

MADERA IRRIGATION DISTRICT

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REPORT ON AUDITED  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

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FOR THE YEAR ENDED DECEMBER 31, 2014

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May 7, 2015

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors of  
Madera Irrigation District

We have audited the accompanying financial statements of Madera Irrigation District (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the financial statements of Madera Irrigation District for the year ended December 31, 2013, and in our report dated May 14, 2014, we expressed an unmodified opinion on those 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 control 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 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 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 from 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 District'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 District'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 Madera Irrigation District, as of December 31, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's office and the state regulations governing special districts.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on Madera Irrigation District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2015 on our consideration of Madera Irrigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts 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 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 Madera Irrigation District's internal control over financial reporting and compliance.

*Sampson, Sampson & Patterson, LLP*

Madera Irrigation District  
Management Discussion and Analysis  
December 31, 2014

The following management discussion and analysis is the result of Madera Irrigation District (District) implementing Governmental Accounting Standards (GASB) Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis (MD&A) - for State and Local Governments.” GASB No. 34 establishes financial reporting standards for state and local governments, including special districts such as the District. This discussion and analysis of the District’s financial performance provides an overview of the District’s activities as well as its financial condition for the fiscal year ended December 31, 2014. Please read this discussion and analysis in conjunction with the District’s audited financial statements and the accompanying notes.

Overall Program Highlights

Madera Irrigation District is a public agency, established by the State Legislature as a Special Act District. The governing Board of Directors consists of five members who are elected at large but must reside within one of the five director divisions and elected to a four year term. Statutory authority under which the District operates is the California State Water Code. Regular Board meetings are held twice a month.

The District currently encompasses an area of approximately 130,000 acres, with a gravity irrigation distribution system of approximately 300 miles of open flow canal systems, as well as 150 miles of pipelines. Much of the City of Madera is within the boundaries of the District and provides approximately 9% of the District’s revenues through the assessment collections.

The budget is adopted by the Board of Directors with assessment rate setting completed annually at the first meeting in September. The District has two main sources of income which consist of the sale of crop water delivered to its growers and a benefit assessment on any property within the District’s boundaries.

Day-to-day operations of the District are the responsibility of the General Manager acting through the following described four departments:

1. Finance Department, headed by the Controller
2. Engineering Department, headed by the District Engineer
3. Operations and Maintenance, headed by the Chief of Operations and Maintenance
4. Human Resources, headed by the Human Resources Administrator/Risk Manager

The District has a normal complement of 52 full-time employees and staffed with 41 employees as of December 31, 2014, with an annual budget of approximately \$21 million including the Madera Ranch. The Ranch consists of approximately 10,900 acres of land which is for the development of a groundwater banking project that could store 250,000 acre feet of water.

In 1951, after years of temporary contracts, the District signed its first long-term contract with U.S. Bureau of Reclamation (USBR) for 85,000 acre feet of Class 1 water and 186,000 acre feet of Class 2 water. The Class 2 water is less firm and with a lower cost and is intended to assist the District in controlling groundwater overdraft during wetter years. Also, the District signed a contract in 1968 with the Bureau of Reclamation for 24,000 acre feet of conservation yield water from what is the Hidden Dam which forms Hensley Lake.

Madera Irrigation District  
Management Discussion and Analysis  
December 31, 2014  
(continued)

In addition to the services rendered to the lands within the District, the District is also a member of the Madera-Chowchilla Water and Power Authority which operates and maintains the Madera Canal under an agreement with the USBR, beginning at Friant Dam, to its terminus at the Chowchilla River.

The District is also a member of the Friant Power Authority. The Friant Power Authority power plants produce hydroelectricity and are located at Friant Dam on the San Joaquin River, Madera Canal, and Friant Kern Canal. As a member of the Friant Power Authority the District shares in the generation revenue based on its membership percentage.

Required Financial Statements

This annual financial statement report consists of three parts: Management Discussion and Analysis, the Basic Financial Statements, and any Supplementary Information. The District's financial statements include the (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position and (3) Statement of Cash Flows. The financial statements are prepared using the accrual basis of accounting.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial data provided and are an integral part of the District's financial statements. The District provides a presentation of both the combined financial statements as well as supplemental combining financial statements which portray the individual major component funds.

The Financial Statements of the District report information about the District using accounting methods similar to those used by companies in the private sector. These statements offer short-term and long-term financial information about its activities. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and provides information about the nature and amounts of investments in assets and obligations to District creditors as liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement measures the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its rates, fees, assessments and other charges. The District's profitability and credit worthiness can also be determined from this statement. It is prepared using the accrual basis of accounting by recognizing revenues in the period they are earned and expenses in the period they are incurred without regard to the period of cash receipt or payment.

The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period as well as net changes in cash resulting from operations, investing, and financing activities. The statement explains where cash came from and where cash was used and the change in the cash balance during the reporting period.

Sampson, Sampson & Patterson, LLP Certified Public Accountants, have performed an independent audit of the District's financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report.

Madera Irrigation District  
Management Discussion and Analysis  
December 31, 2014  
(continued)

FINANCIAL HIGHLIGHTS OF THE FISCAL YEAR ENDED DECEMBER 31, 2014

1. Total assets are \$100 million, an increase of approximately 1.6%
2. Total liabilities are \$71.6 million, a decrease of approximately 5.2%
3. Operating Revenue of \$22.1 million and operating expense of \$12.6 million resulted in net income from operations of \$9.5 million. Net non-operating expense of \$4.0 million is the result of total non-operating revenue of \$1.1 million offset by interest expense and other expense of \$5.1 million. Interest and other expense includes \$.5 million for a settlement agreement with Madera Valley LLC.
4. The District's total cash and cash equivalents increased by \$3.7 million in 2014. This was due to water sales of recirculated water, rescheduled water and Restoration flow water.

Summary of Overall Financial Position and Results of Operations:

**Combined Statement of Net Position**

	<b>2014</b>	<b>2013</b>
Current Assets	\$ 30,451,914	\$29,727,424
Bond Issue Costs & OID, net	964,458	1,039,237
Restricted Assets	8,652,235	8,562,333
Water Entitlements	27,061,855	27,061,855
Capital Assets, net	29,695,511	29,171,364
Other Assets & Investments	3,190,846	2,873,460
<b>Total Assets</b>	<b>100,016,819</b>	<b>98,435,673</b>
<b>Deferred Outflow of Resources</b>	<b>1,034,416</b>	<b>1,106,896</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$101,051,235</b>	<b>\$99,542,569</b>
Current Liabilities	\$ 3,961,164	\$ 7,004,495
Long Term Liabilities	67,612,995	68,500,329
<b>Total Liabilities</b>	<b>71,574,159</b>	<b>75,504,824</b>
<b>Deferred Inflow of Resources</b>	<b>5,535,116</b>	<b>5,641,246</b>
Net Position:		
Invested in Capital Assets, net	11,924,263	11,052,031
Restricted	8,652,235	8,562,333
Unrestricted	(3,365,462)	(1,217,865)
<b>Total Net Position</b>	<b>23,941,960</b>	<b>18,396,499</b>
<b>Total Liabilities, Deferred Inflow of Resources &amp; Net Position</b>	<b>\$101,051,235</b>	<b>\$99,542,569</b>

Madera Irrigation District  
Management Discussion and Analysis  
December 31, 2014  
(continued)

**Condensed Capital Assets Detail**

	<b>2014</b>	<b>2013</b>
Transmission and Distribution System, net	\$ 5,795,546	\$ 5,453,468
Land	19,736,029	19,736,029
Vernal Pool	866,645	857,662
Madera Ranch - Improvements, net	30,664	23,009
Buildings, net	82,818	89,551
Construction and Shop Equipment, net	1,290,947	1,427,866
Transportation Equipment, net	308,607	380,530
Office Furniture and Equipment, net	165,356	109,478
Yards and Grounds, net	13,916	15,067
Construction in Progress	1,404,983	1,078,704
	<b>\$29,695,511</b>	<b>\$29,171,364</b>

Significant Capital Asset Activity – Increase in Transmission and Distribution System is due to the completion of two capital projects. The Bordenave project replaced ½ mile of pipeline and the Main I Road 25 road crossing were completed in 2014. Construction in Progress has increased due to the ongoing Ave 12 overpass capital project and the ongoing WaterSmart program which involves installing slip meters, flume meters and flume gates. The WaterSmart program costs is partially funded through a grant.

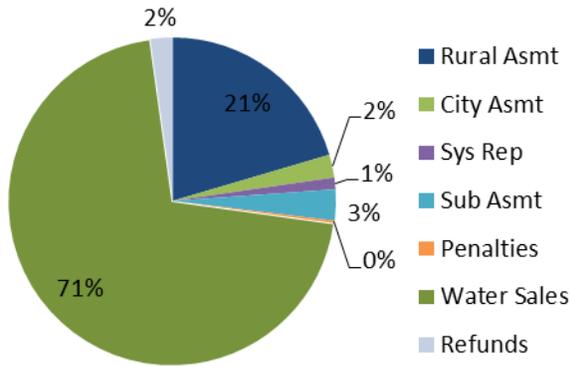
Significant Net Position Activity – The District’s net assets invested in capital assets, net of related debt increased in 2014. The balance of net assets is comprised of restricted and unrestricted net assets. The District’s assets exceeded liabilities by \$23.9 million. Capital assets are not liquid nor are they available for future spending but have been acquired over time and through their utilization, provide the District with revenue.

**Combined Statement of Revenues, Expenses and Changes in Net Position**

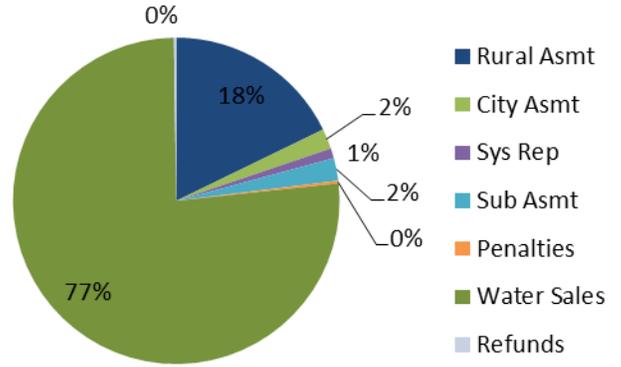
	<b>2014</b>	<b>2013</b>
Operating Revenue	\$ 22,155,801	\$ 25,219,467
Operating Expenses	(12,621,723)	(14,986,032)
Operating Income (Loss)	9,534,078	10,233,435
Non-operating Revenue	1,098,922	1,037,981
Non-operating Expenses	(5,087,539)	(4,638,752)
Non-operating Income (Loss)	(3,988,617)	(3,600,771)
Contributed Capital		
Increase (Decrease) in Net Position	5,545,461	6,632,664
Net Position, beginning of year	18,396,499	\$ 12,802,810
Effect of accounting change		(1,038,975)
<b>Net Position, beginning of year Restated</b>	<b>18,396,499</b>	<b>11,763,835</b>
<b>Net Position, end of year</b>	<b>\$ 23,941,960</b>	<b>\$ 18,396,499</b>

Madera Irrigation District  
 Management Discussion and Analysis  
 December 31, 2014  
 (continued)

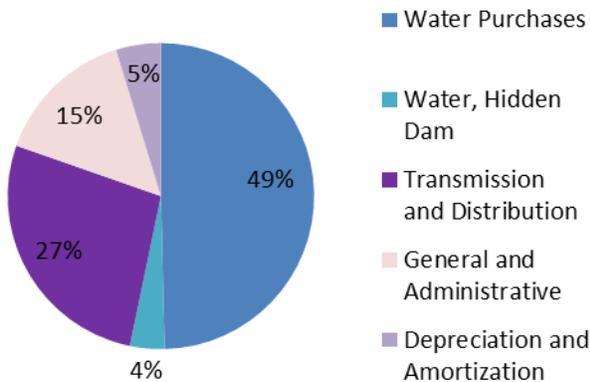
### 2014 Operating Revenues



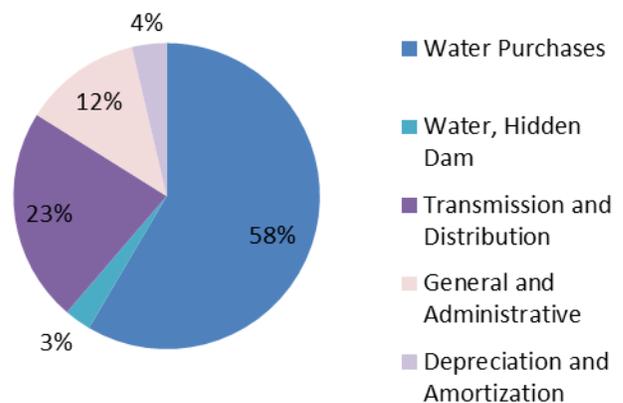
### 2013 Operating Revenues



### 2014 Operating Expenses



### 2013 Operating Expenses



Net operating income of \$9.5 million decreased from 2013 by \$0.7 million primarily due to the decrease in water sales. Water purchases decreased by \$2.5 million from 2013, due to a decrease in water supply. Non-operating loss increased by \$387,846. The loss was in part due to the settlement payment made to Madera Valley LLC. In 2014 The District settled a longstanding dispute with Madera Valley LLC. The settlement included a one-time payment of \$500,000 and the right to purchase water from the District for 25 years.

Madera Irrigation District  
Management Discussion and Analysis  
December 31, 2014  
(continued)

Economic Factors and Rates

For the first time, Madera Irrigation District was allocated 0% of its Class 1 and Class 2 water supply in 2014. In the 2013 water season MID was aggressive in obtaining water made available by other districts and was able to acquire nearly 23,000 acre feet (AF) of additional water supplies. A large share of this supplemental water was funded and utilized by MID's subordinate growers. Approximately 13,000 AF was carried over to the 2014 water season. That carryover was made possible through a pre-purchase program as insurance water for MID's subordinate growers. Through MID's small pre-1914 supplies, additional water purchases, and cooperation with other Districts, including Chowchilla Water District and Root Creek Water District, MID was able to increase the volume available from 13,000 AF to nearly 19,000 AF of surface water. Although a small amount compared to normal years, this accounted for nearly half of the carryover water for all 33 Friant Contractors. With the record low water supplies available also came record high prices that reached \$1,000 per AF for subordinate growers.

Madera Irrigation District has not increased the assessment rates since the passage of Proposition 218 in 1996 which states that before a district can increase its rates, the request for increase must be voted on and passed by a majority of the landowners in the District. In 2011, the District had a Proposition 218 engineering report completed by a certified engineering firm to assess the need for increases in the assessments to assist with the financing of the 9d contract with the USBR. That election passed by 67% on March 15, 2011 thus increasing the assessments by approximately \$24.70 per acre (amount varies dependent on land category) to the rural parcel assessments. This results in an additional \$3,100,000 per year in revenue.

The District, keeping with its mission of obtaining and managing surface water and groundwater supplies to ensure the long term viability of irrigated agriculture, works to keep the crop water rates to the growers affordable. While keeping the crop water rates affordable the District hopes to encourage use of surface water to help preserve groundwater levels in Madera County.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Anna Swanson, Controller, 12152 Road 28 ¼, Madera, CA or by telephone at (559) 673-3514.

MADERA IRRIGATION DISTRICT

STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27,820,595	\$24,110,935
Receivables:		
Accounts	340,767	374,126
Assessments	1,685,975	1,872,661
Certificates of sale	262,314	244,011
Supplies inventory	178,429	157,945
Prepaid expenses:		
Water		2,839,026
Insurance	124,613	112,599
Dues	39,221	16,121
Total Current Assets	<u>30,451,914</u>	<u>29,727,424</u>
Noncurrent assets:		
Restricted cash	8,652,235	8,562,333
Debt issue costs, net of accumulated amortization	964,458	1,039,237
Investments in Water Authorities	3,190,846	2,873,460
Water entitlements	27,061,855	27,061,855
Capital assets, not being depreciated	21,141,012	20,814,733
Other capital assets, net of accumulated depreciation	<u>8,554,499</u>	<u>8,356,631</u>
Total Noncurrent Assets	<u>69,564,905</u>	<u>68,708,249</u>
Total Assets	<u>100,016,819</u>	<u>98,435,673</u>
<b>Deferred outflow of resources</b>		
Deferred loss on refunding	<u>1,034,416</u>	<u>1,106,896</u>
Total Deferred Outflow of Resources	<u>1,034,416</u>	<u>1,106,896</u>
Total Assets and Deferred Outflow of Resources	<u>\$101,051,235</u>	<u>\$99,542,569</u>

See independent auditor's report and notes to financial statements.

MADERA IRRIGATION DISTRICT

STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

(Continued)

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 429,399	\$ 188,417
Water deposits		3,358,362
Other liabilities	49,968	156,489
Accrued salaries and related liabilities	40,171	121,334
Accrued compensated absences	211,000	265,000
Accrued interest	1,953,466	1,968,566
Other unearned revenue	417,160	191,327
Current portion of long-term debt	<u>860,000</u>	<u>755,000</u>
Total Current Liabilities	<u>3,961,164</u>	<u>7,004,495</u>
Noncurrent liabilities:		
Accrued compensated absences	52,995	80,329
Water deposits	100,000	100,000
Long-term liabilities, net of current portion	<u>67,460,000</u>	<u>68,320,000</u>
Total Noncurrent Liabilities	<u>67,612,995</u>	<u>68,500,329</u>
Total Liabilities	<u>71,574,159</u>	<u>75,504,824</u>
<b>Deferred inflow of resources:</b>		
Unearned assessment revenue	<u>5,535,116</u>	<u>5,641,246</u>
Total Deferred Inflow of Resources	<u>5,535,116</u>	<u>5,641,246</u>
<b>Net position:</b>		
Investment in capital assets	11,924,263	11,052,031
Restricted	8,652,235	8,562,333
Unrestricted	<u>3,365,462</u>	<u>(1,217,865)</u>
Total Net Position	<u>\$ 23,941,960</u>	<u>\$18,396,499</u>

See independent auditor's report and notes to financial statements.

MADERA IRRIGATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Prior Year Data for Comparison Purposes Only)

	Year Ended December 31,	
	2014	2013
<b>Operating revenues:</b>		
Assessments:		
Rural	\$ 4,507,454	\$ 4,447,664
City	499,841	499,797
Systems repayment	255,045	243,934
Subordinate lands	678,680	561,445
Penalties and costs	51,813	67,674
Water sales	15,565,173	19,107,942
Refunds	485,508	59,649
Soquel electric generation revenues	<u>112,287</u>	<u>231,362</u>
Total operating revenues	<u>22,155,801</u>	<u>25,219,467</u>
 <b>Operating expenses:</b>		
Water purchases	6,262,223	8,761,581
Water, Hidden Dam	460,080	423,283
Transmission and distribution	3,418,905	3,390,320
General and administrative	1,884,004	1,863,772
Depreciation and amortization	<u>596,511</u>	<u>547,076</u>
Total operating expenses	<u>12,621,723</u>	<u>14,986,032</u>
 Operating income	 9,534,078	 10,233,435
 <b>Non-operating revenues and (expenses):</b>		
Madera-Chowchilla Water & Power Authority:		
Electric generation revenue	37,381	395,126
Power projects lease payments	(356,942)	(164,729)
Loss from power authority	(88,492)	(188,808)
Loss from Friant Power Authority	(87,915)	(50,658)
Investment income	65,559	44,811
Interest expense	(3,906,932)	(3,943,105)
Amortization of bonds issue costs	(147,258)	(149,972)
Gain on retirement of capital assets	15,295	28,817
Miscellaneous	259,436	(141,480)
Rental of District equipment	234,566	179,945
Rancheria of Mono Indians of California	114,065	
Water Reservation	153,479	152,400
Land lease revenue	<u>219,141</u>	<u>236,882</u>
Total non-operating revenues and (expenses)	<u>(3,488,617)</u>	<u>(3,600,771)</u>
 <b>Special item</b>		
Settlement agreement with Madera Valley LLC	<u>(500,000)</u>	<u>                    </u>
 Increase in net position	 5,545,461	 6,632,664
 <b>Net position, beginning of year</b>	 18,396,499	 12,802,810
 <b>Effect of accounting change</b>	 <u>                    </u>	 <u>(1,038,975)</u>
 <b>Net position, end of year</b>	 <u>\$23,941,960</u>	 <u>\$18,396,499</u>

See independent auditor's report and notes to financial statements.

MADERA IRRIGATION DISTRICT

STATEMENT OF CASH FLOWS

(Prior Year Data for Comparison Purposes Only)

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Cash received from water sales and related activities	\$12,221,867	\$ 23,231,030
Cash received from assessments	6,073,389	5,857,525
Cash received from other operating activities	823,628	290,100
Cash paid for water purchases and related activities	(4,843,807)	(12,932,883)
Cash paid to other vendors for other operating activities	(965,767)	(1,164,516)
Cash paid to employees and related benefits	(3,460,246)	(3,268,880)
Cash paid for Madera Valley LLC settlement agreement	(500,000)	
<b>Net cash provided by operating activities</b>	<u>9,349,064</u>	<u>12,012,376</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(755,000)	(857,788)
Interest paid on long-term debt	(3,922,031)	(3,957,606)
Capital expenditures	(1,120,658)	(157,593)
Proceeds from sale of capital assets	15,295	28,817
Other non-operating activities	526,980	10,920
<b>Net cash used by capital and related financing activities</b>	<u>(5,255,414)</u>	<u>(4,933,250)</u>
<b>Cash flows from investing activities:</b>		
Interest received	65,559	44,811
Net investments in Water Authorities	(813,354)	(94,320)
Net land lease revenue	219,141	236,882
Rental of District equipment	234,566	179,945
<b>Net cash provided (used) by investing activities</b>	<u>(294,088)</u>	<u>367,318</u>
<b>Net increase in cash and cash equivalents</b>	3,799,562	7,446,444
Cash and cash equivalents at beginning of year	<u>32,673,268</u>	<u>25,226,824</u>
Cash and cash equivalents at end of year	<u>\$36,472,830</u>	<u>\$32,673,268</u>
Unrestricted cash and cash equivalents	\$27,820,595	\$24,110,935
Restricted cash and cash equivalents with fiscal agent	8,652,235	8,562,333
<b>Total cash and cash equivalents</b>	<u>\$36,472,830</u>	<u>\$32,673,268</u>

See independent auditor's report and notes to financial statements.

MADERA IRRIGATION DISTRICT

STATEMENT OF CASH FLOWS

(Prior Year Data for Comparison Purposes Only)

(Continued)

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating income to net cash provided in operating activities:</b>		
Operating income	\$ 9,534,078	\$ 10,233,435
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	596,511	547,076
Special item	(500,000)	
(Increase) decrease in:		
Receivables	201,742	627,849
Supplies inventory	(20,484)	(47,514)
Prepaid expenses	2,803,912	(2,841,577)
Increase (decrease) in:		
Accounts payable	240,982	(184,464)
Water deposits	(3,358,362)	3,458,362
Other liabilities	(106,521)	107,274
Accrued salaries and related liabilities	(81,163)	21,147
Accrued compensated absences	(81,334)	17,811
Other unearned revenue	225,833	(911)
Unearned assessment revenue	<u>(106,130)</u>	<u>73,888</u>
Total adjustments	<u>(185,014)</u>	<u>1,778,941</u>
<b>Net cash provided by operating activities</b>	<b><u>\$9,349,064</u></b>	<b><u>\$ 12,012,376</u></b>

See independent auditor's report and notes to financial statements.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Madera Irrigation District (District) is located in Madera County and covers an area of approximately 130,591 acres. The primary function of the District is to divert and distribute water to agricultural lands.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) applicable to state and local governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below:

A. Financial Reporting Entity

The District’s financial reporting entity comprises the following:

Primary Government:	Madera Irrigation District
Blended Component Units:	Madera Irrigation Financing Authority Improvement District No. 05-01

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, “The Financial Reporting Entity,” and includes all component units of which the District appointed a voting majority of the units’ board; the District is either able to impose its will on the unit, or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District’s Board, or the component unit provides services entirely to the District. Those component unit funds are blended into those of the District’s by appropriate activity type to compose the primary government presentation.

Component units that are blended into the reporting activity types of the District’s report are presented below:

Madera Irrigation Financing Authority

The Madera Irrigation Financing Authority is a joint powers authority between the Improvement District No. 05-01 and the Madera Irrigation District. The Authority is authorized to borrow money to provide financing and refinancing for public capital improvements of the Improvement District and to provide funds for the financing of the acquisition and construction of certain improvements to the District’s irrigation system.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

Improvement District No. 05-01

The Improvement District No. 05-01 was formed under the Water Code of the State of California for the purpose of cooperating and contracting with the United States and agencies pursuant to the Irrigation District Federal Cooperation Law and for the purpose of providing irrigation water service by a system of pumps or conduits or both, maintenance of irrigation works, and acquiring and distributing water.

B. Accounting basis

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The account classification structures used by the District conform to accounting principles generally accepted in the United States of America and are consistent with governmental proprietary fund accounting. The proprietary fund is accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statement of net position. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g. expenses) in total net position. The accrual basis of accounting is used for the proprietary fund. Under this method revenues are recognized when they are earned or become reasonably estimable. Expenses are recorded when they are incurred or become reasonably estimable.

Separate accounting records are maintained for the District's Irrigation and Water Enhancement Funds. Each of these funds are reported as major enterprise funds in the basic financial statements. The District's Irrigation Fund consists of the accounting activity for the irrigation facility. The Water Enhancement Fund consists of the accounting activity for the Madera Ranch project.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of goods and services, such as materials and labor and direct overhead. All other expenses are non-operating.

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available the District's policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

C. Supplies

Supplies consist of construction material, herbicides, and rodenticides. They are recorded at the lower of cost, determined primarily under the first-in first-out method or estimated market value.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

D. Investments in Power Authorities

For investments in power authorities classified as joint ventures, where the District participates in the profit and losses of the joint venture, the initial investment is recorded at cost and adjusted to reflect the District's share of the joint venture's profit or losses. If the District is involved in joint control of the power authority but there is no ongoing financial interest or ongoing financial responsibility, the entity is considered a jointly governed organization and not a joint venture.

E. Capital Assets

Capital assets are recorded at cost less accumulated depreciation. Included in the total cost of utility plant is the cost of the property owners' participation in District improvements.

Repairs and maintenance and minor alterations are charged to expense as incurred. Costs which are considered improvements are added to the appropriate capital asset account.

Gains and losses on the disposition of utility plant assets are reported and recognized in the year of disposition.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000, and an estimated useful life of at least five years. Depreciable assets are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Transmission/distribution system	10-99 years
Buildings	7-40 years
Construction and shop equipment	10-15 years
Transportation equipment	10-20 years
Office furniture and equipment	5-10 years
Yards and grounds	10-40 years

F. Unearned Assessment Revenue

In accordance with provisions of Division 11 of the Water Code of the State of California an annual assessment is levied upon the land within the District to provide the funds necessary for the District to meet its financial obligations. The assessment levied in October of each year is to acquire funds for operations during the next calendar year. To properly match revenues with expense, the revenues from 2015 assessments, levied in 2014, are considered unearned at year-end.

G. Accrued Compensated Absences

District employees are granted sick leave and paid time-off benefits in varying amounts depending on the number of years of service and other factors. Vested leave is recorded as an expense and a liability of the District as the benefits accrue.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

H. Bad Debts

The District utilizes the direct write-off method for bad debts. No allowance for bad debts has been provided as no material write-offs are expected for receivables at December 31, 2014.

I. Cash Flow Statement

The District considers all cash and cash deposits, investments in the State Treasurer's Local Agency Investment Fund, and other investments with initial maturities of less than 90 days to be cash and cash equivalents for purposes of preparing the accompanying statement of cash flows. This includes cash equivalents included in restricted assets.

J. Income Tax

The District qualifies for tax-exempt status as an integral part of the State of California or a political subdivision in accordance with Internal Revenue Code (IRC) Section 115. As a result, no tax provisions apply to the District's income.

K. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

L. Investments

All investments are stated at fair value, except for money market investments which have a remaining maturity of less than one year when purchased, which are stated at amortized cost. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and Agency obligations. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

M. Net Position

Net Position is the excess of all District's assets and deferred outflows over all of its liabilities, and deferred inflows. Net Position is divided into three categories as follows:

*Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include facility capacity fees received for use on capital projects, fees charged for the provision of future water resources and debt service reserve funds.

*Unrestricted* describes the portion of net position which is not restricted as to use.

N. Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the prior year financial statements, from which this data was derived.

NOTE 2 – CASH AND INVESTMENTS:

Cash and investments held by the District are reflected in the accompanying statement of net position at December 31, 2014 as follow:

Cash and investments:	
Cash and investments	<u>\$27,820,595</u>
Restricted assets:	
Investments	<u>8,652,235</u>
Total cash and investments	<u>\$36,472,830</u>

Cash and investments as of December 31, 2014 consist of the following:

Cash on hand	\$ 300
Deposits with financial institutions	2,965,852
Sweep account	17,775,749
Investments	<u>15,730,929</u>
Total cash and investments	<u>\$36,472,830</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 2 – CASH AND INVESTMENTS (continued):

The District’s cash and cash equivalents, except for investments in the State of California Local Agency Investment Fund (LAIF) and sweep account balances, are entirely insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pools of securities held by the pledging financial institution’s trust department or agent, but not in the District’s name. Statutes authorize the District to invest in U.S. Treasury and registered state warrants, notes, bonds, bills or certificates, commercial paper, repurchase agreements and other similar instruments. The District’s cash and investments approximate market value at December 31, 2014.

The District’s investment policy requires all deposits to be fully insured by the FDIC or otherwise collateralized with government securities (110% of the amount on deposit); investment in LAIF is limited to 95% of the total investment portfolio; investment maturities shall not exceed one year and six months with the exception of Treasury Notes, Bonds, and Federal Agency Obligations at three years and investments in the instruments fully guaranteed by the Federal Government shall be placed only through the District’s service bank or a broker/dealer approved by the Administrative and Finance Committee, and are limited to maturities no greater than three years. Although permitted under the District’s investment policy, sweep account balances are not insured or collateralized.

Interest Rate Risk

Interest rate risk is the risk in market rate changes that could 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. The policy of the District is to limit the maturity of the District’s investments as stated above.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State Investment Pool	\$ 3,386,970	\$ 3,386,970	\$	\$	\$
Money Market Funds Held by Bond Trustee:	3,691,724	3,691,724			
Money Market Funds	<u>8,652,235</u>	<u>8,652,235</u>			
	<u>\$15,730,929</u>	<u>\$15,730,929</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 2 – CASH AND INVESTMENTS (continued):

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The policy of the District is to invest only in very safe institutions. Presented below is the minimum rating required by (where applicable) the California Government Code, the District’s investment policy, or debt agreements, and the actual Standard and Poor’s rating as of year end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>AAAm</u>	<u>Not Rated</u>
External Investment Pools	\$ 3,386,970	N/A	\$	\$3,386,970
Money Market Funds	3,691,724		3,691,724	
Held by Bond Trustee:				
Money Market Funds	<u>8,652,235</u>	N/A	<u>8,652,235</u>	<u>                    </u>
	<u>\$15,730,929</u>		<u>\$12,343,959</u>	<u>\$3,386,970</u>

Concentrations of Credit Risk

The policy of the District is to diversify investments so that the failure of any one issuer would not unduly harm the District’s cash flow.

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 possession of an outside party. The custodial risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) 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 requires that a financial institution secure deposits made by state and 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 public agencies. California law also allows financial institutions to secure District deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

As of December 31, 2014, none of the District’s deposits with financial institutions were held in uncollateralized accounts. None of District’s investments were subject to custodial credit risk. 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 (such as LAIF).

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 2 – CASH AND INVESTMENTS (continued):

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis.

NOTE 3 – RECEIVABLES:

All assessments are considered collectible because the District obtains a lien upon all assessed property once the assessment becomes delinquent. After a five year period, the District can sell the property to recover all prior assessments, costs, penalties, and interest due to the District.

Accounts receivable consists of the following at December 31, 2014:

Billable jobs	\$148,493
Other districts	62,542
Miscellaneous	<u>129,732</u>
	<u>\$340,767</u>

NOTE 4 – INVESTMENT IN POWER AUTHORITIES:

The District participates in several joint powers authorities (JPA's) organized to develop hydroelectric power for use by public agencies and for other functions related to the purpose of the District. The JPA's are not component units of the District however the following are considered joint ventures as defined by GASB #14. If the District is to share in the profits and losses of the joint venture, the initial investment is recorded at cost and then adjusted to reflect the joint venture's results of operations. If the District does not have an ongoing financial responsibility for the joint venture's debts, the investment account is not reduced below zero. If the District does not have an ongoing financial interest or an ongoing financial responsibility, the power authority is classified as a joint governed organization.

Joint Ventures	2014
Madera-Chowchilla Water and Power Authority	\$ 964,246
Friant Power Authority	<u>2,226,600</u>
	<u>\$3,190,846</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 4 – INVESTMENT IN POWER AUTHORITIES (continued):

Madera-Chowchilla Water & Power Authority

The District entered into a joint powers agreement with the Chowchilla Water District to form the Madera-Chowchilla Water & Power Authority (MCW&PA). The Authority is administered by the Board of Directors of each District. The Authority handles electrical generation projects that are to be shared between the two districts equally and the operations and maintenance of the Madera Canal.

Separate financial statements are available from the Madera-Chowchilla Water & Power Authority. Summarized financial information of MCW&PA is as follows:

	2014
Total assets	\$2,023,986
Total liabilities	<u>95,496</u>
Total net position	<u>\$1,928,490</u>
Total operating revenue	\$ 895,281
Total operating expenses	1,136,220
Total non-operating expenses over (under) non-operating revenue	<u>63,956</u>
Change in net position	<u>\$ (176,983)</u>

Friant Power Authority

The Friant Power Authority (FPA) is comprised of eight special districts to develop hydroelectric power for use by public agencies. The District has a participation interest of 12.5% in the Quinten Luallen Power Plant and 9.25% in the remaining net position of the Authority. FPA currently operates plants at the Friant Dam. Separate financial statements of FPA are available through the Authority. Condensed financial statements as of June 30, 2014 are as follows:

	2014
Total assets	\$21,180,968
Total liabilities	<u>68,674</u>
Total net position	<u>\$21,112,294</u>
Total revenue	\$ 1,043,334
Total expenses	<u>1,547,264</u>
Change in net position	<u>\$ (503,930)</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 4 – INVESTMENT IN POWER AUTHORITIES (continued):

Jointly Governed Organizations

Friant Water Authority

The Friant Water Authority (FWA) is comprised of 20 special districts to operate the Friant-Kern Canal. FWA is governed by a Board consisting of a representative from each member district. The Board controls the operations of FWA, including selection of management and approval of operating budgets, independent of influence by the member district beyond their representation on the Board. Each member is assessed for administrative costs of FWA based on their proportionate share of water received from the United States Bureau of Reclamation. During 2014 the District paid FWA the monthly share of the San Luis Delta Mendota Water Authority Exchange Contractors costs as well as the general membership dues. Separate financial statements are available through the Authority.

Jointly Governed Organizations

Association of California Water Agencies Joint Powers Insurance Authority

The District entered into a joint powers agreement, along with other members of the Association of California Water Agencies (ACWA), to form a self-insuring pool for liability coverage. ACWA is governed by a Board of Directors composed of one representative from each member agency. The governing board controls the operation independent of any influence by the District other than that District’s representation on the governing board. Separate financial statements of ACWA are available through the Authority.

NOTE 5 – RESTRICTED ASSETS:

Certain proceeds of the District’s water revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The balances in these accounts at December 31, 2014 are as follows:

<u>Series 2008 Water Revenue Refunding Bonds</u>	
Payment account	\$ 1,733,059
Reserve fund	<u>2,667,925</u>
	<u>\$ 4,400,984</u>
<u>Series 2011 Water Revenue Bonds</u>	
Acquisition fund	\$ 25,859
Reserve fund	3,144,986
Installment payment fund	<u>1,080,406</u>
	<u>\$ 4,251,251</u>
Total Restricted Assets	<u>\$ 8,652,235</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014

(Continued)

NOTE 6 – CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and tax title property	\$19,736,029	\$	\$	\$19,736,029
Construction in progress	<u>1,078,704</u>	<u>930,022</u>	<u>(603,743)</u>	<u>1,404,983</u>
Total capital assets not being depreciated	<u>20,814,733</u>	<u>930,022</u>	<u>(603,743)</u>	<u>21,141,012</u>
Capital assets being depreciated:				
Transmission/Distribution system	25,546,054	642,584		26,188,638
Madera Ranch – improvements	58,402	14,691		73,093
Buildings	682,085	11,996		694,081
Madera Ranch – Vernal Pools	857,662	8,983		866,645
Construction and shop equipment	2,255,781			2,255,781
Transportation equipment	889,757	33,972	(35,921)	887,808
Office furniture	327,884	82,153		410,037
Yards and grounds	<u>86,144</u>			<u>86,144</u>
Total capital assets being depreciated	<u>30,703,769</u>	<u>794,379</u>	<u>(35,921)</u>	<u>31,462,227</u>
Less accumulated depreciation for:				
Transmission/distribution system	20,092,586	300,506		20,393,092
Madera Ranch – improvements	35,393	7,036		42,429
Buildings	592,534	18,729		611,263
Construction and shop equipment	827,915	136,919		964,834
Transportation equipment	509,227	105,895	35,921	579,201
Office furniture and equipment	218,406	26,275		244,681
Yards and grounds	<u>71,077</u>	<u>1,151</u>		<u>72,228</u>
Total accumulated depreciation	<u>22,347,138</u>	<u>596,511</u>	<u>35,921</u>	<u>22,907,728</u>
Total capital assets being depreciated, net	<u>8,356,631</u>	<u>197,868</u>		<u>8,554,499</u>
Total capital assets, net	<u>\$29,171,364</u>	<u>\$1,127,890</u>	<u>\$(603,743)</u>	<u>\$29,695,511</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014

(Continued)

NOTE 7 – LONG-TERM DEBT:

Long-term liability activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Water Revenue Refunding Bonds Series 2008	\$36,635,000	\$	\$(755,000)	\$35,880,000	\$785,000
Less deferred amounts on refunding	(1,106,896)		72,480	(1,034,416)	
Water Revenue Bonds Series 2011	<u>32,440,000</u>	_____	_____	<u>32,440,000</u>	<u>75,000</u>
	<u>\$67,968,104</u>	<u>\$</u>	<u>\$(682,520)</u>	<u>\$67,285,584</u>	<u>\$860,000</u>

Water Enhancement Fund

On August 1, 2008, the District issued \$40,000,000 in water revenue bonds with interest rates ranging from 4.00% to 5.50% per annum.

The Bonds were issued by the District to (i) together with other available funds of the District, prepay the District's obligations under an Installment Purchase Contract, dated as of September 1, 2005 (the "Installment Purchase Contract") with the Madera Irrigation Financing Authority (the "Authority"), which obligations secure the Authority's Water Revenue Bonds, Series 2005A (the "Prior Bonds"), issued in the original principal amount of \$35,805,000 (the "Prior Bonds"), (ii) to fund a reserve fund for the Bonds, and (iii) to pay certain costs of issuance of the Bonds (including any swap termination payments and other expenses incurred in connection with the refunding of the Prior Bonds). Payments under Installment Purchase Contract also secured the Madera Irrigation Financing Authority Taxable Water Revenue Bonds, Series 2005B, issued in the original principal amount of \$12,115,000 (the "Series 2005B Bonds"), which were redeemed in whole on August 6, 2008, from proceeds of certain land sales by the District.

Madera Irrigation District Water Revenue Refunding Bonds Series 2008

The District is authorized to issue additional parity obligations secured by the net revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture.

Pursuant to the Indenture, the District has covenanted to fix, prescribe and collect certain rates and charges for service provided by the Enterprise.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 7 – LONG-TERM DEBT (continued):

The District refunded the Prior Bonds and increased its total debt payments over the next 30 years by an estimated \$8,000,000 and incurred an economic loss (difference between the present values of the debt payments on the Revenue Refunding Bonds Series 2008 and the Prior Bonds) of \$9,500,000. These amounts were estimated based on an assumed interest rate on the Prior Bonds of 4.00% per annum and earnings of 5.38% on the debt service reserve of the new refunding bonds.

The District has covenanted in the Indenture that it will at all times while any of the Bonds remain outstanding, fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield revenues at least sufficient, after making reasonable allowance for contingencies and errors in the estimates, to pay the following amounts in the order set forth below:

1. All maintenance and operation costs of the Enterprise;
2. The debt service payments and all payments (including payments of interest and under reimbursement agreements) with respect to related parity obligations, if any, issued or incurred after the date hereof as they become due and payable.
3. Amounts necessary to bring the amount of funds in the Reserve Fund up to the reserve requirement within one year of a draw thereon; and
4. All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from the revenues during such fiscal year.

Furthermore, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each fiscal year which are sufficient to yield estimated net revenues which are at least equal to one hundred and ten percent (110%) of the aggregate amount of the debt service payments, and principal of and interest on any parity obligations issued or incurred after the date hereof payable from net revenues coming due and payable during such fiscal year. The District may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the net revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements set forth in this paragraph.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014

(Continued)

NOTE 7 – LONG-TERM DEBT (continued):

The following illustrates the annual debt service for the Bonds to maturity:

<u>Year Ending (December 31,)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 785,000	\$ 1,896,119	\$ 2,681,119
2016	815,000	1,864,719	2,679,719
2017	860,000	1,831,100	2,691,100
2018	905,000	1,783,800	2,688,800
2019	955,000	1,734,025	2,689,025
2020-2024	5,510,000	7,954,088	13,464,088
2025-2029	7,130,000	6,385,100	13,515,100
2030-2034	9,350,000	4,230,875	13,580,875
2035-2038	<u>9,570,000</u>	<u>1,351,625</u>	<u>10,921,625</u>
Totals	<u>\$35,880,000</u>	<u>\$29,031,451</u>	<u>\$64,911,451</u>

Madera Irrigation District Water Revenue Bonds Series 2011

On April 1, 2011, the District issued \$32,440,000 in Water Revenue Bonds, Series 2011 (the “Bonds”). The Bonds were being issued to provide funds (i) to finance the acquisition of certain water entitlements (the “Project”) for the water (the “Enterprise”) of the Madera Irrigation District (the “District”), (ii) to fund a reserve fund for the bonds, (iii) to capitalize certain interest on the Bonds through 2012, and (iv) to pay for the cost of issuing the Bonds.

The Project consists of (i) the acquisition of a permanent contractual right to purchase water in accordance with a contract (the “Friant Contract”) between the District and the United States Bureau of Reclamation (the “Bureau”), and (ii) the acquisition of a permanent contractual right to purchase water in accordance with a contract (the “Hidden Contract”) between the District and the Bureau. Pursuant to the Friant Contract, the District will acquire a permanent contractual right up to 85,000 acre feet of Class 1 water and up to 186,000 acre feet of Class 2 water from the Friant Division of the Federal Central Valley Project (the “CVP”).

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 7 – LONG-TERM DEBT (continued):

The District has covenanted that it shall fix, prescribe, revise and collect rates, fees, and charges for the service and facilities furnished by the Enterprise during each fiscal year which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield Enterprise Revenues sufficient to pay the following amounts in the following order of priority:

1. All maintenance and operation costs of the Enterprise;
2. The Installment Payments and all payments (including payments of interest and under reimbursement agreements) with respect to related Parity Obligations issued or incurred as they become due and payable;
3. Amounts necessary to bring the amount of funds in the Reserve Fund up to the reserve requirement within one year of a draw thereon; and
4. All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from the revenues during such fiscal year.

The following is a schedule of debt service on Bonds for each year until maturity:

<u>Year Ending (December 31,)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 75,000	\$ 2,010,813	\$ 2,085,813
2016	225,000	2,008,188	2,233,188
2017	380,000	1,999,750	2,379,750
2018	555,000	1,984,550	2,539,550
2019	580,000	1,959,575	2,539,575
2020-2024	3,400,000	9,319,013	12,719,013
2025-2029	4,565,000	8,214,613	12,779,613
2030-2034	6,240,000	6,596,738	12,836,738
2035-2039	11,390,000	4,286,750	15,676,750
2040	<u>5,030,000</u>	<u>326,950</u>	<u>5,356,950</u>
Totals	<u>\$32,440,000</u>	<u>\$38,706,940</u>	<u>\$71,146,940</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 8 – SOQUEL ELECTRIC GENERATION REVENUE:

The District and Pacific Gas and Electric Company (PG&E) entered into a contract for the use of the water by PG&E under the rights owned by the District in the operation of the hydroelectric development on the North Fork Willow Creek. In accordance with this contract, PG&E is committed to make annual payments on September 30 of each year based on energy delivered for the period October 1 – July 31. The contract has been renewed on a continuing basis from year to year.

The District has recognized revenue payments from Pacific Gas and Electric for the year ended December 31, 2014 of \$112,287.

NOTE 9 – INTERFUND TRANSFER:

Interfund transfers have been made to finance the purchase of land in the Water Enhancement Fund and to cover expenses in excess of revenue. Since the establishment of the Water Enhancement Fund during the year ended December 31, 2004, the interfund transfers between the Irrigation Fund and the Water Enhancement Fund are as follows:

Year Ended December 31,	Transfers to (from) the Irrigation Fund
2004	\$ (2,290,206)
2005	1,005,231
2006	(1,089,218)
2007	(661,580)
2008	657,561
2009	(305,301)
2010	(1,405,914)
2011	(3,432,118)
2012	(2,248,215)
2013	(3,117,661)
2014	<u>(2,137,786)</u>
Net Transferred	<u>\$ (15,025,207)</u>

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

- A. Under its 9d repayment contract with the U.S. Bureau of Reclamation, the District is committed on an annual basis to pay the published water marketing and storage costs for 24,000 acre feet of stored water in Hidden Dam. The estimated total cost for 2014 is \$460,080 plus an additional \$9.99 per acre foot Restoration Fund charge on 24,000 acre feet, required by the Central Valley Improvement Act.
- B. Under its new 9d contract with USBR, the District is entitled to receive (if available) up to 85,000 acre feet of Class 1 water and up to 186,000 acre feet of Class 2 water. The District is obligated to pay only for water actually delivered at the 2014 rates of \$36.39 per acre foot for Class 1 water and \$24.87 per acre foot for Class 2 water inclusive of all applicable USBR charges.
- C. The District holds a Warren Act Contract with the United States Bureau of Reclamation for the storage and conveyance of non-CVP water behind Friant Dam. The District pays the USBR at the rate of \$19.17 per acre foot on the actual quantities stored and conveyed on behalf of the District.
- D. The District has established a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to all full time employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts deferred under the plan and all income attributable to those amounts are solely the property and rights of the plan participants and accordingly are not reported on the District's financial statements in accordance with Governmental Accounting Standards Board Statement No. 32 – "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."
- E. The District adopted effective January 1, 2000, a defined contribution (401k) pension plan covering substantially all of its employees. The District contributes – 4% of the employee's regular annual compensation. In addition, the District will match the employees' contribution up to a maximum of 4.5% (a total of 8.5%).

Employees are fully vested in the District's contribution upon completion of six years of service. Pension expense for 2014 was \$167,557. The payroll for employees covered by the District for the year ended 2014 was \$2,716,323.

- F. The District has entered into a joint powers agreement along with other members of the Association of California Water Agencies (ACWA) to form a self-insuring pool for liability coverage up to \$11,000,000. Insurance in excess of \$11,000,000 is collectively purchased through an umbrella policy covering all included members. The excess insurance is for \$49,000,000 per occurrence for a total coverage of \$60,000,000.

During 2014, there were no reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for each of the three prior years.

MADERA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued):

- G. The District is also party to other legal proceedings and claims which arise during the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation will not have a material adverse effect on the District's financial position.

NOTE 11 – SPECIAL ITEM:

In December, 2014, the Board of Directors voted to resolve a dispute with Madera Valley LLC which arose from the 2012 Project Participation Agreement between the District and Madera Valley LLC. The terms of the agreement required the District to make a one-time payment of \$500,000. In addition, the District entered into a Water Transfer Agreement providing Madera Valley LLC with the option to purchase specified amounts of water for a 25 year term in moderate to wet rainfall years.

SUPPLEMENTARY INFORMATION

MADERA IRRIGATION DISTRICT  
COMBINING STATEMENT OF NET POSITON  
DECEMBER 31, 2014

	Irrigation Fund	Water Enhancement Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$25,386,580	\$ 2,434,015	\$ 27,820,595
Receivables:			
Accounts	340,767		340,767
Assessments	1,685,975		1,685,975
Certificates of sale	262,314		262,314
Supplies inventory	178,429		178,429
Prepaid expenses:			
Insurance	124,613		124,613
Dues	39,221		39,221
Total Current Assets	<u>28,017,899</u>	<u>2,434,015</u>	<u>30,451,914</u>
Noncurrent assets:			
Restricted cash	4,251,251	4,400,984	8,652,235
Debt issue costs, net of accumulated amortization	765,653	198,805	964,458
Investments in Water Authorities	3,190,846		3,190,846
Water entitlements	27,061,855		27,061,855
Capital assets, not being depreciated	1,456,452	19,684,560	21,141,012
Other capital assets, net of accumulated depreciation	7,657,190	897,309	8,554,499
Total Noncurrent Assets	<u>44,383,247</u>	<u>25,181,658</u>	<u>69,564,905</u>
Total Assets	<u>72,401,146</u>	<u>27,615,673</u>	<u>100,016,819</u>
<b>Deferred outflow of resources:</b>			
Deferred loss on refunding		1,034,416	1,034,416
Total Deferred Outflow of Resources		<u>1,034,416</u>	<u>1,034,416</u>
Total Assets and Deferred Outflow of Resources	<u>\$72,401,146</u>	<u>\$28,650,089</u>	<u>\$101,051,235</u>

MADERA IRRIGATION DISTRICT  
COMBINING STATEMENT OF NET POSITON  
DECEMBER 31, 2014

(Continued)

	Irrigation Fund	Water Enhancement Fund	Total
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	429,399		429,399
Water deposits			
Other liabilities	49,968		49,968
Accrued salaries and related liabilities	40,171		40,171
Accrued compensated absences	211,000		211,000
Accrued interest	1,005,407	948,059	1,953,466
Other unearned revenue	24,432	392,728	417,160
Current portion of long-term debt	75,000	785,000	860,000
Total Current liabilities	<u>1,835,377</u>	<u>2,125,787</u>	<u>3,961,164</u>
Noncurrent liabilities:			
Accrued compensated absences	52,995		52,995
Water deposits	100,000		100,000
Long-term liabilities net of current portion	32,365,000	35,095,000	67,460,000
Total Noncurrent Liabilities	<u>32,517,995</u>	<u>35,095,000</u>	<u>67,612,995</u>
Total Liabilities	<u>34,353,372</u>	<u>37,220,787</u>	<u>71,574,159</u>
<b>Deferred inflow of resources</b>			
Unearned assessment revenue	5,535,116		5,535,116
Total Deferred Inflow of Resources	<u>5,535,116</u>	<u>                    </u>	<u>5,535,116</u>
<b>Net position:</b>			
Invested in capital assets, net of related debt	9,113,642	2,810,621	11,924,263
Restricted	4,251,251	4,400,984	8,652,235
Unrestricted	19,147,765	(15,782,303)	3,365,462
Total Net Position	<u>\$32,512,658</u>	<u>\$ (8,570,698)</u>	<u>\$ 23,941,960</u>

MADERA IRRIGATION DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2014

	Irrigation Fund	Water Enhancement Fund	Total
<b>Operating revenues:</b>			
Assessments:			
Rural	\$ 4,507,454	\$	\$ 4,507,454
City	499,841		499,841
Systems repayment	255,045		255,045
Subordinate lands	678,680		678,680
Penalties and costs	51,813		51,813
Water sales	15,565,173		15,565,173
Refunds	485,508		485,508
Soquel electric generation revenues	<u>112,287</u>		<u>112,287</u>
Total operating revenues	<u>22,155,801</u>		<u>22,155,801</u>
<b>Operating expenses:</b>			
Water purchases	6,262,223		6,262,223
Water, Hidden Dam	460,080		460,080
Transmission and distribution	3,418,905		3,418,905
General and administrative	1,818,130	65,874	1,884,004
Depreciation and amortization	<u>589,475</u>	<u>7,036</u>	<u>596,511</u>
Total operating expenses	<u>12,548,813</u>	<u>72,910</u>	<u>12,621,723</u>
Operating income (loss)	9,606,988	(72,910)	9,534,078
<b>Non-operating revenues and (expenses):</b>			
Madera-Chowchilla Water & Power Authority:			
Electric generation revenue	37,381		37,381
Power projects lease payments	(356,942)		(356,942)
Loss from power authority	(88,492)		(88,492)
Loss from Friant Power Authority	(87,915)		(87,915)
Investment income	59,774	5,785	65,559
Interest expense	(2,010,813)	(1,896,119)	(3,906,932)
Amortization of bonds issue costs	(60,992)	(86,266)	(147,258)
Gain on retirement of capital assets	15,295		15,295
Miscellaneous	259,436		259,436
Rental of District equipment	234,566		234,566
North Fork	114,065		114,065
Water Reservation	153,479		153,479
Land lease revenue	<u>17,740</u>	<u>201,401</u>	<u>219,141</u>
Total non-operating revenues and (expenses)	<u>(1,713,418)</u>	<u>(1,775,199)</u>	<u>(3,488,617)</u>
Transfers in (out)	<u>(2,137,786)</u>	<u>2,137,786</u>	
<b>Special Item</b>			
Settlement agreement with Madera Valley LLC		(500,000)	(500,000)
Increase (decrease) in net position	5,755,784	(210,323)	5,545,461
<b>Net position, beginning of year</b>	<u>26,756,874</u>	<u>(8,360,375)</u>	<u>18,396,499</u>
<b>Net position, end of year</b>	<u>\$32,512,658</u>	<u>\$(8,570,698)</u>	<u>\$23,941,960</u>

MADERA IRRIGATION DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2014

	<u>Irrigation Fund</u>	<u>Water Enhancement Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from water sales and related activities	\$12,221,867	\$	\$12,221,867
Cash received from assessments	6,073,389		6,073,389
Cash received from other operating activities	597,795	225,833	823,628
Cash paid for water purchases and related activities	(4,843,807)		(4,843,807)
Cash paid to other vendors for other operating activities	(899,893)	(65,874)	(965,767)
Cash paid to employees and related benefits	(3,460,246)		(3,460,246)
Cash paid for Madera Valley LLC settlement agreement		(500,000)	(500,000)
<b>Net cash provided (used) by operating activities</b>	<u>9,689,105</u>	<u>(340,041)</u>	<u>9,349,064</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers from Irrigation fund		2,137,786	2,137,786
Transfers to Water Enhancement fund	<u>(2,137,786)</u>		<u>(2,137,786)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(2,137,786)</u>	<u>2,137,786</u>	<u>                  </u>
<b>Cash flows from capital and related financing activities:</b>			
Principal payments on long-term debt		(755,000)	(755,000)
Interest paid on long-term debt	(1,986,380)	(1,935,651)	(3,922,031)
Capital expenditures	(1,096,983)	(23,675)	(1,120,658)
Proceeds from sale of capital assets	15,295		15,295
Other non-operating activities	<u>526,980</u>		<u>526,980</u>
<b>Net cash used by capital and related financing activities</b>	<u>(2,541,088)</u>	<u>(2,714,326)</u>	<u>(5,255,414)</u>
<b>Cash flows from investing activities:</b>			
Interest received	59,774	5,785	65,559
Net investments in Water Authorities	(813,354)		(813,354)
Net land lease revenue	17,740	201,401	219,141
Rental of District equipment	<u>234,566</u>		<u>234,566</u>
<b>Net cash provided (used) by investing activities</b>	<u>(501,274)</u>	<u>207,186</u>	<u>(294,088)</u>
<b>Net increase in cash and cash equivalents</b>	4,508,957	(709,395)	3,799,562
Cash and cash equivalents at beginning of year	<u>25,128,874</u>	<u>7,544,394</u>	<u>32,673,268</u>
Cash and cash equivalents at end of year	<u>\$29,637,831</u>	<u>\$ 6,834,999</u>	<u>\$36,472,830</u>

MADERA IRRIGATION DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2014

	<u>Irrigation Fund</u>	<u>Water Enhancement Fund</u>	<u>Total</u>
Unrestricted cash and cash equivalents	\$25,386,580	\$ 2,434,015	\$27,820,595
Restricted cash and cash equivalents with fiscal agent	<u>4,251,251</u>	<u>4,400,984</u>	<u>8,652,235</u>
<b>Total cash and cash equivalents</b>	<b><u>\$29,637,831</u></b>	<b><u>\$ 6,834,999</u></b>	<b><u>\$36,472,830</u></b>
<b>Reconciliation of operating income (loss) to net cash provided (used) in operating activities</b>			
Operating income (loss)	\$ 9,606,988	\$ (72,910)	\$ 9,534,078
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	589,475	7,036	596,511
Special item		(500,000)	(500,000)
(Increase) decrease in:			
Receivables	201,742		201,742
Supplies inventory	(20,484)		(20,484)
Prepaid expenses	2,803,912		2,803,912
Increase (decrease) in:			
Accounts payable	240,982		240,982
Water deposits	(3,358,362)		(3,358,362)
Other liabilities	(106,521)		(106,521)
Accrued salaries and related liabilities	(81,163)		(81,163)
Accrued compensated absences	(81,334)		(81,334)
Other unearned revenue		225,833	225,833
Unearned assessment revenue	<u>(106,130)</u>		<u>(106,130)</u>
Total adjustments	<u>82,117</u>	<u>(267,131)</u>	<u>(185,014)</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 9,689,105</u></b>	<b><u>\$ (340,041)</u></b>	<b><u>\$ 9,349,064</u></b>

OTHER INDEPENDENT AUDITOR'S REPORT



May 7, 2015

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

The Board of Directors of  
Madera Irrigation District  
Madera, California

We have audited, in accordance with the 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 Madera Irrigation District (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 7, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 District's financial statements will not be prevented, or detected or 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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

### **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sampson, Sampson & Patterson, LLP*