AUDITED FINANCIAL STATEMENTS

DEL PUERTO WATER DISTRICT

February 28, 2018

JWT & Associates, LLP
Certified Public Accountants

DEL PUERTO WATER DISTRICT
Patterson, California

February 28, 2018

Board of Directors

Ivan E. Bays	President
Earl Perez	Vice-President
William Koster	Director
Peter Lucich	Director
Zachary Maring	Director
James Jasper	Director
Thomas Dompe	Director

Administration

Anthea G. Hansen	General Manager

DEL PUERTO WATER DISTRICT

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JWT & Associates, LLP

Certified Public Accountants
1111 East Herndon, Suite 211, Fresno, CA 93720
Voice: (559) 431-7708 Fax: (559) 431-7685

Report of Independent Auditors

Board of Directors
Del Puerto Water District
Patterson, California

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Del Puerto Water District (the District) as of and for the year ended February 28, 2018.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at February 28, 2018, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

JWT & Associates, LLP
July 31, 2018

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2018

As required by Government Accounting Standards Board Statement No. 34, this section presents management's analysis of the Del Puerto Water District's (the District) financial condition and activities as of and for the year ended February 28, 2018. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements, and should be read in conjunction with the audited financial statements that follow this section. It is also intended to give an overview of the previous year's operations, and to express management's view of how currently-known factors will impact the District in the future.

ORGANIZATION AND BUSINESS

The Del Puerto Water District is a California special district formed under the provisions of Division 13 of the Water Code of the State of California. The approximately 45,000 acres of irrigable District lands are located along the west side of Stanislaus, San Joaquin and Merced Counties. Stanislaus County serves as the principal county for the District. A seven person Board of Directors elected from among District landowners governs the District.

The District is under contract with the Bureau of Reclamation for its water supply, which is delivered from the Delta-Mendota Canal, a feature of the Central Valley Project. The District was originally organized on March 24, 1947 to contract for and administer delivery of water supplies to landowners within the geographical boundaries of the District. On March 1, 1995, the District was reorganized through a formal consolidation with ten other local, similarly contracted water districts. The water service contracts of these other districts were assigned to the District and subsequently renegotiated as a single contract providing for the delivery of up to 140,210 acre-feet of water annually. The District's water year runs from March 1 through February 28/29.

The District's contractual entitlement is its primary source of supply. Use of this contractual supply is subject to State law and California Water Code requirements, Reclamation law, place-of-use restrictions associated with the Bureau of Reclamation's State-issued permit(s), and shortages imposed under the water shortage provisions of the District's contract with the Bureau of Reclamation. All water is delivered "canal-side" from the Delta-Mendota Canal through turnouts licensed to the District by the federal government. Privately developed groundwater is available on a limited basis throughout the District.

District lands have produced more than 30 different commercial crops over the years. Among the principal crops currently grown are almonds, tomatoes, apricots, dry beans, walnuts, oats, wheat, barley, grains, broccoli, melons, peaches, citrus, spices, cherries, wine grapes and olives. In 2017, over 73% of the District's irrigated lands are in permanent plantings, of which 98% are irrigated by sprinklers or drip irrigation systems. The District supports conservation efforts by way of providing low interest loan funding for the installation of high-efficiency irrigation systems, including both micro-sprinkler and drip emission systems. In recent years, certain of these loans have funded the installment of row-crop drip systems, a technology relatively new to the Districts service area. In addition to supporting conservation, this investment in irrigation technology further compliments the District's efforts in the area of drainage reduction, thus resulting in improvements to nearby waterways of the State.

As a result of the chronic shortages to its contractual entitlement, ongoing drought conditions, and increasing difficulty in achieving its water supply goals, the District has in recent years expanded its efforts in the area of long-term supply development programs. Currently, this includes the voluntary retirement of certain lands from service, studying the feasibility of off stream storage, local groundwater recharge, and most notably, the beneficial use of recycled water through the North Valley Regional Recycled Water Program. In addition, the District requests the detachment of lands annexed to a City or an otherwise responsible agency for development into non-agricultural uses. While some of these lands continue to be served under recorded Water Service Contracts, upon development of the land, the contracts terminate and any available allocation is returned to the District.

The District's management staff currently consists of a General Manager and a Water Operations & Resources Manager. During 2017 the District's Finance/Business Manager position remained unfilled, and the District's financial recordkeeping was performed by the General Manager/Treasurer. The District has since entered in a contractual agreement with Genske, Mulder & Company, LLP for general ledger accountant services. Management is also supported by a full-time Executive Assistant, an Accounting Specialist handling Accounts Receivable and Accounts Payable, and a Water Operations Technician. The District operates at minimal staffing levels to maintain costs, and strives to develop administrative procedures which ensure efficiency and accuracy in its service to its constituents, however this is becoming increasingly difficult with the number of activities the District must now accomplish. In consultation with the Board, the General Manager continually assesses staffing resources and needs, and it is envisioned that at least one additional full-time Staff member may be necessary in the near future.

The District's stated mission is as follows: *"Dedicated to Providing it's Agricultural Customers with an Adequate, Reliable and Affordable Water Supply".* Customer service standards and the clear communication and implementation of District policies and procedures are set at the highest benchmarks. Continuing to provide water to the West Side's small family farms, which produce some of the nation's most bountiful supply of fresh fruit, nuts and vegetables, remains the District's sole focus and reason for existence.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's basic financial statements are prepared on an accrual basis and in conformity with generally accepted accounting principles and include certain amounts based upon reliable estimates and judgments. The annual financial report consists of a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

- The *Statement of Net Position* presents information on the District's assets and liabilities, with the difference between the two being reported as *Net Position.* Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

- The *Statement of Revenues, Expenses and Changes in Net Position* presents the results of the District's operations showing Total Revenues versus Total Expenses and how the Net Position changed during the year. This statement can be used as an indicator of the extent to which the District has successfully managed its budget and recovered its costs through user fees.

- The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, and reconciles the year-end cash and cash-equivalents balance.

- The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS

As illustrated by the financial analysis below, the District's Net Position increased in 2017-18:

Condensed Financial Information

The following table (Table 1) shows the District's total assets, liabilities and net position:

Table 1
Balance Sheet February 28, 2018 and February 28, 2017
(Proprietary Fund Only)

	2/28/2018	2/28/2017	Variance
Current Assets	$ 11,206,040	$ 14,499,300	$ (3,293,260)
Noncurrent Assets	$ 10,253,815	$ 4,270,605	$ 5,983,210
Total Assets	$ 21,459,855	$ 18,769,905	$ 2,689,949
Current Liabilities	$ 13,494,748	$ 11,148,913	$ 2,345,835
Noncurrent Liabilities	$ 1,489,825	$ 2,077,237	$ (587,412)
Total Liabilities	$ 14,984,573	$ 13,226,150	$ 1,758,421
Net Assets:			
Invested in Capital Assets	$ 696,246	$ 731,057	$ (34,811)
Reserved	$ 2,155,915	$ 2,403,601	$ (247,686)
Unreserved	$ 3,623,121	$ 2,409,097	$ 1,214,024
Total Net Position	$ 6,475,282	$ 5,543,755	$ 931,527
Total Liabilities and Net Position	$ 21,459,855	$ 18,769,905	$ 2,689,950

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2018

Highlights

- Current assets decreased $3,293,260, while non-current assets increased $5,983,210, for a total assets increase of $2,689,950. This was primarily the function of a decrease in Pre-paid Water Supplies from Other Sources as offset by an increase in non-current investment assets held on deposit from the pre-sale of future year supplies.

- Current liabilities increased $2,345,835, while non-current liabilities decreased $587,412, for a total liabilities increase of $1,758,423. The current liability increase was primarily due to increases in Accounts Payable and Deferred Revenue collections for the 2018 North Valley Regional Recycled Water Program. The non-current liability decrease was due to the annual payment of the District's ADLP Loan as offset by an increase in Net Pension Liability per current actuarial valuations..

- Total assets of $21,459,855 exceeded total liabilities of $14,984,573 at the fiscal year end by $6,475,282, an increase of $931,527, or 16.80%, over the prior fiscal year. This increase in net position, or "net profit", for the year, was primarily due to an under spent Supply Development Program and Capital Improvements budget (deferred to 2018-19).

The following table (Table 2) shows changes in the District's net position for the year:

Table 2
Statement of Revenues, Expenses and Changes in Net Position
For the Years ended February 28, 2018 and February 28, 2017

	2/28/2018	2/28/2017	Variance	%
Operating Revenues:				
Water Sales	$ 16,729,100	$ 10,686,062	$ 6,043,038	56.55%
Water Availability Charge	$ 1,916,640	$ 1,747,280	$ 169,360	9.69%
Total Operating Revenues	$ 18,645,740	$ 12,433,342	$ 6,212,398	49.97%
Operating Expenses:	$ 17,816,525	$ 11,645,233	$ 6,171,292	52.99%
Total Operating Expenses	$ 17,816,525	$ 11,645,233	$ 6,171,292	52.99%
Net Operating Income	$ 829,215	$ 788,109	$ 41,106	5.22%
Non-operating Revenues, Net:	$ 102,312	$ 42,194	$ 60,119	142.48%
Change in Net Assets	$ 931,527	$ 830,303	$ 101,225	12.19%
Total Net Assets - Beginning	$ 5,543,755	$ 4,713,452	$ 830,303	17.62%
Total Net Assets - Ending	$ 6,475,282	$ 5,543,755	$ 931,527	16.80%

Highlights

- Total Operating Revenues increased by $6,212,398 or 49.97% to $18,645,740. The increase was due to higher-rated supplemental supply deliveries and the one-time sale of excess supply at year end that would have otherwise been lost under the USBR's Rescheduling Guidelines.

- Total Operating Expenses increased by $6,171,292 or 52.99% to $17,816,525. The increase was primarily reflective of the increased costs of purchased water due and decreased expenditures for consulting on Supply Development Programs.

- Non-operating revenues (net) increased by $60,119 to $102,312. This increase was due to the prior year's one-time expense posting of net pension liability to conform to GASB 68 rules.

Budget Comparisons

The following table (Table 3) compares actual administrative expenditures to the 2017-18 budget.

Table 3
Administrative Budget to Actual Comparison
For the Year ended February 28, 2018

	2017-18 Actual	2017-18 Budget	Variance
Water Availability Charge	$ 1,916,640	$ 1,916,552	$ 88
Total Operating Revenues	$ 1,916,640	$ 1,916,552	$ 88
Operating Expenses:			
Wages and Related Expenses	$ 659,932	$ 706,223	$ (46,291)
Conservation Services	$ 3,437	$ 3,330	$ 107
Office Supplies, Rent & Other	$ 159,549	$ 151,550	$ 7,997
Repairs & Maintenance	$ 3,834	$ 9,523	$ (5,688)
Metering Program	$ 968	$ 13,975	$ (13,007)
Association Fees	$ 487,739	$ 477,835	$ 9,904
Utilities	$ 12,976	$ 12,265	$ 711
Engineering & Consulting Fees	$ 247,018	$ 446,300	$ (199,282)
Legal and Audit Fees	$ 52,056	$ 40,600	$ 11,456
Vehicle, Travel and Conferences	$ 17,819	$ 25,750	$ (7,931)
Insurance	$ 17,473	$ 17,366	$ 107
Depreciation and Amortization	$ 46,313	$ 58,000	$ (11,687)
Total Operating Expenses	$ 1,709,114	$ 1,962,717	$ (253,604)
Net Operating Income	$ 207,527	$ (46,165)	$ 253,692
Non-operating Revenues, Net:	$ 102,312	$ 126,250	$ (23,938)
Net Administrative Income/(Loss)	$ 309,839	$ 80,085	$ 229,754

For 2017-18, administrative expenses were $253,603 less than budgeted, and the net of actual non-operating revenues vs. non-operating expenses was $23,938 less than budgeted, leading to net operating income from Administrative Operations of $229,753 more than budgeted.

Hi-lights of the variances between actual and budgeted cost centers were as follows:

- Wages and Related Expenses less than budgeted due to vacancy of the Financial Manager position offset by the partial year addition of an Accounting Specialist.
- Repairs & Maintenance less than budgeted due to deferral in the painting of the office interior.
- Metering Program under budget due to deferral of meter installations.
- Legal Fees more than budgeted due to cost of special litigation – (1) case.
- Engineering and Consulting Fees less than budgeted by $199,282 due to a revised schedule for the implementation of Phase II of the Orestimba Creek Recharge and Recovery Project due to delays in the USBR's completion of a NEPA document in support of grant funding for the Project.
- Depreciation less than budgeted due to the deferred purchase of capital assets for 2018.

CAPITAL ASSETS

Capital Assets

The District's office and maintenance facility was constructed new in 2003, and the District does not own or maintain any canals or delivery systems, limiting capital infrastructure requirements to the replacement and addition of meters, vehicles, and tools. As of February 28, 2018, the District had $696,246 (net of accumulated depreciation) invested in the following categories of Capital Assets: Meters, Tools, Office Equipment & Furnishings, Vehicles, Land, Buildings & Landscaping. This amount represents a $34,811 net decrease over the prior fiscal year, which is primarily due to depreciation expense, offset by the purchase of several water meters and a TV and microwave for the employee breakroom.

DEBT ADMINSTRATION

Agricultural Drain Loan Program Debt

District operating revenues are used to finance in-District capital improvements, with the exception of the District's Irrigation System Improvement Program, which utilizes funding obtained through the State's Agricultural Drain Loan Program to purchase irrigation systems which are then leased to participant landholders. These leases are fully secured by the real property on which the systems are installed, and the principle and interest payments made annually by the leaseholders are used to repay the District's corresponding liability to the State. As of February 28, 2018, the liability to the Agricultural Drain Loan Program was $1,314,747, all of which is reimbursable by leaseholders.

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

The District adheres to a specific set of administrative procedures that guide the designing, planning, organizing and carrying out of its programs and service. Policies which provide guidance, delegation of authority and responsibility, reporting procedures, and accountability for resources are adopted at the Board level. Administrative procedures and accounting systems are designed to ensure specific controls, and budgets are adopted and reviewed periodically to ensure the safeguarding of District assets. All District activities are undertaken in compliance with all applicable Federal, State and local laws, and management controls and financial systems are in compliance with all regulatory statutes.

FACTORS IMPACTING FUTURE PERIODS

As discussed in Note 12 of the independent auditor's report, the District's existence relies exclusively on the continued need for water supplies by Landowners within the District, and the District's ability to procure and administer said supplies in an adequate and affordable manner.

The chronic shortages faced by the District are the result of both regulatory and hydrologic drought, the former primarily centered on issues facing the health and sustainability of the Sacramento-San Joaquin Delta and the numerous plant and animal species that exist there. Because the export of water supplies to CVP contractors and others South of the Delta remains a focal point for each new regulation or order regarding California water, it is imperative that the District remain engaged in activities which advance solid science and programs that communicate factual information proving that exports are not the only stressor affecting the Delta. Also critically important to the District are the currently ongoing Water Quality Control Plan update and other activities being advanced by the State Water Resources Control Board, a long overdue effort to update to Coordinated Operations Agreement between the State Water Project and the Central Valley Project, and the USBR's re-consultation on the on the 2008 Smelt and 2009 Salmon Long-Term Biological Opinions which support the District's Water Service Contract. The challenge, however, becomes one of balancing the need for, and efficacy of, each activity and forum against the extremely high costs of participation, which ultimately falls on the District's customers.

In additional to legal and regulatory forums, much emphasis and momentum is being placed on addressing South-of-the-Delta water supply shortages through infrastructure designed to repair what is broken about the "plumbing" in the State of California. Cooperative efforts between the Department of Water Resources, the Bureau of Reclamation, and the numerous agricultural and municipal water contractors who have contracts with those governing agencies to procure water supplies started as the Bay-Delta Conservation Plan (BDCP) / Delta Habitat & Conveyance Conservation Plan (DHCCP), and more currently revised as to strategy, separated, and renamed the California Eco-Restore and California Water Fix programs, the latter of which is a project which would develop "twin tunnels" under and across the Delta to move water to the South-Delta pumping facilities from a changed point of diversion on the Sacramento River. Although the District ceased funding participation and retired its initial obligation in the development of these programs due to uncertainty in the ultimate costs and benefits, Staff remains engaged through its administrative activities and reports to the Board monthly on California Water Fix. As of February 28, 2018, however, environmental approvals and the regulatory certainty that had been a goal of the planning effort had not materialized, and management is ever-more-skeptical of California Water Fix with respect to bringing back the reliability of the Districts contract allocations in an affordable manner.

Along with the cost of solutions aimed at solving chronic supply shortages, there are also considerations on how these shortages affect CVP Contract Water Rates. Under current Bureau rate setting policy, each CVP contractors' obligation for repaying the capital costs of constructing the CVP is collected as a component of that contractor's published annual estimated water rates based on historical plus projected future deliveries through year 2030. Shortages incurred since the passage of CVPIA in the early '90's and predicted to continue for the foreseeable future mean less delivery base across which to spread the capital obligation, leading to predicted higher rates as year 2030 nears. In Fiscal Year 2012-13, the Board authorized the collection of a rate component on all water deliveries which would be set to collect some of the "shortfall" inherent in the USBR's capital collections. Staff continues to monitor this situation closely and is taking all actions necessary to ensure that the District is able to repay its published capital obligation while continuing its practice of avoiding drastic changes in the rates paid by its customers from one year to the next. As of February 28, 2018, the District's assets included $719,717 in cash funds plus $362,065 in current and prior year designated collections, for a total of $1,081,782 collected for future additional Capital Repayment.

In addition to the upward pressure on water rates caused by continued lack of supply, certain other factors are predicted to impact the District and its constituents in both the near and long-term with respect to increased water costs. Beginning with the Bureau of Reclamation's fiscal year ended 2011, the results of which were recognized in the District's fiscal year ended 2013-14, Extraordinary O&M and certain reimbursable American Recovery and Reinvestment Act (ARRA) costs caused water rates to increase. While ARRA costs were limited to specific projects which are now completed, it is anticipated that extraordinary O&M costs will continue to escalate due to the aging CVP infrastructure and the restated Bureau policy on how extraordinary O&M costs are collected. In the past, extraordinary O&M was treated as a capitalized cost within the rates, to be amortized and collected by year 2030. Under current policy, unless the costs are related to the addition of a facility as a new feature of the CVP, or otherwise specifically authorized as capital for repayment purposes, they are treated as current year O&M in the fiscal year expended, regardless of magnitude. Additionally, in water year 2016, the USBR implemented a revised process whereby a 7-year average of historical water deliveries would be used as the basis for calculating both the O&M and Construction components of the annual water rates, with the average even further reduced for O&M ratesetting if reservoir storage levels are below normal. It is expected that these changes will result in a more accurate cost recovery of annual O&M, and for 2017 the District suspended its capital repayment shortfall component collections as mentioned above. It is too soon to determine if the changed ratesetting policy will obviate the need for the District's additional Capital Component collection.

Recognizing that statewide solutions may be years away, or otherwise even unachievable, the District is currently focusing effort on mid and long-term supply development programs to provide local/regional solutions to its contract water supply shortage situation. These include surface storage opportunities, groundwater recharge, and long-term transfers between local agencies. Most notably, as a partner in the North Valley Regional Recycled Water Program (NVRRWP), the District had been studying the feasibility of importing tertiary-treated (Title 22) recycled water from the cities of Modesto and Turlock for use as a reliable source of supply to supplement its needs. Certification of an EIR was completed in mid-2015, setting the stage for the many approvals needed to complete the project, including but not limited to water supply agreements between the District and the cities, water rights permits and discharge permits approving introduction of the recycled water directly to the Delta-Mendota Canal (DMC), project funding, easements, and multiple other steps leading to the NVRRP's completion. An EIS and Record of Decision were completed in 2016, leading to construction of the NVRRWP Pipeline, Pump Station and DMC Discharge Facility, which has progressed on schedule. As of late 2017, the first component of the Project connecting the City of Modesto's facilities to the Delta-Mendota Canal became substantially complete, and deliveries commenced on December 28, 2017. Above all else, this project appears to be a very positive change for the future of the District and its ability to adequately serve the needs of its landowners.

REQUEST FOR INFORMATION

This report is designed to provide Del Puerto Water District's elected officials, landholders, customers and creditors a general overview of the District's finances and to demonstrate its accountability of the revenues it receives. If you have any questions about this report or need additional information, please contact: Del Puerto Water District, Attn: Anthea G. Hansen, General Manager/Treasurer, P.O. Box 1596, Patterson, CA 95363-1596.

DEL PUERTO WATER DISTRICT

Statement of Net Position

February 28, 2018

Assets		
Current assets		
Cash and cash equivalents	$	1,243,153
Accounts receivable - water users and others		4,279,970
Net investment in direct financing leases, current portion		143,620
Deposits		21,695
Prepaid water - USBR and SLDMWA		298,170
Prepaid water - other sources		5,055,853
Prepaid expenses		163,579
Total current assets		11,206,040
Board designated assets		
Cash and cash equivalents		460,404
Investments		1,696,910
Other post-employment benefits (CERBT)		637,009
Net investment in direct financing leases, non current portion		266,990
Total board designated assets		3,061,313
Investments		6,363,577
Property, plant and equipment, net of depreciation		696,246
Total assets		21,327,176
Deferred outflow of resources		132,679
Total assets and deferred outflow of resources	$	21,459,855
Liabilities and net position		
Current liabilities		
Accounts payable	$	4,150,984
Accrued liabilities		692,128
Current portion of long-term debt		428,322
Customer prepaid water tolls		3,182,969
Compensated absences payable		59,405
Deferred revenue		4,980,940
Total current liabilities		13,494,748
Long-term debt, less current portion		886,425
Net pension liability		603,400
Total liabilities		14,984,573
Net position		
Invested in capital assets		696,246
Restricted for ADLP loan repayment		901,132
Restricted for rate stabilization		535,066
Restricted for capital repayment		719,717
Unrestricted		3,623,121
Total net position		6,475,282
Total liabilities and net position	$	21,459,855

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended February 28, 2018

Operating revenues	
Water sales	$ 16,729,100
Water availability charge	1,916,640
Total operating revenues	18,645,740
Operating expenses	
Purchased water	16,107,411
Salaries, wages and benefits	659,932
Office supplies, technology and other	162,986
Professional fees	299,074
Repairs and maintenance	3,834
Metering program	968
Association fees	487,739
Utilities	12,976
Vehicle, travel and conferences	17,819
Insurance	17,473
Depreciation	46,313
Total operating expenses	17,816,525
Income from operations	829,215
Non-operating revenues (expenses)	
Interest income	57,876
Unrealized gain on investments	(33,233)
Agricultural drainage loan program	(15,975)
Net pension expense	(65,195)
Other non-operating income	158,839
Total non-operating revenue, net	102,312
Net increase in net position	931,527
Total net position, February 28, 2017	5,543,755
Total net position, February 28, 2018	6,475,282

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Cash Flows

For the Year Ended February 28, 2018

Cash flows from operating activities		
Cash received from customers	$	14,319,703
Cash payments for goods and services		(15,601,384)
Cash payments to employees		(651,459)
Net cash used in operating activities		(1,933,140)
Cash flows from non-capital and related financing activities:		
ADLP activities, net		(15,975)
Other cash receipts		93,644
Principal payments on ADLP note		(158,208)
Net cash used in non-capital and related financing activities		(80,539)
Cash flows from capital and related financing activities		
Net investment in direct financing leases		263,834
Additions to capital assets, net		(11,502)
Net cash provided by capital and related financing activities		252,332
Cash flows from investing activities		
Net change in restricted assets		(192,803)
Net change in investments		1,740,350
Interest income		57,876
Unrealized gains or losses on investments		33,233
Net cash used in investing activities		1,638,656
Net decrease in cash and cash equivalents		(122,691)
Cash and cash equivalents, February 28, 2017		1,365,844
Cash and cash equivalents, February 28, 2018	$	1,243,153

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Cash Flows

For the Year Ended February 28, 2018

Reconciliation of operating income to net cash provided by operating activities		
Income from operations	$	829,215
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization		46,313
Changes in operating assets and liabilities:		
Accounts receivable - water users and other		(3,197,462)
Deposits		742,895
Prepaid water		5,622,599
Prepaid expenses		(12,051)
Accounts payable		(3,684,245)
Accrued liabilities		(417,407)
Customer prepaid water tolls		1,656,670
Compensated absences payable		8,473
Deferred revenue		(3,528,140)
Net cash provided by operating activities	$	(1,933,140)

See accompanying notes to the financial statements

Note 1 – Summary of Significant Accounting Policies

The District complies with *Generally Accepted Accounting Standards* (GAAP). The District's reporting entity applies all relevant *Government Accounting Standards Board* (GASB) pronouncements. The District applies *Financial Accounting Standards Board* (FASB) pronouncements and *Accounting Principles Board* (APB) opinions issued on or before November 30, 1998, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Financial Reporting Entity – GASB Statement No. 14 establishes criteria for determining which organizations should be included in a governmental reporting entity. The focal point for preparing financial statements of a financial reporting entity is the *primary government*. The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. Thus, the *financial reporting entity* consists of the *primary government* and its *component units*.

> *Primary government* is defined as a state, general purpose local or special purpose local government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.
>
> *Component units* are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on these criteria and definitions, the district is the primary government and there are no potential component units which should be included in the financial reporting of the District as required by GASB Statement No. 14.

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Presentation – Fund Accounting – The operations of the District are accounted for in the fund types described below:

> Proprietary Fund Type – Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its statement of net position. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net total position. The District has one Proprietary Fund type, namely the Enterprise Fund. The Enterprise Fund is used for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that 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.
>
> Fiduciary Fund Type – Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District has two Fiduciary Fund types, the Supplemental Water Purchase Program (SWPP) Agency Fund and the North Valley Regional Recycled Water Program-Refuge Water Supply Program (NVRRWP-RWSP) Agency Fund. Both Funds are custodial in nature and does not involve the measurement of results of operations.

Basis of Accounting and Measurement Focus – The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled services which are accrued. Expenses are recorded at the time liabilities are incurred.

Use of Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Accounts Receivable – The District's management considers all accounts receivable from water users and others to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded in these financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment – All property, plant and equipment assets are recorded at historical cost. Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the District's statement of net assets. Depreciation is calculated on the straight line method over the useful lives of the assets. The useful lives for each major class of depreciable fixed assets are as follows:

Office furniture	5-7 years
Tools and equipment	5 years
Vehicles	5 years
Landscaping	15 years
Meters	40 years
Buildings	40 years

Investments – All investments are held with LPL Financial. Fair values were obtained directly from LPL Financial. In accordance with GASB Statement No. 31, the change in the fair value of investments is recorded in the statement of revenues, expenses and changes in net assets.

Direct Financing Leases – The District leases certain irrigation equipment to various water users under terms which are accounted for as "direct financing leases" as defined in *Statement of Financial Accounting Standard No. 13*. The difference between the gross lease revenue to be received and the present value of the lease rentals is recorded as unearned financing income and is amortized into income over the term of the lease using the effective interest rate method. The present value of the leases to be received is recorded as "Net Investment in Direct Financing Leases" on the District's Statement of Net Position.

Compensated Absences – The District has a vacation policy which allows employees to accrue vacation leave up to 480 hours with specific approval by management. Upon separation from employment, employees will be paid their accrued vacation at the current rate of pay. The District has a medical leave policy which allows employees to accrue medical leave up to a maximum of 240 hours. Upon separation from employment, the District has no obligation to compensate an employee for unused medical leave, however employees may convert unused accumulated sick leave (up to one year) to additional service credit when separation occurs as the result of a CalPERS eligible retirement. At February 28, 2018, the District's compensated absences payable was $59,405.

Note 2 – Cash and Cash Equivalents

Applicable state statutes authorize the District to invest in obligations of the U.S. Treasury agencies, certificates of deposit, banker's acceptances, local and municipal bonds, repurchase agreements, insured money market accounts and commercial paper.

Cash consists of two checking accounts, one savings account, a money market account and primary certificates of deposit. When excess funds build up in the interest bearing checking account, they are transferred to either the money market account or the savings account to earn a higher interest rate. Funds are transferred to and from the checking account without penalty. The District holds its checking accounts and savings account in Patterson, California with a federally insured bank. The District and the bank have contracted for insurance in excess of the FDIC limit of $250,000. The contract insures deposits of the District to $5,000,000. According to the contract, the bank maintains eligible securities with market values of at least 10% in excess of the actual total amount of local agency monies on deposit with the bank. The District monitors this contract as necessary.

The money market account and the certificates of deposit are held with LPL Financial and are classified as investments. LPL Financial is an investment company that is a member of the New York Stock Exchange, Inc. and the Securities Investor Protection Corporation. The certificates of deposit are insured up to an aggregate maximum amount of $250,000 per certificate.

All short-term investments with an original maturity of three months or less are considered to be cash equivalents.

State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of California or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits were fully insured or collateralized as required by the state statutes at February 28, 2018.

Note 3 – Accounts Receivable

The District invoices its ratepayers for an annual per-acre Water Availability Charge (WAC) and the annual West Side San Joaquin River Watershed Coalition Fee on March 1 of each year. These charges become delinquent on March 31. Delinquent charges are subject to lien under water code section 36729, as well as any other remedies available to the District for collection of delinquencies, including but not limited to those enforced in accordance with Chapters 4, 5 and 6 of Part 7 of Division 13 of California Water Code.

The District further requires those customers electing annual water service to deposit a Water Cost Prepayment (WCP) in an amount equal to 25% of the total cost of CVP contract water available to that customer for the given year, with said deposit being applicable to water charges after the first 75% of the supply is both used and paid for. When an account is established by virtue of the WCP, water is allocated to the account on an equal-per-share irrigable acre basis based on the current years' CVP available supply, with subsequent actual water use being billed on a monthly basis.

Note 3 – Accounts Receivable (continued)

Unless specified differently under special program guidelines, all charges are due by the last day of the month following invoicing to avoid interruption in service. In addition to water customer accounts receivable, the District also processes invoicing for miscellaneous items/services. As of February 28, 2018, the District had $477,630 in water accounts and $3,802,340 in miscellaneous accounts receivable.

Note 4 – Net Investment in Direct Financing Leases

The District makes available low-interest loans to its landowners with funding accessed through the State Water Resources Control Board's (SWRCB) Agricultural Drain Loan Program (ADLP). This funding allows for on-farm irrigation system improvements to be financed and repaid over periods of up to ten years under specific lease terms. Such loans are collateralized by recordings upon the real property on which the systems are installed. To date the ADLP Program has issued 52 loans in the form of non-cancellable direct financing leases. Investment in direct financing leases consisted of the following at February 28, 2018:

	Amount
Total Net Investment in Direct Financing Leases	$ 429,295
Less unearned financing income	(18,690)
Net investment in Direct Financing Leases	410,605
Less estimated current portion	(143,620)
Long-term portion	$ 266,985

Minimum future rents receivable under non-cancelable direct financing leases are as follows:

Year ending	Principal	Interest	Total
2019	$ 143,620	$ 9,444	$ 153,064
2020	131,975	6,141	138,116
2021	135,010	3,105	138,115
Total	$ 410,605	$ 18,690	$ 429,295

Note 5 – Prepaid Water, USBR & San Luis & Delta-Mendota Water Authority

As a requirement of its long-term water service contract, the District prepays the United States Bureau of Reclamation (USBR) two months in advance for its scheduled CVP water use at the estimated rates published for the applicable water year. At the same time that this payment is made, the District also reconciles the actual CVP water use for the prior month to the prepayment previously paid for that month and adjusts the current payment accordingly.

As a requirement of its multi-year Warren Act contracts, the district prepays the USBR two months in advance for any non-project supplies scheduled to be conveyed and/or stored in the federal facilities. This prepayment is reconciled to actual deliveries as the schedule is updated throughout the water year. Prepayments are categorized as either Prepaid Water – USBR or Prepaid Water – Other, depending on the source supply being transacted under each Warren Act Contract.

Note 5 – Prepaid Water, USBR & San Luis & Delta-Mendota Water Authority (continued)

The District also prepays Delta-Mendota Canal O&M costs to the San Luis & Delta-Mendota Water Authority (SLDMWA) one month in advance for its scheduled water deliveries at estimated rates set by the Water Authority Board for the applicable water year. At the same time that this payment is made, the District reconciles the actual water use for the prior month to the prepayment previously paid for that month and adjusts the current payment accordingly.

As of February 28, 2018, the District had prepaid water costs to the USBR and SLDMWA totaling $298,170.

Note 6 – Prepaid Water, Other Sources

Due to contractually imposed shortages on its water supply, the District seeks to develop an annual Additional Supplies Pool (the "Pool") for each water year, which is created by the pooling of other sources of water through various transfer, banking and exchange agreements. Early in the water year an estimate of the total available Pool is made, and a per-acre-foot price designed to recover all costs of development of the pool is set by the Board. The costs of this Annual Additional Supplies Pool are recorded as Prepaid Water-Other Sources. Sales from the Annual Additional Supplies Pool are recorded as Deferred Revenue.

The Pool is closed and reconciled at year-end, or as soon as possible after the Rescheduling period, if any Pool supplies are rescheduled by the District. Normally, any resultant income from the Annual Additional Supplies Pool is either rebated to customers who purchased rebate-eligible additional supplies in that year, or set aside to be used in the development of the next year's Pool. Any resultant losses would be offset by prior or forecasted Pool profits or melded into costs of the next year's Pool. At the closing of the 2016-17 Annual Additional Supplies Pool, the board authorized elected to use $5,529,930 in net Pool revenue expected for 2017-18 to offset Pool losses of $4,531,726 from 2016-17. In 2017-18, however, expected Pool revenues did not materialize due to a 100% CVP allocation and a request by San Luis Water District (SLWD) to defer a planned sale. Also during 2017-18, charges associated with multi-year additional supply purchase contracts added another $295,795 to the prepaid costs/pool loss balance.

In late 2017, the District executed a revised term sheet with SLWD and collected an additional $2,750,000 to add to the $1,000,000 deposit previously on file to be used against a renegotiated sale for 2018-2020 totaling $7,500,000. Based on this commitment, the Board approved the continued deferral of $4,827,521 in pool costs to be offset against the planned future revenues. Additionally, the District had $55,450 in prepaid 2018 NVRRWP Supply Costs and $117,920 in costs associated with the future return of 1,100 AF of stored supply, for a total invested in prepaid water from other sources of $5,000,891 at February 28, 2018.

Note 7 – Prepaid expenses

DMC/California Aqueduct Intertie

On July 20, 2005, the District finalized execution of a Contributed Funds Agreement with the Bureau of Reclamation, which committed its fair share of the funding necessary to construct a physical connection between the federally owned Delta-Mendota Canal and the State owned California Aqueduct. In exchange for its contribution of funds, the District was to receive a commensurate reduction in its total capital repayment obligation once construction is completed and the facility becomes operational. It was estimated that operation of the Intertie would produce an average additional yield of 2,583 acre-feet, or a 2% increase in the District's annual allocation over time. The District financed its portion of the Intertie construction costs by way of a tax-exempt loan offered by the Bank of the West in the amount of $1,793,575 over a period of fifteen years at a fixed rate of 4.25%. In early 2011, the Bureau of Reclamation identified alternate potential funding sources for the Intertie, which then had the necessary approvals for proceeding with construction. In August 2011, the district received a refund of a portion of its Contributed Funds, which was used to retire the Bank of the West obligation. The small remaining portion of the District's initial contributed funds which had already been spent by the BOR remained to be credited against the District's capital obligation once the project was put into service, which occurred in the Bureau's fiscal year 2014. After recognizing the WY 2017 portion amortized over a 50 year repayment period, prepaid intertie construction costs, as of February 28, 2018, totaled $114,430.

Other

The District prepays certain expenses for future operations, including such items as property & liability insurance, maintenance contracts on office equipment and the facility, certain association dues and subscriptions, as well as its annual obligation to the USBR for the Trinity Public Utility District Assessment. Expenses are then recorded in the appropriate month of service. As of February 28, 2018, the District had $25,602 in other prepaid expenses.

Note 8 – Restricted Assets

Restricted assets consisted of the following at February 28, 2018:

	Designated	Restricted	Total
Cash	$ 370,275	$ 90,129	$ 460,404
Receivables	-0-	410,611	410,611
Investments	885,906	811,004	1,696,910
Total	$ 1,256,181	$ 1,311,744	$ 2,567,925

Designated

Rate Stabilization – United States Bureau of Reclamation and San Luis & Delta-Mendota Water Authority (SLDMWA) rates fluctuate due to the fact that initial rates are set based on estimated budget expenditures and system-wide water deliveries. Final rates are not reconciled by agencies until 12 to 18 months after the water year,

Note 8 – Restricted Assets (continued)

has ended. The District attempts to stabilize its rates through use of rate contingency collections in some water years and rate subsidies in others, based on initial estimates provided by the agencies. As of February 28, 2018, contingency collections and agency final accounting refunds in the amount of $535,066 have been designated for use in maintaining stable District water rates.

Capital Repayment – Under current Bureau ratesetting policy, each CVP contractors' obligation for repaying the capital costs of constructing the CVP is collected as a component of that contractor's published annual estimated water rates based on historical plus projected future deliveries through year 2030. Shortages incurred since the passage of CVPIA in the early '90's and predicted to continue for the foreseeable future mean less delivery base across which to spread the capital obligation, leading to predicted higher rates as year 2030 nears. In Fiscal Year 2012-13, the Board authorized the collection of a rate component on all water deliveries which would set based on the forecasted deliveries during each water year and designed to collect the "shortfall" inherent in the USBR's capital collections. Staff continues to monitor this situation closely and is taking all actions necessary to ensure that the District meets its published capital obligation while continuing its practice of avoiding drastic changes in the rates paid by its customers from one year to the next. As of February 28, 2018, the District's assets included $719,717 in cash and investments designated for additional Capital Repayment.

Restricted

State of California, ADLP – On November 1, 2005, the State of California Water Resources Control Board authorized issuance of a $5 million Agricultural Drainage Loan Program (ADLP) loan to the District for purchasing and installing irrigation system improvements to be leased by certain water users. The leases are accounted for as direct financing leases and are payable over varying periods from 4 to 10 years. The District's corresponding liability to the State of California is due and payable over 15 years. As of February 28, 2018, lease and interest payments and cash totaling $901,132 is currently held by the District and is to be combined with the related rents receivable of $410,605 to be used for the District's scheduled future payments to the State.

California Employees Retirement Benefit Trust Fund (CERBT) – On February 29, 2009, the District elected to retrospectively prefund its other post-employment benefit obligations. While not mandatory, pre-funding these liabilities will: 1) utilize investment returns to pay future benefits, thus lowering future employer cost; 2) utilize the experience of the CALPERS investment team to earn higher returns, thus lowering annual expense; 3) eliminate any unfunded liabilities and 4) improve financial security for the District's retirees. The District's July 1, 2015 OPEB valuation projected an actuarial accrued liability of $469,214 ($404,000 plus $65,214 implicit) for the fiscal year ended February 28, 2018. As of February 28, 2018, the District's CERBT Assets totaled to 637,009.

Note 8 – Restricted Assets (continued)

1) utilize investment returns to pay future benefits, thus lowering future employer cost; 2) utilize the experience of the CALPERS investment team to earn higher returns, thus lowering annual expense; 3) eliminate any unfunded liabilities and 4) improve financial security for the District's retirees. The District's July 1, 2015 OPEB valuation projected an actuarial accrued liability of $469,214 ($404,000 plus $65,214 implicit) for the fiscal year ended February 28, 2018. As of February 28, 2018, the District's CERBT Assets totaled to 637,009.

Note 9 – Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consisted of the following at February 28, 2018:

	2.28.17	Additions	Deletions	2.28.18
Land	$ 35,409	$ -	$ -	$ 35,409
Buildings and improvements	754,673	-	-	754,673
Meters	238,086	10,964	-	249,050
Office equipment	139,604	538	-	140,142
Equipment	83,899	-	-	83,899
Vehicles	92,481	-	-	92,481
Total historical cost	1,344,152	11,502	-	1,355,654
Accumulated depreciation	(613,096)	(46,313)	-	(659,409)
	$ 731,056			$ 696,245

Depreciation expense for the year ended February 28, 2018 was $46,313.

Note 10 – Customer Prepaid Water Tolls and Deferred Revenue

The District receives advance payment from customers who have elected to receive their current year water allotment, equivalent to 25% of the cost of their water allotment at the beginning of the year, which is applied toward the last 25% of their water use once the first 75% is both used and paid for. Customer Prepaid Water Tolls represent instances where, at the end of the water year, a customer has not utilized their full allocated water supply.

The District also receives advance payment for all annual additional supplies purchased by customers during the water year, as well as for all non-project supplies conveyed into the DMC from private landowner wells, or other various sources. In January 2017, the District also collected advance payment for one half of the estimated cost of NVRRWP supplies to be acquired beginning in 2018. Each of these supply types are recorded as Deferred Revenue until delivered. As of February 28, 2018, customer Prepaid Water Tolls totaled $3,156,107 and Deferred Revenue related to other sources of purchased supply totaled $4,980,940.

Note 11 – Long Term Debt

Notes payable consist of the following:

	Balance 02/28/17	Additions	Payments	Balance 02/28/18
Agricultural Drainage Loan Program, payable to the State of California in annual installments through 2020, including interest at 2.3%, collateralized by lease payments on the irrigation equipment from water users.	$ 1,733,439	$ -0-	$ (418,692)	$ 1,314,747
Total long-term debt	$ 1,733,439	$ -0-	$ (418,692)	1,314,747
Less current portion				(428,322)
				$ 886,425

Maturities of long-term debt for the next five years and thereafter, given current conditions, is as follows:

Year Ending	Amount
2019	$ 428,322
2020	438,174
2021	448,251
Thereafter	-
Total	$ 1,314,747

Note 12 – Economic Dependencies

The District was organized to contract for and administer delivery of water supplies to landowners within the geographical boundaries of the District. Therefore, the District's existence relies exclusively on the continuing need for water supplies by landowners within the District, and the District's ability to procure and provide such supplies. Because various regulatory and judicial proceedings may impact the guarantees of water available to the District in the future, management believes that the impact of severe or chronic water shortages could have a material, financial or operating effect on the District.

Note 13 – Related Party Transactions

Included in the Net Investment in Direct Financing Leases are receivables from board members who are also landowners, as well as one receivable from a landowner in which the General Manager has an ownership interest. As with similar loans, these loans are fully secured by liens against the landowner's property. As of February 28, 2018, the principal balance of these loans totaled $179,160.

Note 14 – Pension Plan

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

Benefits from the plan are for both salaried and hourly-rated employees who meet certain eligibility requirements, and calls for these benefits to be paid to eligible employees at retirement based on age, years of service and compensation rates for the highest earnings year during employment. CalPERS retirement laws changed effective January 1, 2013 creating two classes of benefit groups: classic members and PEPRA members. The District contributes its share of the pension costs as determined annually by the plan's actuary, which as of July 1, 2016 was 8.9% of gross earnings plus $2,529 per month for classic members, and 6.6% plus $2.08 per month for PEPRA members. Employees contribute an additional 7% and 6.25% of gross earnings, respectively, for classic and PEPRA members. For the plan year ended February 28, 2018, the District contributed a total of $57,049 to the plan.

The Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, became effective for fiscal years beginning after June 15, 2014. The statement established accounting and financial reporting standards for the recognition and disclosure requirements for employers with a liability to a defined benefit pension plan. GASB 68 requires that the District's liability be measured as the portion of the present value of projected benefit payments to be provided to current and inactive employees that is attributed to the employee's past periods of service, less the amount of the plan's net position. The statement also requires employers to present information about the changes in net pension liability, as well as a ten year schedule containing the net pension liability and certain related ratios, and information about statutorily or contractually required contributions and related ratios. Until a full ten year trend is completed, the District will present information for only those years for which information is available.

The following is information the District is required to disclose under GASB 68.

Pension liabilities: At February 28, 2018, the District reported a liability of $603,400 for its proportionate share of the plan's net pension liability. The District's proportion of the net pension liability is based on the District's share of contributions to the plan relative to the total contributions of all participating employers. At June 30, 2017, the District's proportion was .015307 percent. The District's liability as of February 28, 2018 was measured as of June 30, 2017, for the measurement period of June 30, 2016 to June 30, 2017.

Employees covered by benefit terms: There are currently 5 active participants in the plan, and 2 participants receiving benefits.

Note 14 – Pension Plan (continued)

Contributions: The contribution for the period ending June 30, 2017 is $42,158, or 9.74% of covered employee (assuming contributions will be deposited throughout the plan year).

Actuarial assumptions: Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earning of the individual between entry age and assumed exit age. The total pension liability in the June 30, 2017 measurement date actuarial valuation was determined using the following assumptions, applied to all periods in the measurement: 1) Inflation of 2.75%; 2) Payroll growth about 3%, which varies by entry age and years of service; 3) 7.15% investment rate of return.

Retirement Age and Mortality rates were based on the 2014 CalPERS Experience Study and Review of Actuarial Assumptions for the ten year period from 1997 to 2011.

There were no changes in the methods or assumptions used to determine legally required contributions.

Discount rate: The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determine net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the net pension liability to changes in the discount rate: It is estimated that a 1% increase in the discount rate would decrease the net pension liability by approximately $291,021 and a 1% decrease in the discount rate would increase the net pension liability by approximately $351,383.

Note 15 – USBR Interest Bearing Deficit

The Bureau of Reclamation annually reconciles water deliveries and revenues, collected based on prepaid estimated USBR rates, with the actual costs of operating, maintaining and delivering CVP supplies to its Contractors during the October 1 thru September 30 fiscal year. Any resulting revenue in excess of costs is applied against each contractors then-current obligation for repayment of the capital costs of contracting the CVP (Note 17). In the event that revenues collected are not sufficient to cover a contractors share of the total O&M costs allocated, an Interest-Bearing Deficit is reported and a corresponding rate component is added to subsequent years' estimated rate to recover the deficit, if it is not paid within 30 days. For the fiscal year ended September 30, 2017, the District USBR incurred a $245,245 deficit, which was paid in full as of February 28, 2018.

Note 16 – Commitments and Contingencies

Insurance Coverage and Risk Management – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is covered under commercial insurance policies for workers' compensation, automobile, general liability and other business related coverage. Expenditures and claims in excess of the District's deductible for related insurance coverage are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District is unaware of any actual or potential claims that would materially affect its financial condition. Therefore, no provision has been recorded.

Water Right Fees – For the past 10 years, the District has been billed by the State Board of Equalization for a water rights fee assessed by the State Water Resources Control Board based on water right permits or licenses held by the United States Bureau of Reclamation. This fee was imposed substantially due to a shortfall in the Budget for the State of California. Depending on the State's budget in future years, this fee may continue to be assessed. The amount of the fee assessment for the year ended February 28, 2018 totaled $120,439. Currently, the District is a party to litigation regarding this assessment, as a member of the Central Valley Project Water Association (CVPWA). While initial court rulings deemed the fees valid as imposed by the SWRCB, on appeal the upper courts ordered the issue of equity in the states' assessments among water rights permit holders be remanded back to the lower courts for re-determination. An unfavorable outcome has now resulted in a request for the case to be considered by the US Supreme Court. The CVPWA together with the Northern California Water Association is coordinating all efforts associated with the litigation and bills the District for its pro-rata share of litigation costs.

Note 17 – Supplemental Water Purchase Program

During 2003, the District completed the Supplemental Water Purchase Program ("SWPP" or the "Program"). The cost of this $2,192,080 Program was financed through the issuance of 25 year Certificates of Participation generating $2,535,000, including costs of issuance and a reserve fund deposit requirement for the one-time purchase of 4,136 acre-feet of annual water entitlement from certain property owners within the District who agreed to permanently remove their land from service. This entitlement was used to increase the allocation to certain parcels of land within the District in exchange for participant landowners annually paying the costs of the Program. The District, which offered all landowners in the District the opportunity to participate in the Program, eventually entered into Water Supply Contracts with 21 interested property owners.

Pursuant to these Water Supply Contracts, Program participants agreed to pay capital charges calculated to repay the principal and associated interest costs of the Program along with any other charges allocated to them pro-rata to their share of Program participation. The District, pursuant to the terms of an installment purchase contract, pledged these capital charges as security for the installment payments of principal and interest on bond certificates, which were payable October 1 and April 1 of each year, beginning October 1, 2003.

Note 17 – Supplemental Water Purchase Program (continued)

To provide funds for the installment payments in the event of a delinquent payment of capital charges, the District established a reserve fund from the proceeds of the certificates of participation and a pledged fund from a one-time deposit from the participants. The reserve fund is maintained at the lesser of (1) 10% of the original principal amount of principal payments due under the installment purchase contract, (2) an amount equal to the maximum annual installment payment payable in a certificate year by the District between such dates of calculation and the expiration of the installment purchase contract, or (3) 125% of the average annual installment payment, including interest thereon, payable in a certificate year by the District. Further, California Water Code provides that the recorded water supply contracts constitute a priority lien against the benefiting parcels.

In early 2012, favorable market conditions led district staff to explore refunding of the SWPP bonds in favor of a better financing option, and on October 1, 2012, the District completed an issuance of 2012 Certificates of Participation in the amount of $1,655,000 at 4.25% interest. All Certificates were purchased by a single beneficiary, Rabobank, N.A. Similar to the original series 2003A bonds, the District pledged capital charges to be paid by program participants as security for the installment payments, and elected to retain the balance of the original pledged fund, less refunds to program participants electing payoff of their obligation as part of the transaction, as security for the installment payments in the event of a participant delinquency. The 2012 transaction resulted in an opportunity for participants to prepay their original obligations, of which three elected to do, reducing the total required funding by $124,457. In addition, the transaction resulted in a one-year reduction in the repayment period, and interest rate savings estimated to be approximately $245,000 over the remaining life of the issue. The obligation on the refunded bonds will be fully repaid by April 2028.

The District accounts for this program as a fiduciary fund type, specifically as an agency fund. As of February 28, 2018, the District had $148,828 included in cash, receivables and investments, and an accrued liability of $148,828 relating to the Program.

Note 18 – NVRRWP-RWSP Fund

On August 12, 2016, the District executed a long term agreement with the United States Bureau of Reclamation for the exchange and purchase of North Valley Regional Recycled Water Program Water, which expires on February 28, 2060. Per the agreement, supplies made available annually by the District at the NVRRWP discharge structure on the Delta-Mendota Canal will be provided to the Refuge Water Supplemental Program ("RWSP") program in the form of either direct purchase (20% of the total) or exchange (80% of the total) back to the District, under specified terms and conditions. Pursuant to Article 4e of the agreement, $10,000,000 dollars was received in September 2016 by the District from the RWSP for the purchase of program water supplies, an additional $12,300,000 dollars was received in June 2017, and a final $2,700,000 in October 2017, for a total prepayment of $25,000,000. The District accounts for this transaction as a fiduciary fund type, specifically as a second agency fund. As of February 28, 2018, the District held $25,135,500 included in cash and investments, and a corresponding liability for the same amount for fund expenditures.

Note 19 – USBR Capital Repayment

Under Bureau of Reclamation rate-setting policies, cost of service water rates are established for each contractor to recover reimbursable O&M costs as well as the capital costs of the Central Valley Project (CVP). The policies require that each contractor fully repay their allocated share of the capital costs of the CVP by year 2030. Although the District is obligated to make repayments towards capital, there is no corresponding asset or liability recognized within these financial statements because the District will not hold title to any portion of the CVP facilities when its share of the obligation is paid.

Further, the District's share of total CVP capital is not fixed because it is based on historical and projected deliveries for the period 1981 through 2030 which update annually, and because until the project is deemed complete, new additions can be made by the Bureau to the total capital balance. As of February 28, 2018, the District's share of this obligation is $22,131,680.

Note 20 – Fair Value of Assets and Liabilities

The District complies with Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements.* ASC 820 fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, Level 1 is defined below as:

Level 1: Quoted prices in active markets for identical assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the District's balance sheets, as well as the classification pursuant to the valuation hierarchy.

Financial Instruments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 instruments include a variety of financial instruments as listed below. There are no Level 2 or Level 3 types within the balance sheet of the District. The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with ASC 820 as of February 28, 2018:

	Fair Value	Level 1
Money market securities	$ 721,796	$ 721,796
Totals of financial instruments	$ 721,796	$ 721,796