

MERCY SPRINGS WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

FEBRUARY 28, 2021

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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, 2021, 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, 2021, 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.

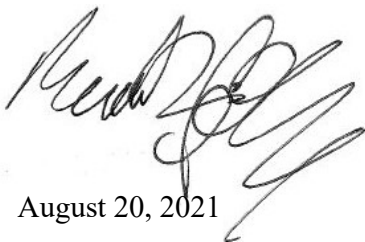
Other Matters

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 August 20, 2021, 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.

A handwritten signature in black ink, appearing to be "Meredith J. [unclear]", written over a faint circular stamp.

August 20, 2021

MERCY SPRINGS WATER DISTRICT

STATEMENT OF NET POSITION FEBRUARY 28, 2021

ASSETS

Current assets

Cash and investments	\$ 91,857
Accounts receivable	34,035
Prepaid obligation - Central Valley Project	180,265
Prepaid expense	<u>1,936</u>
Total current assets	<u>308,093</u>
Total assets	<u>308,093</u>

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	21,709
Nonexchange guarantee	<u>3,115</u>
Total current liabilities	<u>24,824</u>

Non-current liabilities

Nonexchange guarantee	<u>60,936</u>
Total noncurrent liabilities	<u>60,936</u>
Total liabilities	<u>85,760</u>

NET POSITION

Unrestricted	<u>222,333</u>
Total net position	<u>\$ 222,333</u>

MERCY SPRINGS WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED FEBRUARY 28, 2021

Operating Revenues

Water sales	\$ 266,877
Total operating revenues	<u>266,877</u>

Operating Expenses

San Luis & Delta-Mendota other water costs	106,374
Purchased water	101,938
Administration	28,148
Legal and professional	28,553
Miscellaneous	13,724
Dues	4,360
Insurance	1,681
Total operating expenses	<u>284,778</u>

Operating income/(loss) (17,901)

Nonoperating Revenues/(Expenses)

Interest income	228
Interest expense	<u>(1,778)</u>
Total nonoperating revenues/(expenses)	<u>(1,550)</u>

Change in Net Position

(19,451)

Net Position

Beginning of year	<u>241,784</u>
End of year	<u>\$ 222,333</u>

MERCY SPRINGS WATER DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED FEBRUARY 28, 2021

Operating Activities

Receipts from landowners and other districts	\$ 235,059
Payments to suppliers for goods and services	<u>(443,149)</u>
Net cash provided by (used in) operating activities	<u>(208,090)</u>

Non-capital Financing Activities

Payment and Interest paid on nonexchange guarantee	<u>(4,710)</u>
Net cash provided by (used in) noncapital financing activities	<u>(4,710)</u>

Investing Activities

Interest received	<u>228</u>
Net cash provided by (used in) investing activities	<u>228</u>

Net Increase (Decrease) in Cash (212,572)

Cash and Investments

Beginning of year	<u>304,429</u>
End of year	<u><u>\$ 91,857</u></u>

Cash Flows from Operating Activities

Operating income (loss)	\$ (17,901)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) Decrease in accounts receivable	(31,818)
(Increase) Decrease in prepaid expense	(180,080)
Increase (Decrease) in accounts payable and accrued expense	<u>21,709</u>

Net Cash Provided by/(Used in) Operating Activities \$ (208,090)

MERCY SPRINGS WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED FEBRUARY 28, 2021

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, 2021

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, 2021, the prepaid obligation was \$180,265.

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, 2021

Note 2 – Cash and Investments

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

Statement of Net Position

Cash and investments	\$ 91,857
	<u>\$ 91,857</u>

Cash and investments as of February 28, 2021 consist of the following:

Local Agency Investment Fund	\$ 91,857
Total Cash and Investments	<u>\$ 91,857</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, 2021

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, 2021 the District had \$91,857 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 YEAR ENDED FEBRUARY 28, 2021

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, 2021, the District's bank balance of \$91,857 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 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 YEAR ENDED FEBRUARY 28, 2021

Note 3 – Nonexchange Guarantee (continued)

At February 28, 2021, the District has recorded a liability for the guarantee as follows:

	<u>Balance</u> <u>March 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>February 28, 2021</u>	<u>Current</u> <u>Portion</u>
DHCCP Nonexchange Financial Guarantee	\$ 66,983	\$ -	\$ (2,932)	\$ 64,051	\$ 3,115
Total Nonexchange Financial Guarantee	<u>\$ 66,983</u>	<u>\$ -</u>	<u>\$ (2,932)</u>	<u>\$ 64,051</u>	<u>\$ 3,115</u>

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

Years ending February 28,	Nonexchange		
	<u>Financial Guarantee</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 3,115	\$ 1,373	\$ 4,488
2023	3,136	1,357	4,493
2024	2,725	1,337	4,062
2025	2,745	1,316	4,061
2026	2,776	1,288	4,064
2027-2031	14,526	5,787	20,313
2032-2036	16,162	4,149	20,311
2037-2041	18,536	1,775	20,311
2042	329	10	339
	<u>\$ 64,051</u>	<u>\$ 18,391</u>	<u>\$ 82,441</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 August 20, 2021, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since February 28, 2021 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, 2021, 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 August 20, 2021.

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) as a basis for designing 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. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

August 20, 2021

MERCY SPRINGS WATER DISTRICT

SUMMARY OF PRIOR YEAR FINDINGS

FEBRUARY 28, 2021

2020-001 - Internal Controls over Financial Reporting (Material Weakness) – Implemented