

MERCY SPRINGS WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

FEBRUARY 28, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Mercy Springs Water District (District), which comprise the statement of net position as of February 28, 2019, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. 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, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mercy Springs Water District as of February 28, 2019, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

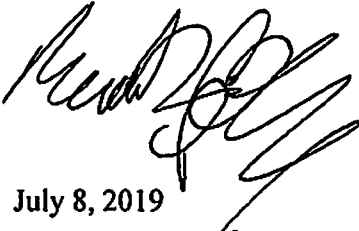
Other Matters

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2019, on our consideration of the Mercy Springs Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



July 8, 2019

MERCY SPRINGS WATER DISTRICT

STATEMENT OF NET POSITION

FEBRUARY 28, 2019

ASSETS

Current assets

Cash and investments	\$ 374,132
Accounts receivable	4,305
Prepaid expense	860
Total current assets	<u>379,297</u>
Total assets	<u>379,297</u>

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	23,991
Due to water users	18,387
Total current liabilities	<u>42,378</u>

Non-current liabilities

Nonexchange guarantee	68,521
Total noncurrent liabilities	<u>68,521</u>
Total liabilities	<u>110,899</u>

NET POSITION

Unrestricted	<u>268,398</u>
Total net position	<u>\$ 268,398</u>

MERCY SPRINGS WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED FEBRUARY 28, 2019

Operating Revenues

Water sales	\$ 304,376
Total operating revenues	<u>304,376</u>

Operating Expenses

San Luis & Delta-Mendota other water costs	513
Purchased water	198,636
Administration	70,885
Legal and professional	10,021
Miscellaneous	2,781
Dues	11,553
Insurance	<u>1,464</u>
Total operating expenses	<u>295,853</u>

Operating income/(loss) 8,523

Nonoperating Revenues/(Expenses)

Interest income	20
Other income	2,432
Interest expense	<u>(3,508)</u>
Total nonoperating revenues/(expenses)	<u>(1,056)</u>

Change in Net Position

7,467

Net Position

Beginning of year	<u>260,931</u>
End of year	<u>\$ 268,398</u>

MERCY SPRINGS WATER DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED FEBRUARY 28, 2019

Operating Activities

Receipts from landowners and other districts	\$ 503,077
Payments to suppliers for goods and services	<u>(304,335)</u>
Net cash provided by (used in) operating activities	<u>198,742</u>

Non-capital Financing Activities

Payment on nonexchange guarantee	(1,468)
Interest paid on nonexchange guarantee	<u>(3,508)</u>
Net cash provided by (used in) noncapital financing activities	<u>(2,544)</u>

Investing Activities

Interest received	<u>20</u>
Net cash provided by (used in) investing activities	<u>20</u>

Net Increase (Decrease) in Cash 196,218

Cash and Investments

Beginning of year	<u>177,914</u>
End of year	<u><u>\$ 374,132</u></u>

Cash Flows from Operating Activities

Operating income (loss)	\$ 8,523
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) Decrease in accounts receivable	180,314
(Increase) Decrease in prepaid expense	1,509
Increase (Decrease) in accounts payable and accrued expense	(9,991)
Increase (Decrease) in due to water users	<u>18,387</u>

Net Cash Provided by/(Used in) Operating Activities \$ 198,742

MERCY SPRINGS WATER DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED FEBRUARY 28, 2019

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Net Cash Provided by/(Used in) Operating Activities \$ 198,742

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED FEBRUARY 28, 2019

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.

Investments primarily consist of certificates of deposit with Bank of America. Investments are stated at fair value.

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED FEBRUARY 28, 2019

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.

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/Fund Equity – 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 YEAR ENDED FEBRUARY 28, 2019

Note 2 – Cash and Investments

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

Statement of Net Position

Cash and investments	\$ 374,132
	<u>\$ 374,132</u>

Cash and investments as of February 28, 2019 consist of the following:

Deposits with financial institutions	\$ 374,132
Total Cash and Investments	<u>\$ 374,132</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 YEAR ENDED FEBRUARY 28, 2019

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, 2019 the District had no 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 YEAR ENDED FEBRUARY 28, 2019

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. As of February 28, 2019, the District's bank balance of \$374,132 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

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 \$4,965 in annual installments through 2045. The amount of the liability recognized, \$68,521, 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 YEAR ENDED FEBRUARY 28, 2019

Note 3 – Nonexchange Guarantee (continued)

At February 28, 2019, the District has recorded a liability for the guarantee as follows:

	Balance March 1, 2018	Additions	Retirements	Balance February 28, 2019
DHCCP Nonexchange Financial Guarantee	69,989	-	(1,468)	68,521
Total Nonexchange Financial Guarantee	<u>\$ 69,989</u>	<u>\$ -</u>	<u>\$ (1,468)</u>	<u>\$ 68,521</u>

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

Years ending February 28,	Nonexchange Financial Guarantee
2020	\$ 1,539
2021	1,620
2022	1,701
2023	1,782
2024	1,873
2025-2029	10,863
2030-2034	13,860
2035-2039	17,677
2040-2043	17,606
	<u>\$ 68,521</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 July 8, 2019, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since February 28, 2019 that required recognition or disclosure in such financial statements.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mercy Springs Water District (District), which comprise the statement of net position as of February 28, 2019, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 8, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mercy Springs Water District's financial statements are free from 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*.

MERCY SPRINGS WATER DISTRICT

MANAGEMENT REPORT

FOR THE YEAR ENDED FEBRUARY 28, 2019

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BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Luis Perez C.P.A.
Lan T. Kimoto

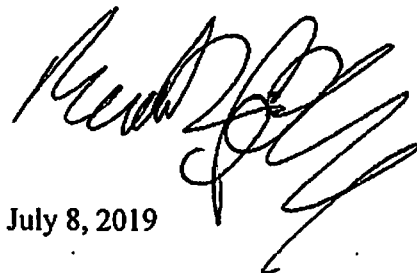
Board of Directors
Mercy Springs Water District
Firebaugh, California

In planning and performing our audit of the basic financial statements of the Mercy Springs Water District (District) for the year ended February 28, 2019, in accordance with generally accepted auditing standards in the United States, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the District's staff for its cooperation during our audit.



July 8, 2019

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Luis Perez C.P.A.
Lan T. Kimoto

Board of Directors
Mercy Springs Water District
Firebaugh, California

We have audited the financial statements of the Mercy Springs Water District for the year ended February 28, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 8, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in the notes to the financial statements.

We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

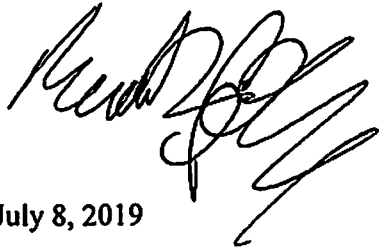
Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "Kendall J. [unclear]", written in a cursive style.

July 8, 2019