744	1,850,521
Investments - restricted for debt service	3,713,348	3,611,890
Prepaid expenses - debt issuance costs	131,792	137,064
Receivables, Unit 6 Rewind project	4,083,021	
Receivables, financing participants	33,840,000	34,565,000
Capital assets (net of accumulated depreciation)	3,473,595	3,019,630
Total Noncurrent Assets	48,742,500	44,789,105
TOTAL ASSETS	75,444,881	63,219,577
LIABILITIES		
Current Liabilities:		
Accounts payable	2,844,757	4,225,059
Accrued payroll and related liabilities	687,834	647,078
Accrued interest payable	864,125	881,375
Unearned revenue	16,955,308	8,972,003
Compensated absences	514,651	541,020
Current portion of long-term liabilities	1,006,378	690,000
Total Current Liabilities	22,873,053	15,956,535
Noncurrent Liabilities:		
Compensated absences	726,432	745,210
Long-term liabilities, net of current portion	40,844,977	37,092,967
Total Noncurrent Liabilities	41,571,409	37,838,177
TOTAL LIABILITIES	64,444,462	53,794,712
NET POSITION		
Investment in capital assets	3,473,595	3,019,630
Restricted for activity agreements	4,457,576	3,237,013
Restricted for emergency reserve fund	1,715,000	1,605,000
Unrestricted	1,354,248	1,563,222
TOTAL NET POSITION	$ 11,000,419	$ 9,424,865

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended February 28, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water conveyance fees	$ 13,468,622	$ 13,586,712
Water conveyance fees - Unit 6 Rewind	4,582,507	
United States Bureau of Reclamation (USBR) service contract	136,909	96,978
Membership assessments	7,493,248	6,277,780
Delta Habitat Conservation and Conveyance Program (DHCCP) revenue	1,731,833	606,375
Other revenue - Unit 6 Rewind		273,110
Other revenue	720,518	141,032
TOTAL OPERATING REVENUES	28,133,637	20,981,987
OPERATING EXPENSES		
Salaries and related benefits	11,084,761	10,601,511
Office expense	63,148	61,149
Tools and supplies	16,850	28,696
Janitorial and uniform expense	74,973	75,114
Legal and professional services	4,850,301	4,021,575
Security	120	120
License and education	176,281	133,435
Other services	232,904	215,854
Building, machinery and equipment	693,471	688,468
Membership and fees	216,464	50,048
Travel	71,451	72,623
Meetings	22,755	27,685
Auto expenses	412,446	774,273
Parts and materials	160,303	166,611
Telephone and communications	148,746	108,661
Utilities	105,637	95,384
Insurance	225,615	203,513
Intertie conveyance	2,143,833	2,393,740
Grassland Basin Drainage specific	930,893	1,040,835
Depreciation	242,167	251,312
Unit 6 Rewind expense	5,034,514	374,971
Allocated indirect costs	(329,338)	(269,318)
TOTAL OPERATING EXPENSES	26,578,295	21,116,260
OPERATING INCOME (LOSS)	1,555,342	(134,273)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

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

For the Years Ended February 28, 2019 and 2018

	2019	2018
NONOPERATING REVENUES (EXPENSES)		
Investment income	$ 925,171	$ 135,939
Interest expense	(1,636,293)	(1,677,779)
Water transfer revenue	6,261,800	
Water transfer expense	(6,261,800)	
Extraordinary operations and maintenance reserve revenue	1,278,577	2,614,577
Extraordinary operations and maintenance reserve expense	(581,005)	(1,981,761)
Gain (loss) on disposition of assets	13,060	(166,871)
Central California Irrigation District turnouts revenue	15,801	5,974
Central California Irrigation District turnouts expense	(6,823)	(6,400)
Firebaugh Canal Water District turnouts revenue	12,065	5,063
Firebaugh Canal Water District turnouts expense	(4,743)	(5,862)
Extraordinary operations and maintenance vehicle usage recovery income	4,533	1,007
Columbia Canal Company projects revenue	3,860	4,123
Columbia Canal Company projects expense	(3,991)	(4,591)
TOTAL NONOPERATING REVENUES (EXPENSES)	20,212	(1,076,581)
CHANGE IN NET POSITION	1,575,554	(1,210,854)
NET POSITION - BEGINNING, AS PREVIOUSLY REPORTED	9,424,865	9,245,966
RESTATEMENT		1,389,753
NET POSITION - BEGINNING, AS RESTATED	9,424,865	10,635,719
NET POSITION AT END OF YEAR	$ 11,000,419	$ 9,424,865

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended February 28, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 37,422,590	$ 22,220,204
Cash payments to suppliers for goods and services	(16,674,146)	(28,972,344)
Cash payments to employees for services	(11,097,595)	10,790,926
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,650,849	4,038,786
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on long-term debt	(690,000)	(655,000)
Interest paid on long-term debt	(1,750,772)	(1,779,125)
Long-term debt issued	772,596	
Extraordianry O & M Reserve projects revenue	1,283,110	2,615,584
Extraordianry O & M Reserve projects expenses	(581,005)	(1,981,761)
Other projects revenue	31,726	15,160
Other projects expenses	(15,557)	(16,853)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(949,902)	(1,801,995)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(683,072)	(632,496)
Proceeds from disposal of capital assets		82,261
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(683,072)	(550,235)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(3,611,890)
Investment income	823,713	135,939
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	823,713	(3,475,951)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,841,588	(1,789,395)
Cash and cash equivalents, beginning of year	17,430,401	19,219,796
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 26,271,989	$ 17,430,401
Cash and cash equivalents - financial statement classification		
Unrestricted	$ 15,083,038	$ 8,629,606
Restricted - available for current operations	7,688,207	5,345,274
Restricted for emergency reserve fund	1,715,000	1,605,000
Restricted for debt service	1,785,744	1,850,521
TOTAL CASH AND CASH EQUIVALENTS	$ 26,271,989	$ 17,430,401

(Continued)

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended February 28, 2019 and 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income/(loss)	$ 1,555,342	$ (134,273)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	242,167	251,312
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,680,335)	2,340,667
Due from fiduciary funds	2,260,983	(3,294,066)
Prepaid expenses	(17,713)	(11,048)
Inventory	(38,479)	10,402
Prepaid expenses - debt issuance costs	5,272	4,609
Receivables, financing participants	725,000	1,182,003
Accounts payable	(1,380,302)	2,490,152
Accrued payroll and related liabilities	(4,391)	189,415
Unearned revenue	7,983,305	1,009,613
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,650,849	$ 4,038,786
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Debt proceeds receivable	$ (4,083,021)	
Amortization of bond premium	$ (97,229)	$ (84,971)
Amortization of bond prepaid insurance	$ 5,272	$ 4,609

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

SAN LUIS & DELTA-MENDOTA
WATER AUTHORITY

STATEMENTS OF FIDUCIARY NET POSITION

February 28, 2019 and 2018

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

February 28, 2018	Agency Funds			
	Other Outside Water Transfers	Self-Funding Power	DWR, San Luis Canal, Dos Amigos	Total Agency Funds
ASSETS				
Cash and cash equivalents	$ 3,557		$ 9,947,048	$ 9,950,605
Receivables, net	526,403	$ 4,785,171	41,181	5,352,755
TOTAL ASSETS	$ 529,960	$ 4,785,171	$ 9,988,229	$ 15,303,360
LIABILITIES				
Accounts payable	$ 9,274			$ 9,274
Due to other governments	8,747	$ 1,574,863	$ 9,988,229	11,571,839
Due to enterprise fund	511,939	3,210,308		3,722,247
TOTAL LIABILITIES	$ 529,960	$ 4,785,171	$ 9,988,229	$ 15,303,360

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

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

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

A. Financial Reporting Entity: The San Luis & Delta-Mendota Water Authority (Authority) was established as a joint powers authority under California law dated July 1, 1990. It serves 28 member agencies, 25 of which contract with the United States Bureau of Reclamation 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 200,000 acres of managed wetlands within this area of the Pacific Flyway. The Authority is governed by a 19-member Board of Directors and serves two important roles: (1) To act as the operations and maintenance entity for the Delta Division and south of Delta CVP facilities that the Authority's member agencies depend on for the delivery of their water supply, and (2) To provide unified representation on common interests of Authority members.

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

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

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

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

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

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

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

The Authority is a member of the following joint power authorities/agencies (JPAs) where the Authority is not responsible for the liabilities of the JPAs under the JPA agreements and only has a residual interest in any assets held by the JPAs upon termination of the agreements: Association of California Water Agencies (ACWA) and ACWA Joint Powers Insurance Authority, San Joaquin Valley Water Infrastructure Authority and State and Federal Contractors Water Authority.

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

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

C. Agency Funds: Agency Funds are used to account for activities provided for other entities as follows:

   Other Outside Water Transfers Fund: Used to account for water transfers managed by the Authority through water transfer Activity Agreements.

   Project Use Energy (PUE) Fund: Used to account for project use energy cost used for water conveyed through Jones, O'Neill and Dos Amigos pumping plants, which is due to the United States Bureau of Reclamation (USBR). USBR establishes a budget used by the Authority to determine rates to be paid by users during the year. The USBR bills the Authority for actual power costs subsequent to year-end, which are passed-through to the related users.

   DWR, San Luis Canal, Dos Amigos Fund: Used to account for the California Department of Water Resources' (DWR) San Luis Canal and Dos Amigos Pumping Plant operations and maintenance costs. The costs are billed to the USBR and passed-through to the Authority, which bills the related users.

D. Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on the flow of economic resources measurement focus and agency funds have no measurement focus. Under the flow of economic resources measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the fund are included on the balance sheet. Net position is segregated into the net investment in capital assets, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Enterprise funds and agency funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

   Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for operations and maintenance of the Delta Mendota Canal 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.

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

E. Cash and Cash Equivalents: For purposes of the statement of cash flows, the Authority considers all highly liquid investments with 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), and money market mutual funds.

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

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

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

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

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

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

Donated Capital Assets: Donated capital assets are recorded at the acquisition value since GASB Statement No. 72 was implemented during the year ended February 28, 2017, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The United States Bureau of Reclamation transferred assets relating to the conveyance of water, maintenance, and operation of canals to the Authority at March 1, 1998. Depreciation on these assets has been computed and reported in the financial statements using the straight-line method over their useful lives.

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

K. Unearned Revenue: Unearned revenue arises when resources are received by the Authority prior to the incurrence of qualifying operations and maintenance costs. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

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

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

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

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

Restricted Net Position: This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constructional provisions or enabling legislation. The Transfer Agreement requires the Authority to maintain an emergency reserve fund to finance (1) unusual OM&R costs; (2) costs associated with addressing conditions which threaten or cause interruption of water service; (3) unforeseen or extraordinary OM&R costs; and (4) costs associated with addressing conditions which threaten the safety or integrity of Project works. The balance reported as restricted net position under this agreement at February 28, 2019 and February 28, 2018 was $1,715,000 and $1,605,000, respectively. Restricted net position also reflects the amount restricted for projects under activity agreements with members.

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

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

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

O. New Pronouncements: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

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

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to government financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of

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

credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the reporting periods beginning after June 15, 2018.

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

NOTE 2 – CASH AND INVESTMENTS:

Cash and investments were classified as follows at February 28:

	2019	2018
Statement of net position:		
Cash and cash equivalents - unrestricted	$ 15,083,038	$ 8,629,606
Cash and cash equivalents - restricted current	7,688,207	5,345,274
Cash and cash equivalents - restricted for emergency reserve fund	1,715,000	1,605,000
Cash and cash equivalents - restricted for debt service	1,785,744	1,850,521
Investments - restricted for debt service	3,713,348	3,611,890
Agency funds:		
Cash and cash equivalents	13,911,416	9,950,605
Total cash and investments	$ 43,896,753	$ 30,992,896

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

	2019	2018
Cash and investments consisted of the following:		
Cash on hand	$ 700	$ 700
Deposits with financial institutions	5,577,856	3,550,579
Investments	38,318,197	27,441,617
Total cash and investments	$ 43,896,753	$ 30,992,896

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.

NOTE 2 – CASH AND INVESTMENTS (Continued):

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

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Authority manages its exposure to changes in market interest rates by diversifying its investments by security type and institution. The following table illustrates the distribution of the Authority's investments by maturity was as follows:

February 28, 2019

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

February 28, 2018

	Fair Value	12 Months or Less	More than 12 Months
Local Agency Investment Fund	$ 3,696,838	$ 3,696,838	
CalTRUST	18,243,773	5,250,960	$ 12,992,813
Held by bond trustee:			
Money market funds	1,891,750	1,891,750	
United States government aid bond	3,609,256		3,609,256
Totals	$ 27,441,617	$ 10,839,548	$ 16,602,069

NOTE 2 – CASH AND INVESTMENTS (Continued):

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

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

February 28, 2018	Fair Value	Minimum Legal Rating	AAA	AA	Not Rated
Local Agency Investment Fund	$ 3,696,838	N/A			$ 3,696,838
CalTRUST	18,243,773	N/A		$ 18,243,773	
Held by bond trustee:					
Money market funds	1,891,750	AAA	$ 1,891,750		
United States government aid bond	3,609,256	N/A	3,609,256		
	$ 27,441,617		$ 5,501,006	$ 18,243,773	$ 3,696,838

Concentration of Credit Risk: The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than mutual funds and external investment pools) that represent 5% or more of total Agency investments other than the $3,609,256 of United State government aid bonds at February 28, 2018.

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

NOTE 2 – CASH AND INVESTMENTS (Continued):

At February 28, 2019 and 2018, the carrying amount of the Authority's deposits was $5,577,856 and $3,550,579 and the balances in financial institutions was $5,899,789 and $3,865,389, respectively. Of the balance in financial institutions at February 28, 2019 and 2018, $251,711 each year 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 184 and 172 days as of February 28, 2019 and February 28, 2018 respectively. The Authority invests in the CalTRUST short-term and medium-term pools. The fair value of the Authority's investments in these pools are reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by the pools for their entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The amount that may be withdrawn from CalTRUST is based on the net asset value per share and the number of shares held by participants in each pool. The weighted average maturity of short term-funds in CalTrust was 347 and 259 days as of June 30, 2019 and February 28, 2018 respectively. The February 28, 2019 weighted average maturity was unavailable. The weighted average maturity of medium-term funds in CalTrust was 799 and 672 days as of June 30, 2019 and February 28, 2018 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 U.S. government aid bonds are valued using level 2 inputs. The Authority's investments in LAIF, CalTRUST and money market funds are not subject to the fair value hierarchy or are measured at net asset value. All securities classified in Level 2 are valued using pricing models based on market data, such as matrix or model pricing from outside pricing services. These valuation techniques include third party benchmark yields, reported trades, broker/dealer quotes and other techniques.

NOTE 3 – ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES:

Accounts receivable and other receivables consisted of the following:

February 28, 2019

	Enterprise Fund	Agency Funds	Total
Membership assessments	$ 88,614		$ 88,614
Other receivables	80,392		80,392
Due from other governments	1,802,231	$ 2,692,958	4,495,189
Interest	52,148	41,388	93,536
Total accounts receivable	2,023,385	2,734,346	4,757,731
Due from fiduciary funds	1,416,264		1,416,264
Unit 6 Rewind project	4,083,021		4,083,021
DHCCP, financing participants	33,840,000		33,840,000
Total	$ 41,362,670	$ 2,734,346	$ 44,097,016

February 28, 2018

	Enterprise Fund	Agency Funds	Total
USBR	$ 60,753	$ 28,624	$ 89,377
Membership assessments	29,102		29,102
Other receivables	232,076		232,076
Due from other governments		5,307,126	5,307,126
Interest	21,119	17,005	38,124
Total accounts receivable	343,050	5,352,755	5,695,805
Due from fiduciary funds	3,722,247		3,722,247
DHCCP, financing participants	34,565,000		34,565,000
Total	$ 38,630,297	$ 5,352,755	$ 43,983,052

NOTE 4 – CAPITAL ASSETS:

Capital asset activity was as follows:

February 28, 2019

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

February 28, 2018

Capital Assets	Balance at March 1, 2017	Additions	Retirements	Balance at February 28, 2018
Capital assets, being depreciated:				
Heavy equipment	$ 1,592,292	$ 445,465	$ (120,432)	$ 1,917,325
Vehicles and light trucks	2,619,765	161,925	(133,119)	2,648,571
Furniture and equipment	1,768,554	18,863	(583,929)	1,203,488
Computers	438,593	6,243	(29,654)	415,182
Total capital assets, being depreciated	6,419,204	632,496	(867,134)	6,184,566
Less accumulated depreciation:				
Heavy equipment	(900,359)	(45,817)	92,488	(853,688)
Vehicles and light trucks	(1,065,778)	(127,694)	88,744	(1,104,728)
Furniture and equipment	(1,298,674)	(47,322)	412,376	(933,620)
Computers	(266,815)	(30,479)	24,394	(272,900)
Total accumulated depreciation	(3,531,626)	(251,312)	618,002	(3,164,936)
Capital assets, net	$ 2,887,578	$ 381,184	$ (249,132)	$ 3,019,630

NOTE 5 – ACCOUNTS PAYABLE:

Accounts payable consisted of the following:

February 28, 2019

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

February 28, 2018

	Enterprise Fund	Agency Funds	Total
Other governments	$ 3,404,137	$ 11,571,839	$ 14,975,976
Vendors	820,922	9,274	830,196
Total	$ 4,225,059	$ 11,581,113	$ 15,806,172

NOTE 6 – UNEARNED REVENUE:

The Authority's members pay water conveyance fees based on estimated water deliveries in the month prior to the water delivery date, which is reported as unearned revenue at each year-end if not spent for operations and maintenance costs. Unearned revenue consisted of the following:

February 28, 2019

	Enterprise Fund	Total
Other	$ 106,341	$ 106,341
Contractor	16,848,967	16,848,967
Total	$ 16,955,308	$ 16,955,308

February 28, 2018

	Enterprise Fund	Total
Other governments	$ 194,690	$ 194,690
Contractor	8,777,313	8,777,313
Total	$ 8,972,003	$ 8,972,003

NOTE 7 – LONG-TERM LIABILITIES:

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

February 28, 2019

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

February 28, 2018

	Balance at February 28, 2017	Additions	Reductions	Balance at February 28, 2018	Due Within One Year
Refunding Revenue Bonds, Series 2013	$ 35,910,000		$ (655,000)	$ 35,255,000	$ 690,000
Add issuance premium	2,612,938		(84,971)	2,527,967	
Total debt	38,522,938		(739,971)	37,782,967	690,000
Compensated absences	1,248,898	$ 1,001,681	(964,349)	1,286,230	541,020
Total	$ 39,771,836	$ 1,001,681	$ (1,704,320)	$ 39,069,197	$ 1,231,020

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

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

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

NOTE 7 – LONG-TERM LIABILITIES (Continued):

The Bonds bear interest at 3.0% to 5.0% and are payable semi-annually on March 1, and September 1, beginning September 1, 2013. The bonds mature annually at various amounts through March 1, 2043.

Pledged Revenue: The Authority pledged future Financing Participation revenues to repay the Bonds in the original amount of $37,550,000. The Bonds are payable solely from Financing Participation payments and are payable through March 1, 2043. Total principal and interest remaining to be paid on the Bond was $60,443,125 and $62,878,625 at February 28, 2019 and 2018, respectively. Total cash basis principal and interest paid was $2,335,500 and $2,434,125 and the total revenues were $2,335,500 and $1,574,167 for the years ended February 28, 2019 and 2018, respectively. The revenues received from DHCCP participants was lower than principal and interest payments during the year ended February 28, 2018 due to the use of excess funds in the escrow account for the payments.

USBR Unit 6 Rewind Note:

In February 2018, the Authority entered into an agreement to receive up to $5 million from the United States Bureau of Reclamation to rewind Unit 6 of the C.W. “Bill” Jones Pumping Plant. The obligation was on a cost reimbursement basis and the Authority incurred $4,855,617 as of February 28, 2019, with the remaining incurred by August 2019. The amount is required to be repaid in installments of $400,128 per year on the last day of February from February 2020 to February 2034, including interest at the average U.S. Department of Treasury interest rate at the beginning of the year when work began on the project.

The agreement requires an additional 0.5% interest rate per month to be paid if the obligation becomes delinquent more than 60 days. The Authority has added an additional charge to water conveyance fees to repay the obligation.

NOTE 7 – LONG-TERM LIABILITIES (continued):

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

February 28, 2019

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

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

February 28, 2018

Year Ended Last Day of February,	Refunding Revenue Bonds, Series 2013A Principal	Interest	Total Debt Service
2019	$ 690,000	$ 1,745,500	$ 2,435,500
2020	725,000	1,710,125	2,435,125
2021	760,000	1,673,000	2,433,000
2022	800,000	1,634,000	2,434,000
2023	840,000	1,593,000	2,433,000
2024-2028	4,865,000	7,275,625	12,140,625
2029-2033	6,210,000	5,897,500	12,107,500
2034-2038	7,920,000	4,139,500	12,059,500
2039-2043	10,110,000	1,897,000	12,007,000
2044	2,335,000	58,375	2,393,375
Total	$ 35,255,000	$ 27,623,625	$ 62,878,625

NOTE 8 – RESTRICTED NET POSITION - EMERGENCY RESERVE FUND:

The USBR 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, they are required to maintain a targeted minimum reserve fund amount equal to 15% of the most current three years average annual actual OM&R costs incurred for the Project Works. The balance of this fund at February 28, 2019 and February 28, 2018 was $1,715,000 and $1,605,000, respectively.

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 and may be amended by the Board of Directors.

A. <u>IRC Section 401(a) Plans</u>: The Authority provides two IRC Section 401(a) plans (the Plans): The 401a Executive Defined Contribution Plan (Plan 109325) and the 401a Defined Contribution Plan (Plan 109164). Plan 190325 requires the employee to contribute 5% of "base annual salary" to the Plan and the Authority matches 5%. Plan 109164 requires the Authority to contribute an amount equal to 8% of the employee's "base annual salary" to the Plan. "Base annual salary" is defined as gross base annual salary, which excludes overtime, merit pay awards, shift differential premiums, or any other special pay. All employer and employee contributions and earnings on those contributions are vested immediately. Employees may contribute up to 25% of their total compensation up to $30,000 per year of combined employer and employee contributions, subject to IRC contribution limits. For the years ended February 28, 2019 and 2018, the employer contributions to the Plans were $740,183 and $704,462 and the employee contributions were $111,089 and $136,463, respectively.

B. <u>IRC Section 457 Plan</u>: 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, 2019 and 2018, the employer contributions were $251,334 and $218,959 and the employee contributions were $640,151 and $507,046, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

A. <u>Litigation</u>

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued):

B. State and Federal Allowances, Awards and Grants

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

C. Grassland Basin Drainage Management Activity

Litigation filed by a coalition of fishermen's organizations and an individual in late 2011 remained pending in federal court throughout Fiscal Year 2018 and 2019. The litigation alleges that the Authority and the federal Bureau of Reclamation (Reclamation) have violated the Clean Water Act by failing to obtain a National Pollution Elimination System Discharge (NPDES) permit for discharges of drainage water from the Grassland Bypass Project, conducted under the Authority's Grassland Basin Drainage Management Activity Agreement. The Authority and Reclamation maintain that there is no such violation because the discharges fit within exemptions from the NPDES permit requirements. On September 6, 2019, the Ninth Circuit Court of Appeal issued its opinion reversing the district court and remanding the case, and subsequently, the Ninth Circuit denied petitions for rehearing. Next, the district court will preside over further proceedings that are expected to involve new factual discovery and legal theories and claims that were not addressed previously, to determine whether or not an NPDES permit is required for discharges from the Grasslands Bypass Project through the San Luis Drain. The Authority's response remains that it denies that an NPDES permit is required and believes its defenses are meritorious. Therefore, at the present time the possibility of an unfavorable outcome is possible, but not probable, and were there such an unfavorable outcome, the amount of liability cannot reasonably be determined at the present time, except that Appellants have requested a cost bill at the appellate level for $1,164.10.

On November 12, 2019, North Coast Rivers Alliance et al. filed a Petition for Writ of Mandate and Complaint for Injunctive Relief against the San Louis & Delta-Mendota Water Authority regarding the Water Authority's compliance with the California Environmental Quality Act and other statutory requirements. The lawsuit seeks to invalidate certain actions by the Water Authority taken on October 10, 2019 and does not involve claims for monetary damages.

D. Lease Agreements

The Authority leases its headquarters building in Los Banos, California, an office in Sacramento, California, and various equipment. The leases are all on a month-to-month basis. Lease expense incurred during the years ended February 28, 2019 and 2018 was $214,739 and $194,633, respectively.

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.

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

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

The Authority has established a RAP of $15,000 for the worker's compensation and employer's liability programs. Coverage between the RAP and $2,000,000 is provided through the JPIA risk pool and excess coverage is purchased by the JPIA on behalf of its members to the statutory limits.

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

The Authority has a deductible for the property program ranging from $500 for vehicle coverage to $50,000 or $5 per kilowatt hour for turbine units and associated equipment. The JPIA has a pooled self-insured retention (SIR) level of $100,000 for the fiscal years ending February 28, 2019 and 2018. The JPIA provides coverage above its SIR up to $150,000,000 through purchased insurance.

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

Settled claims have not exceeded any of the Authority's coverage amounts in any of the last three fiscal years and there were no significant reductions in the Authority's coverage during the fiscal years ended February 28, 2019 and 2018.

NOTE 12 – SUBSEQUENT EVENTS:

The Authority had the following subsequent events:

UNITED STATES BUREAU OF RECLAMATION TRANSFER AGREEMENT

The Authority and the United States Bureau of Reclamation entered into an Agreement to Transfer the Operation, Maintenance, and Replacement (O&MR) and Certain Financial and Administrative Activities Related to the San Luis and Delta-Mendota Canals, Tracy Pumping Plant and O'Neill Pumping/Generating Plant, San Luis Drain and Associated Works, Contract No. 8-07-20-X0354 (Transfer Agreement), effective March 1, 1998 with a term of 25 years. Effective February 18, 2003, the United States and the Authority executed an amendment to the Transfer Agreement which revised Article 11, 12, 16 and 18 of the Transfer Agreement. The 25-year term will end on February 28, 2023. The Authority is seeking funding for infrastructure improvement related to the Jones Pumping Plant (JPP) Unit Motor Rehabilitation Project (Project). There is a total of six units that require rehabilitation for a total Project cost of $36.7 million. The U.S. Bureau of Reclamation (Reclamation) funded rehabilitation of the first unit and the Water

NOTE 12 – SUBSEQUENT EVENTS (Continued):

Authority is funding the second unit. The Authority is seeking funding for the remaining four units and submitted a Letter of Interest (LOI) for the Water Infrastructure Finance and Innovation Act (WIFIA) loan administered by the U.S. Environmental Protection Agency (EPA) and have been selected to submit an application for the loan. This WIFIA financing is expected to be secured by a pledge of revenue collection from Operations & Maintenance (O&M) rates provided under the Transfer Agreement. Therefore, to secure the WIFIA loan, the Authority must have a Transfer Agreement in place for the term of the loan. The Authority has submitted a request to Reclamation seeking an early renewal of the Transfer Agreement for a new term of a minimum 30 years. The negotiation for the new contract is expected to be completed and executed by January 7, 2020.

DELTA-MENDOTA CANAL SUBSIDENCE CORRECTION PROJECT

The broad scope of work for the Delta-Mendota Canal (DMC) Subsidence Correction Project (Project) is to perform modifications necessary on the DMC conveyance system that will allow maximum pumping at the Jones Pumping Plant. The Authority and U.S. Bureau of Reclamation (Reclamation) are developing appraisal level cost estimates for the modifications to the DMC that are necessary to restore the DMC to its original design capacity. Preliminary cost estimate for total project cost is up to $200 million. The schedule for the Project, which is contingent upon federal funding, is to perform the design for the various DMC modifications, prepare contract documents for the multi-phased project, advertise and award the first phase of the project in August 2020. During the design phase, the Authority and Reclamation will determine the total number of structures that will need to be modified and the order of the phases. The phases include; raising the height of the existing concrete lining, repairing the concrete lining that has been damaged by the subsidence, repairing and further protecting the clay lined embankment where the subsidence has caused significant embankment erosion, raising or replacing irrigation pipeline crossings and storm drain over chutes that have become (or are partially) submerged from the subsidence and raise or replace county road bridges where the bridge structure is impeding the DMC flows.

Background

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

JONES PUMPING PLANT (JPP) UNIT REWIND PROJECT

The scope of the Jones Pumping Plant (JPP) Unit Motor Rehabilitation Project (Project) is to rehabilitate all six (6) unit 22,500 HP motors that have reached the end of their service life. The primary purpose of this Project is to extend the life of the JPP's unit motors for approximately 30 years and to improve the overall reliability of the JPP.

The rehabilitation of the first unit (Unit No. 6) was completed in February 2019. The funding/financing for this unit was provided by the Authority and the Bureau of Reclamation (Reclamation) and the Authority entered into a 15-year repayment contract for the funding portion provided by Reclamation. Upon successful completion of the first unit motor, the Authority prepared contract documents to rehabilitate the remaining 5-unit motors under one multi-year contract, utilizing the same design that was developed for

NOTE 12 – SUBSEQUENT EVENTS (Continued):

Unit No. 6. The Authority awarded a construction contract to National Electric Coil Company in August 2019 to rehabilitate the remaining units with a Project completion date of April 2023. Each unit motor will be provided with a separate contract award and will be rehabilitated individually over the course of 45 months (approximately 9 months per unit). The rehabilitation of the second unit (Unit No. 2) began in August 2019. The Authority self-funded the cost for Unit No. 2 through the water rates.

The Authority is seeking federal financing through EPA's Water Infrastructure Finance and Innovation Act (WIFIA) program and Reclamation for the remaining Project cost. The costs for the rehabilitation of JPP Unit Nos. 2 & 6 are included in the WIFIA financing. The WIFIA financing has a cost share requirement for the loan. The Authority's qualifying cost share components are self-funded cost for Unit No. 2 and the labor associated with the Project design and in-house contract support for the rehabilitation of all six (6) unit motors. Reclamation funding will be included as total Federal funding.

Jones Pumping Plant Unit Rewind Project Cost

	NEC Construction Cost	Construction Contingency Cost (2.5%)	Total Construction Contract Cost	USBR Oversite Cost	DHR PSA Cost	Total Contracts	SLDMWA Planned Labor	Totals
Unit 6 (Actual):						$ 4,727,046	$ 938,667	$ 5,665,713
Design (Actual):	$ -	$ -	$ -	$ 60,000	$ 69,305	$ 129,305	$ 10,600	$ 139,905
Unit 2:	$ 4,420,365	$ 442,037	$ 4,862,402	$ 50,000	$ 497,130	$ 5,409,532	$ 686,000	$ 6,095,532
Unit 1:	$ 4,373,881	$ 437,388	$ 4,811,269	$ 51,500	$ 505,550	$ 5,368,319	$ 711,400	$ 6,079,719
Unit 4:	$ 4,387,771	$ 438,777	$ 4,826,548	$ 52,700	$ 514,170	$ 5,393,418	$ 733,000	$ 6,126,418
Unit 3:	$ 4,431,356	$ 443,136	$ 4,874,492	$ 53,900	$ 532,790	$ 5,461,182	$ 755,000	$ 6,216,182
Unit 5:	$ 4,564,878	$ 456,488	$ 5,021,366	$ 55,200	$ 546,410	$ 5,622,976	$ 777,000	$ 6,399,976
Totals:	**$ 22,178,251**	**$ 2,217,825**	**$ 24,396,076**	**$ 323,300**	**$ 2,665,355**	**$32,111,777**	**$ 4,611,667**	**$ 36,723,444**
	60%	6%		1%	7%		13%	87%

NOTE 13 – RESTATEMENT:

During the year ended February 28, 2018, the Authority determined that it should have recognized unearned revenue as of February 28, 2017 related to a payment received from Westlands Water District in the amount of $897,750 for DHCCP debt interest expense paid on March 1, 2017 and should have offset 2017 revenue received from other DHCCP participants with an expense to Westlands Water District DHCCP in the amount of $492,003. Due to the correction of these errors, the Authority's net position as of March 1, 2017 increased $1,389,753.

COMPLIANCE REPORT

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the San Luis & Delta-Mendota Water Authority (the Authority) as of and for the years ended February 28, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated ___________, 2020.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

____________, 2020