

MERCY SPRINGS WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mercy Springs Water District
Firebaugh, California

Opinions

We have audited the accompanying financial statements of the Mercy Springs Water District (District), as of and for the twenty-four month period ended February 28, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of February 28, 2023, and the respective changes in financial position and cash flows for the twenty-four month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

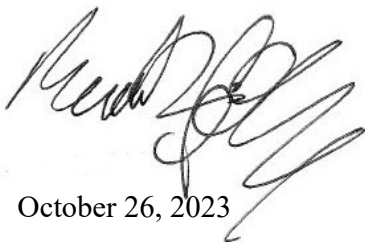
In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



October 26, 2023

MERCY SPRINGS WATER DISTRICT

STATEMENT OF NET POSITION FEBRUARY 28, 2023

ASSETS

Current assets

Cash and investments	\$ 38,941
Prepaid obligation - Central Valley Project	145,201
Prepaid expense	<u>1,936</u>
Total current assets	<u>186,078</u>
Total assets	<u>186,078</u>

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	1,357
Nonexchange guarantee	<u>2,725</u>
Total current liabilities	<u>4,082</u>

Non-current liabilities

Nonexchange guarantee	<u>55,074</u>
Total noncurrent liabilities	<u>55,074</u>
Total liabilities	<u>59,156</u>

NET POSITION

Unrestricted	<u>126,922</u>
Total net position	<u>\$ 126,922</u>

MERCY SPRINGS WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

	12 Month Period Ended February 28, 2022	12 Month Period Ended February 28, 2023	Total
Operating Revenues			
Water sales	\$ 365,635	\$ 42,351	\$ 407,986
Total operating revenues	<u>365,635</u>	<u>42,351</u>	<u>407,986</u>
Operating Expenses			
San Luis & Delta-Mendota other water costs	59,828	21,055	80,883
Purchased water	222,851	64,758	287,609
Administration	19,213	8,279	27,492
Legal and professional	32,689	5,867	38,556
Miscellaneous	12,729	6,710	19,439
Dues	5,563	3,700	9,263
Insurance	1,681	1,681	3,362
Total operating expenses	<u>354,554</u>	<u>112,050</u>	<u>466,604</u>
Operating income/(loss)	11,081	(69,699)	(58,618)
Nonoperating Revenues/(Expenses)			
Interest income	191	407	598
Interest expense	(19,243)	(18,148)	(37,391)
Total nonoperating revenues/(expenses)	<u>(19,052)</u>	<u>(17,741)</u>	<u>(36,793)</u>
Change in Net Position	(7,971)	(87,440)	(95,411)
Net Position			
Beginning of year			222,333
End of year			<u>\$ 126,922</u>

MERCY SPRINGS WATER DISTRICT

STATEMENT OF CASH FLOWS FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Operating Activities

Receipts from landowners and other districts	\$ 442,021
Payments to suppliers for goods and services	<u>(451,892)</u>
Net cash provided by (used in) operating activities	<u>(9,871)</u>

Non-capital Financing Activities

Payment and Interest paid on nonexchange guarantee	<u>(43,643)</u>
Net cash provided by (used in) noncapital financing activities	<u>(43,643)</u>

Investing Activities

Interest received	<u>598</u>
Net cash provided by (used in) investing activities	<u>598</u>

Net Increase (Decrease) in Cash (52,916)

Cash and Investments

Beginning of year	<u>91,857</u>
End of year	<u>\$ 38,941</u>

Cash Flows from Operating Activities

Operating income (loss)	\$ (58,618)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) Decrease in accounts receivable	34,035
(Increase) Decrease in prepaid expense	35,064
Increase (Decrease) in accounts payable and accrued expense	<u>(20,352)</u>

Net Cash Provided by/(Used in) Operating Activities \$ (9,871)

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Mercy Springs Water District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

Reporting Entity

The Mercy Springs Water District was formed in accordance with the provisions of the California water district statutes of the California Water Code on May 24, 1952. The purpose of the District is to supply irrigation water to approximately 1,240 acres of land located west of Firebaugh, California. The District is entitled to receive 2,842 acre feet of water each year under contract with the Bureau of Reclamation (based on 100% allocation). The governing board of the District consists of five members who elect from their membership a president, vice-president, secretary and treasurer.

Mercy Springs Water District does not have a relationship with any other related activities, organizations or functions of government which should be included in the financial reporting entity of the District as required by GASB Statement No. 14, *The Financial Reporting Entity*. In addition, the District is not a component unit of any other governmental entity.

Basis of Accounting and Measurement Focus

The District accounts for its operations in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principle operating revenues of the District are irrigation water sales, operations and maintenance charges, and standby charges. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Financial Statement Amounts

Cash and Investments – Cash and investments represent the District's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year-end accrual for services through the end of the fiscal year which have not yet been billed. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Obligation – Central Valley Project – Prepaid obligation to the United States for the Central Valley Project was paid in full thru and will be amortized thru 2030. A true up and or discount will be adjusted in future year for the water deliveries. As of February 28, 2023, the prepaid obligation was \$145,201.

Long-Term Obligations – Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Statement of Net Position. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Position.

Net Position – The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This category represents net position of the District not restricted for any project or other purpose.

When an expense is incurred for the purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Revenues and Expenses – The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principle ongoing operations. The principle operating revenues of the District are irrigation water sales, operations and maintenance charges, and standby charges. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period.

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Note 2 – Cash and Investments

Cash and investments are reported in the financial statements as follows:

Statement of Net Position

Cash and investments	\$ 38,941
	<u>\$ 38,941</u>

Cash and investments as of February 28, 2023 consist of the following:

Deposits with financial institutions	\$ 31,128
Local Agency Investment Fund	<u>7,813</u>
Total Cash and Investments	<u>\$ 38,941</u>

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Note 2 – Cash and Investments (Continued)

Authorized Investments by the District

The District's investment policy and the California Government Code allows the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The District's Investment Policy authorizes the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Minimum Credit Quality</u>
Local District Bonds	5 Years	50%	AA
U.S. Treasury Obligations	5 Years	100%	N/A
State of California Obligations	5 Years	100%	A
California Local District Obligations	5 Years	50%	AA
U.S. Agencies	5 Years	100%	AAA
Bankers Acceptances	180 Days	40%	A
Commercial Paper	270 Days	25%	AA
Negotiable Certificates of Deposit	5 Years	30%	N/A
Repurchase Agreements	92 Days	20% of Base	A
Reverse Repurchase Agreements	5 Years	30%	A or >
Medium Term Notes	N/A	20%	N/A
Money Market Mutual Funds	5 Years	20%	AA
Collateralized Bank Deposits	2 Years	20%	None
Mortgage Pass-Through Securities	2 Years	20%	N/A
Time Deposits	N/A	No limit	None
Local Agency Investment Fund (LAIF)	N/A	30%	N/A
Non-Negotiable Certificates of Deposit	1 Year	20%	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of February 28, 2023, the District had \$7,813 in investments.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, There are no investments in any one issuer, other than U.S. Treasury securities, mutual funds, time deposits, and external investment pools, that represent 5% or more of total District investments.

Custodial Credit Risk

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

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 3 – Nonexchange Guarantee

On June 25, 2013, the San Luis Delta-Mendota Water Authority (the Authority) issued \$37,550,000 of 2013A Revenue Refunding Bonds to refund the 2009A Series Revenue Bonds. The Series 2009A bonds were issued to fund the Delta Habitat Conservation and Conveyance Program (DHCCP) activity and the District, along with certain members of the Authority, entered into financing agreements with the Authority to pay their respective share of the bonds. The bonds are issued in the Authority's name and Westlands Water District is obligated to pay 100% for the principal and interest on the bonds when due under its DHCCP activity agreement with the Authority. The District is obligated under the DHCCP activity agreement to pay annual installments in the range of \$339 to \$4,968 through 2042. The amount of the liability recognized, \$64,051 is the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE TWENTY-FOUR MONTH PERIOD ENDED FEBRUARY 28, 2023

Note 3 – Nonexchange Guarantee (continued)

At February 28, 2023, the District has recorded a liability for the guarantee as follows:

	Balance			Balance	
	March 1, 2021	Additions	Retirements	February 28, 2023	Current Portion
DHCCP Nonexchange Financial Guarantee	\$ 64,051	\$ -	\$ (6,252)	\$ 57,799	\$ 2,725
Total Nonexchange Financial Guarantee	<u>\$ 64,051</u>	<u>\$ -</u>	<u>\$ (6,252)</u>	<u>\$ 57,799</u>	<u>\$ 2,725</u>

Future anticipated payments on the nonexchange financial guarantee are as follows:

Years ending February 28,	Nonexchange		
	Financial Guarantee	Interest	Total
2024	\$ 2,725	\$ 1,337	\$ 4,062
2025	2,745	1,316	4,061
2026	2,776	1,288	4,064
2027	2,807	1,253	4,060
2028	2,858	1,212	4,070
2029-2033	15,092	5,216	20,308
2034-2038	17,016	3,295	20,311
2039-2042	11,780	741	12,521
	<u>\$ 57,799</u>	<u>\$ 15,659</u>	<u>\$ 73,456</u>

Note 4 – Related Party Transactions

The District sells water to members of its Board of Directors at the same rate charged to unrelated parties.

Note 5 – Risk Management

Claims and judgements, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the District has coverage for such claims.

Note 6 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through October 26, 2023, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since February 28, 2023 that required recognition or disclosure in such financial statements.