

AUDITED FINANCIAL STATEMENTS

DEL PUERTO WATER DISTRICT

February 28, 2015

JWT & Associates, LLP
Certified Public Accountants

DEL PUERTO WATER DISTRICT
Patterson, California

February 28, 2015

Board of Directors

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

Administration

Anthea G. Hansen	General Manager
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DEL PUERTO WATER DISTRICT

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JWT & Associates, LLP

Certified Public Accountants

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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, 2015.

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, the State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grants and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

JWT & Associates, LLP

October 15, 2015

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

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, 2015. 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 sole 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, alfalfa hay, grains, broccoli, melons, peaches, citrus, spices, cherries, wine grapes and olives. Over 61% of the District's irrigable lands are now 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.

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

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 studying the feasibility of offstream storage, local groundwater recharge, and most notably, the beneficial use of recycled water through the North Valley Regional Recycled Water Program.

The District's management staff currently consists of a General Manager, a Water Operations Manager, and a Finance/Business Manager. Management is supported by two full-time staff members, and the District also employs a part-time student worker to care for the office facility grounds. Currently one staff position is vacant, and the District is actively recruiting to fill that position and to hire a Water Resources/Operations Manager, who will replace the Water operations Manager upon his retirement. 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. The District's stated mission is as follows: "*Dedicated to Providing its 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 small family farms of the West Side, 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 Position, 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 Assets*. 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 recovered its costs through user fees.

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

- 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

Continuing with a strategy of fiscal conservatism coupled with a detailed budgeting process, the financial position of the District remained strong in 2014-15. This is illustrated by the financial analysis below:

Condensed Financial Information

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

Table 1
Balance Sheet February 28, 2015 and February 28, 2014
 (Proprietary Fund Only)

	<u>2/28/2015</u>	<u>2/28/2014</u>	<u>Variance</u>
Current Assets	\$ 15,450,279	\$ 4,458,050	\$ 10,992,228
Noncurrent Assets	<u>\$ 6,263,303</u>	<u>\$ 6,418,358</u>	<u>\$ (155,055)</u>
Total Assets	\$ 21,713,582	\$ 10,876,408	\$ 10,837,174
Current Liabilities	\$ 13,969,220	\$ 2,535,171	\$ 11,434,049
Noncurrent Liabilities	<u>\$ 2,142,718</u>	<u>\$ 2,536,805</u>	<u>\$ (394,087)</u>
Total Liabilities	\$ 16,111,938	\$ 5,071,976	\$ 11,039,962
Net Position:			
Invested in Capital Assets	\$ 799,707	\$ 801,586	\$ (1,879)
Reserved	\$ 3,484,188	\$ 3,143,679	\$ 340,509
Unreserved	<u>\$ 1,317,749</u>	<u>\$ 1,859,167</u>	<u>\$ (541,418)</u>
Total Net Position	\$ 5,601,644	\$ 5,804,432	\$ (202,788)
Total Liabilities and Net Position	<u>\$ 21,713,582</u>	<u>\$ 10,876,408</u>	<u>\$ 10,837,174</u>

Del Puerto Water District

Management’s Discussion & Analysis

February 28, 2015

Highlights

- Current assets increased \$10,992,228, while non-current assets decreased \$155,055, for a total assets increase of \$10,837,174. This was primarily the function of an increase in Pre-paid Water Supplies from Other Sources and Cash on Hand associated with such presold supplies.
- Current liabilities increased \$11,434,049, while non-current liabilities decreased \$394,087, for a total liabilities increase of \$11,039,962. The current liability increase was primarily due to an increase in Unearned Income for Pre-billed water supplies as of the fiscal year-end and Prepaid Water Tolls. The non-current liability decrease was primarily due to the annual payment of the District’s ADLP Loan.
- Total assets exceed total liabilities by \$5,601,644 a decrease of \$202,788 or 3.6% during the fiscal year. This decrease in net assets, or “net profit”, for the year, was primarily due to two items: 1) the Board’s decision to subsidize the Administrative costs of the District by utilizing reserves; and 2) a revenue vs. cost differential for current year water deliveries due to a supply-type variance between the type of water delivered by the District vs. the type of supply used each month on individual customer accounts.

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

Table 2
Statement of Revenues, Expenses and Changes in Net Assets
For the Years ended February 28, 2015 and February 28, 2014

	<u>2/28/2015</u>	<u>2/28/2014</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water Sales	\$ 2,052,769	\$ 10,546,905	\$ (8,494,136)	-80.54%
Water Availability Charge	<u>\$ 745,665</u>	<u>\$ 1,185,001</u>	<u>\$ (439,336)</u>	-37.07%
Total Operating Revenues	\$ 2,798,434	\$ 11,731,906	\$ (8,933,472)	-76.15%
Operating Expenses:	<u>\$ 3,232,850</u>	<u>\$ 11,472,126</u>	<u>\$ (8,239,276)</u>	-71.82%
Total Operating Expenses	\$ 3,232,850	\$ 11,472,126	\$ (8,239,276)	-71.82%
Net Operating Income	\$ (434,416)	\$ 259,780	\$ (694,196)	-267.23%
Non-operating Revenues, Net:	<u>\$ 231,629</u>	<u>\$ (1,931)</u>	<u>\$ 233,560</u>	-12101.50%
Change in Net Assets	\$ (202,787)	\$ 257,849	\$ (460,636)	-178.65%
Total Net Position – Beginning	<u>\$ 5,804,431</u>	<u>\$ 5,546,582</u>	<u>\$ 257,848</u>	4.65%
Total Net Position – Ending	<u>\$ 5,601,644</u>	<u>\$ 5,804,431</u>	<u>\$ (202,787)</u>	-3.49%

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

Highlights

- Total Operating Revenue decreased by \$8,933,472 or 76.15% to \$2,798,434. The decrease was primarily reflective of the lack of available supplies due to the 0% USBR CVP Ag Service Allocation.
- Total Operating Expense decreased by \$8,239,276 or 71.82% to \$3,232,850. The decrease was primarily reflective of the decreased costs of purchased water due to decreased market supply availability.
- Non-operating revenues (net) increased by \$233,560 to \$231,629. This increase was due to a one-time interest earning gain on investment holdings in the DHCCP Principle Obligation, which was retired on 3/1/14.

Budget Comparisons

The following table (Table 3) compares actual administrative expenditures to the 2014-15 budget.

Table 3
Administrative Budget to Actual Comparison
For the Year ended February 28, 2015

	<u>2014-15</u> <u>Actual</u>	<u>2014-15</u> <u>Budget</u>	<u>Variance</u>
Water Availability Charge	\$ 745,665	\$ 745,815	\$ (150)
Total Operating Revenues	\$ 745,665	\$ 745,815	\$ (150)
 Operating Expenses:			
Wages and Related Expenses	\$ 497,321	\$ 532,100	\$ (34,779)
Conservation Services	\$ 3,000	\$ 7,000	\$ (4,000)
Office Supplies, Rent & Other	\$ 167,673	\$ 123,179	\$ 44,494
Repairs & Maintenance	\$ 5,580	\$ 4,185	\$ 1,395
Metering Program	\$ 5,426	\$ 6,000	\$ (574)
Association Fees	\$ 347,292	\$ 446,280	\$ (98,988)
Utilities	\$ 14,530	\$ 14,968	\$ (438)
Engineering & Consulting Fees	\$ 190,526	\$ 30,000	\$ 160,526
Legal and Audit Fees	\$ 50,404	\$ 32,520	\$ 17,884
Vehicle, Travel and Conferences	\$ 26,759	\$ 25,150	\$ 1,609
Insurance	\$ 18,290	\$ 19,493	\$ (1,203)
Capital Expenditures	\$ 47,926	\$ 46,000	\$ 1,926
Depreciation and Amortization	\$ 42,805	\$ 42,000	\$ 805
Total Operating Expenses	<u>\$ 1,417,532</u>	<u>\$ 1,328,875</u>	<u>\$ 88,657</u>
Net Operating Income	\$ (671,867)	\$ (583,060)	\$ (88,807)
 Non-operating Revenues, Net:			
	<u>\$ 231,629</u>	<u>\$ 132,850</u>	<u>\$ 98,779</u>

Net Administrative Income/(Loss)	\$	(440,238)	\$	(450,210)	\$	9,972
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For 2014-15, administrative expenses were \$88,657 more than budgeted, and the net of actual non-operating revenues vs. non-operating expenses was \$98,779 more than budgeted, leading to a net operating increase of \$9,972 more than budgeted. Note: For Fiscal Year 2014-15, the budget was adopted to reflect an approximate loss of \$10.24/irrigable acre, which was to be subsidized using Rate Stabilization reserves. The actual Administrative Budget loss was \$10.02/irrigable acre, resulting in a call on reserves as planned to fund this portion of the District’s activities.

Highlights of the variances between actual and budgeted cost centers were as follows:

- Wages and Related Expenses less than budgeted due to a one-time reversal of sick pay accrual for retiring management, as well as more vacation time being utilized than anticipated.
- Office, Supplies, Rent and other expenses more than budget due to under-budgeted SWRCB Fee and un-budgeted Letter Agreement Costs for work pursued with the USBR.
- Association Fees under budget by \$98,988 due to a mid-year refund of San Luis & Delta-Mendota Water Authority Activity Agreement dues resultant from their mid-year budget adjustment process.
- Engineering and Consulting Fees more than budget by \$160,526 due to the post-budget approval to contribute \$150,000 (or 10%) of the Phase II Feasibility costs for the North Valley Regional Recycled Water Program (NVRWP).
- Legal and Audit Fees more than budget due to the need for extensive services related to supplemental supply programs and the NVRWP.

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, 2015, the District had \$799,707 (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 \$1,879 net decrease over the prior fiscal year, which is primarily due to depreciation expense, offset by the purchase of several new meters and one District vehicle.

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

DEBT ADMINISTRATION

Agricultural Drain Loan Program Debt

District net 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, 2015, the liability to the Agricultural Drain Loan Program was \$2,142,718.

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. While 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 widely recognized that exports are not the only stressor affecting the Delta. As a result of the current drought conditions, much emphasis and momentum is being placed on addressing these issues and repairing 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 include the Bay-Delta Conservation Plan (BDCP) and the Delta Habitat & Conveyance Conservation Plan (DHCCP) (more currently renamed the California Water Fix and Eco-Restore Programs). These projects were embarked upon to bring approved solutions forward to address the health of the State's precious water resources, and provide relief to those dependent on them.

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

Unfortunately, the funding requirement for this effort placed yet another economic burden on District landowners, and with no certainty that the investment would result in relief to the crisis of chronic shortages due to regulatory constraints, in 2013 the District ceased funding participation and retired its obligation.

Along with the cost of solutions to solving chronic supply shortages, there are also considerations on how these shortages will affect CVP contract rates into the future. 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 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, 2015, the District's assets included \$518,529 in cash funds plus \$72,987 in current year collections to be designated, for a total of \$591,516 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 costs. Beginning with the Bureau of Reclamation's fiscal year ended 2011, which will be recognized in the District's fiscal year ended 2013-14, Extraordinary O&M and certain reimbursable American Recovery and Reinvestment Act (ARRA) costs will cause water rates to increase. While ARRA costs will be limited to specific projects to be completed within the next two to three years, 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.

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2015

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 water supply shortage situation. As a partner in the North Valley Regional Recycled Water Program (NVRWP), the District is currently 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. While future phases of analysis will ultimately determine the feasibility of this project, it is noteworthy that Phase I of the feasibility study identified no fatal flaws, and Phase II, completed in December of 2013, further confirmed the project to be a cost-effective strategy for the District to pursue in order to secure a reliable long-term supplemental supply source. The District will complete Phase III of the effort in mid-2015, setting the stage for the many approvals needed to complete the project. In addition, the District is currently pursuing other supply development programs in the area of surface storage opportunities, groundwater recharge, and long-term transfers between local agencies.

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, 2015

Assets

Current assets	
Cash and cash equivalents	\$ 6,575,628
Accounts receivable - water users and others	477,731
Net investment in direct financing leases, current portion	388,919
Deposits	13,251
Prepaid water - USBR and SLDMWA	-
Prepaid water - other sources	7,841,138
Prepaid expenses	153,612
Total current assets	15,450,279
Board designated assets	
Cash and cash equivalents	1,812,772
Investments	1,671,416
Other post-employment benefits (CERBT)	527,620
Net investment in direct financing leases, non current portion	800,421
Total board designated assets	4,812,229
Investments	651,367
Property, plant and equipment, net of depreciation	799,707
Total assets	\$ 21,713,582

Liabilities and net position

Current liabilities	
Accounts payable	\$ 776,085
Accrued liabilities	45,550
Current portion of long-term debt	400,077
Customer prepaid water tolls	4,058,943
Compensated absences payable	55,757
Deferred revenue	8,632,808
Total current liabilities	13,969,220
Long-term debt, less current portion	2,142,718
Total liabilities	16,111,938
Net position	
Invested in capital assets	799,707
Restricted for ADLP loan repayment	1,367,763
Restricted for rate stabilization	1,597,896
Restricted for capital repayment	518,529
Unrestricted	1,317,749
Total net position	5,601,644
Total liabilities and net position	\$ 21,713,582

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, 2015

Operating revenues

Water sales	\$ 2,052,769
Water availability charge	745,665
Total operating revenues	<u>2,798,434</u>

Operating expenses

Purchased water	1,863,241
Salaries, wages and related expenses	497,321
Office supplies, rent and other	170,476
Professional fees	240,930
Repairs and maintenance	5,580
Metering program	5,426
Association fees	347,292
Utilities	14,530
Vehicle, travel and conferences	26,759
Insurance	18,490
Depreciation	42,805
Total operating expenses	<u>3,232,850</u>
Income from operations	<u>(434,416)</u>

Non-operating revenues (expenses)

Interest income	35,659
Change in fair value of investments	(25,974)
Agricultural drainage loan program	142
Other non-operating expense	221,802
Total non-operating revenue, net	<u>231,629</u>
Net decrease in net position	<u>(202,787)</u>
Total net position, February 28, 2014	<u>5,804,431</u>
Total net position, February 28, 2015	<u><u>5,601,644</u></u>

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Cash Flows

For the Year Ended February 28, 2015

Cash flows from operating activities

Cash received from customers	\$ 13,442,694
Cash payments for goods and services	(7,911,575)
Cash payments to employees	(497,070)
Net cash provided by operating activities	<u>5,034,049</u>

Cash flows from non-capital and related financing activities:

ADLP activities, net	142
Other cash disbursements	221,295
Principal payments on ADLP note	(391,113)
Net cash used in non-capital and related financing activities	<u>(169,676)</u>

Cash flows from capital and related financing activities

Net investment in direct financing leases	542,080
Additions to capital assets, net	(40,926)
Net cash provided by capital and related financing activities	<u>501,154</u>

Cash flows from investing activities

Net change in restricted assets	(390,756)
Net change in investments	43,016
Interest income	35,659
Net change in fair value of investments	(25,974)
Net cash used in investing activities	<u>(338,055)</u>
Net increase in cash and cash equivalents	5,027,472
Cash and cash equivalents, February 28, 2014	<u>1,548,156</u>
Cash and cash equivalents, February 28, 2015	<u><u>\$ 6,575,628</u></u>

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Cash Flows

For the Year Ended February 28, 2015

Reconciliation of operating income to net cash provided by operating activities

Income from operations	\$ (434,111)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation and amortization	42,805
Changes in operating assets and liabilities:	
Accounts receivable - water users and other	(110,895)
Deposits	3,343
Prepaid water	(6,480,897)
Prepaid expenses	582,731
Accounts payable	650,448
Accrued liabilities	28,562
Customer prepaid water tolls	3,396,934
Compensated absences payable	251
Deferred revenue	7,354,878
Net cash provided by operating activities	<u>\$ 5,034,049</u>

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Net Position - Fiduciary Fund

February 28, 2015

Assets

Current assets

Cash and cash equivalents	\$	6,785
Certificate of deposit		<u>100,878</u>
Total current assets		<u>107,663</u>

Total assets	\$	<u><u>107,663</u></u>
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Liabilities and net position

Current liabilities

Reserved for current program expenditures	\$	<u>107,663</u>
Total current liabilities		<u>107,663</u>

Total liabilities and net position	\$	<u><u>107,663</u></u>
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See accompanying notes to the financial statements

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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 one Fiduciary Fund type, namely the Supplemental Water Purchase Program (SWPP) Agency Fund. The SWPP Fund is 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.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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 rental to be received and the present value of the 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 rentals to be received under such leases is recorded as “Net Investment in Direct Financing Leases” on the District’s statement of net position.

Compensated Absences – The District has a paid vacation policy which allows employees to accumulate vacation leave up to 480 hours with specific approval by management. Upon termination, employees will be paid their accrued vacation at the rate of pay upon separation. The District has a sick leave policy which allows employees to accumulate medical leave up to a maximum of 240 hours. Upon termination, the District has no obligation to compensate an employee for unused sick 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, 2015, the District’s compensated absences payable was \$55,757.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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 three 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 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, 2015.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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 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 36728, 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, 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. 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, 2015, the District had \$384,416 in water accounts and \$93,315 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, 2015:

	<u>Amount</u>
Total minimum lease payments to be received	\$ 1,265,355
Less unearned finance income	(76,021)
Net investment	<u>1,189,334</u>
Less estimated current portion	(388,919)
Long-term portion	<u><u>\$ 800,415</u></u>

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

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 388,919	\$ 27,355	\$ 416,274
2017	257,675	18,410	276,085
2018	151,910	12,483	164,393
2019	137,178	8,989	146,167
2020	125,384	5,834	131,218
Thereafter	<u>128,268</u>	<u>2,950</u>	<u>131,218</u>
Total	<u><u>\$ 1,189,334</u></u>	<u><u>\$ 76,021</u></u>	<u><u>\$ 1,265,355</u></u>

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

Note 5 – Prepaid Water, United States Bureau of Reclamation and 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's activity 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.

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 this payment is made, the District reconciles the actual water use for the prior month's activity to the prepayment previously paid for that month and adjusts the current payment accordingly. Due to delay in SLDMWA rates for 2015 and no scheduled deliveries of CVP supply, as of February 28, 2015, the District had no prepaid water costs to the USBR and SLDMWA.

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 for each water year, which is created from 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 end of 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 next year's pool. Any resultant losses would be offset by prior pool profits or melded into costs of the next year's pool. The 2014-2015 Annual Additional Supplies Pool marketed 15,535 acre-feet of additional supply at an estimated average price of \$875 per acre foot and closed with a net income of \$5,603,502. Of this, \$3,495,375 was rebated to pool participants on 2/28/2015 and the \$2,108,127 remainder carried forward to offset costs of the 2015-16 annual pool.

Prepaid costs for the advance development of the 2015-2016 Additional Supplies Pool include costs of a portion of the 26,038 AF of water supplies carried over into the 2015 water year; net of the prior years of 3,556 of unsold additional supplies, or \$1,828,851. These costs are offset by the \$2,108,127 remainder income not rebated as of 2/28/2015, for a net total of \$7,841,138.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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 2014 portion amortized over a 50 year repayment period, prepaid intertie construction costs, as of February 28, 2015, totaled \$121,893.

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, 2015, the District had \$153,612 in other prepaid expenses.

Note 8 – Restricted Assets

Restricted assets consisted of the following at February 28, 2015:

	<u>Designated</u>	<u>Restricted</u>	<u>Total</u>
Cash	\$ 1,732,480	\$ 80,292	\$ 1,812,772
Receivables	-0-	1,189,340	1,189,340
Investments	<u>383,945</u>	<u>1,815,090</u>	<u>2,199,035</u>
Total	<u>\$ 2,116,425</u>	<u>\$ 3,084,722</u>	<u>\$ 5,201,147</u>

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

Note 8 – Restricted Assets (continued)

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 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, 2015, contingency collections and agency final accounting refunds in the amount of \$1,597,896 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, 2015, the District's assets included \$518,529 in cash funds 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, 2015, lease and interest payments and cash totaling \$1,367,763 is currently held by the District and is to be combined with the related rents receivable of \$1,189,340 to be used for the District's scheduled future payments to the State.

California Employees Retirement Benefit Trust Fund (CERBT) – On February 28, 2009, the District elected to retrospectively prefund its other post-employment benefit obligations. While not mandatory, pre-funding these liabilities will:

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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, 2013 OPEB valuation projected an actuarial accrued liability of \$359,545 for the fiscal year ended February 2015. As of February 28, 2015, the District's investment has grown to \$527,620 (to be used in the CERBT to fund this liability).

Note 9 – Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consisted of the following at February 28, 2015:

	<u>02/29/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>02/29/15</u>
Land	\$ 35,409	\$ -	\$ -	\$ 35,409
Buildings and improvements	754,673	-	-	754,673
Meters	234,981	3,105	-	238,086
Office equipment	115,295	-	-	115,295
Equipment	71,116	37,821	(27,505)	81,432
Vehicles	82,165	-	-	82,165
Total historical cost	<u>1,293,639</u>	<u>40,926</u>	<u>(27,505)</u>	<u>1,307,060</u>
Accumulated depreciation	<u>(492,053)</u>	<u>(42,805)</u>	<u>27,505</u>	<u>(507,353)</u>
	<u>\$ 801,586</u>			<u>\$ 799,707</u>

Depreciation expense for the year ended February 28, 2015 was \$42,805.

Note 10 – Customer Prepaid Water Tolls

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. 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. Customer Prepaid water Tolls represent instances where, at the end of the water year, a customer has not utilized their full allocated water supply, or any portion of their purchased annual additional supplies or introduced non-project water. Prepaid Water Tolls are normally applied against future charges. As of February 28, 2015, customer Prepaid Water Tolls totaled \$4,058,943.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

Note 11 – Long Term Debt

Notes payable consist of the following:

	<u>Balance</u> <u>02/28/14</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>02/28/15</u>
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.	\$ 2,933,908	\$ -0-	\$ (391,113)	\$ 2,542,795
Total long-term debt	\$ 2,933,908	\$ -0-	\$ (391,113)	2,542,795
Less current portion				<u>(400,007)</u>
				<u>\$ 2,142,718</u>

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

<u>Year Ending</u>	<u>Amount</u>
2016	\$ 400,007
2017	409,279
2018	418,692
2019	428,322
2020	438,174
Thereafter	<u>448,251</u>
Total	<u>\$ 2,542,795</u>

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

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 with similar loans, these loans are fully secured by liens against the landowner's property. As of February 28, 2015, the principal balance of these loans totaled \$439,162.

Note 14 – Pension Plan

The District is a participant in the CalPERS Retirement Program, which is a defined benefit pension plan. The plan is for both salaried and hourly-rated employees who meet certain eligibility requirements. The plan calls for 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 is currently 13.768% of gross earnings plus \$1,925 per month for classic members, and 6.25% 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, 2015, the District contributed a total of \$47,231 to the plan.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

Note 15 – 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 9 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, 2015 totaled \$101,260. 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 have deemed the fees valid as imposed by the SWRCB, the upper courts have ordered the issue of equity in the states' assessments among water rights permit holders be remanded back to the lower courts for determination. A favorable outcome would result in a re-assessment of fees based on contracted rights rather than permitted rights, potentially resulting in a partial refund of the amounts previously paid. 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 16 – Supplemental Water Purchase Program

During March 2003, the District completed the Supplemental Water Purchase Program (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.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

Note 16 – Supplemental Water Purchase Program (continued)

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.

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 District accounts for this program as a fiduciary fund type, specifically as an agency fund. As of February 28, 2015, the District had \$107,663 included in cash, and an accrued liability of \$107,663 relating to the Program.

Note 17 – 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.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2015

Note 17 – USBR Capital Repayment (continued)

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, 2015, the District's share of this obligation is \$23,654,883.

Note 18 – Fair Value of Assets and Liabilities

The District adopted Accounting Standards Codification 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: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs for the assets or liabilities that are supported by little or no market activity and that are significant to the fair value of the underlying 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, 2015:

	<u>Fair Value</u>	<u>Level 1</u>
Government investment funds	\$ 530,980	\$ 530,980
Money market securities	1,991,013	1,991,013
Cash and cash equivalents	<u>8,776,810</u>	<u>8,776,810</u>
Totals of financial instruments	<u>\$ 11,238,803</u>	<u>\$ 11,238,803</u>

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*Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards*

Board of Directors
Del Puerto Water District
Patterson, California

We have audited the financial statements of Del Puerto Water District (the “District”) as of and for the year ended February 28, 2015, and have issued our report thereon dated October 15, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

This report is intended solely for the information and use of the District's board of directors, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

JWT & Associates, LLP

October 15, 2015