

MADERA IRRIGATION DISTRICT

REPORT ON AUDITED
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2017

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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, 2017, 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, 2016, and in our report dated April 25, 2017, 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, 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 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, 2017, 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 March 6, 2018 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

Clovis, California
March 6, 2018

Madera Irrigation District
Management Discussion and Analysis
December 31, 2017

The following management discussion and analysis is the result of Madera Irrigation District (District or MID) 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 Madera Irrigation 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 ending December 31, 2017. 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 once a month.

The District currently encompasses an area of approximately 140,000 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 2% of the District’s revenues through the assessment collections.

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

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

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

The District has a normal complement of 53 full-time employees and was staffed with 50 full-time employees as of December 31, 2017, with an annual District operating budget of approximately \$25 million.

In 1951, after years of temporary contracts, the District signed its first long-term contract with United States 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.

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

Madera Irrigation District
Management Discussion and Analysis
December 31, 2017

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 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 its costs through its rates, fees, assessments and other 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, 2017

FINANCIAL HIGHLIGHTS OF THE FISCAL YEAR ENDED DECEMBER 31, 2017

1. Total assets and deferred outflow resources are \$99 million, an increase of approximately 5%. This increase is due to an increase in cash and cash equivalents.
2. Total liabilities are \$60.6 million, a decrease of approximately 3%. This decrease is due to a decrease in long-term liabilities.
3. Operating Revenue of \$23.1 million and operating expense of \$16.8 million resulted in operating income from operations of \$6.3 million. Net non-operating revenue of \$0.6 million is the result of total non-operating revenue of \$3.4 million offset by interest expense and other expense of \$2.8 million.
4. The District's total cash and cash equivalents increased by \$4.5 million in 2017. This increase was due to net revenues over expenses resulting in an increase in the District's net position.

Summary of Overall Financial Position and Results of Operations:

Combined Statement of Net Position

	2017	2016
Current Assets	\$26,719,849	\$21,870,950
Restricted Assets	1,120,222	606,913
Water Entitlements	27,061,855	27,061,855
Capital Assets, net	29,424,757	29,471,174
Other Assets & Investments	5,314,894	5,061,961
Total Assets	89,641,577	\$84,072,853
Deferred Outflow of Resources	9,223,292	9,863,103
Total Assets and Deferred Outflow of Resources	\$98,864,869	\$93,935,956
Current Liabilities	6,894,091	6,068,297
Long Term Liabilities	53,707,239	56,618,624
Total Liabilities	\$60,601,330	\$62,686,921
Deferred Inflow of Resources	5,845,886	5,750,209
Net Position:		
Invested in Capital Assets, net	17,637,207	17,294,489
Restricted	1,120,222	606,913
Unrestricted	13,660,224	7,597,424
Total Net Position	\$32,417,653	\$25,498,826
Total Liabilities, Deferred Inflow of Resources & Net Position	\$98,864,869	\$93,935,956

Madera Irrigation District
Management Discussion and Analysis
December 31, 2017

Condensed Capital Assets Detail

	2017	2016
Transmission and Distribution System, net	\$ 6,554,083	\$ 6,646,346
Land	19,736,029	19,736,029
Vernal Pool	899,588	899,588
Madera Ranch - Improvements, net	9,687	48,543
Buildings, net	67,117	75,740
Construction and Shop Equipment, net	1,349,676	1,393,865
Transportation Equipment, net	325,811	258,824
Office Furniture and Equipment, net	132,573	160,612
Yards and Grounds, net	108,058	42,713
Construction in Progress	242,135	208,914
	<u>\$29,424,757</u>	<u>\$29,471,174</u>

Significant Capital Asset Activity – The Board of Directors made the decision at its April 19, 2016 Board Meeting not to pursue the renewal or renegotiation of permits obtained in the 2005-2011 timeframe for the Madera Ranch Water Bank (otherwise known as the Water Supply Enhancement Project). Although Madera Irrigation District is continuing to explore various opportunities for the Madera Ranch property, including potential water banking opportunities, the previous permits obtained by the District were for a project conceptualized in the late 1990’s and early 2000’s. The environmental, engineering, and permitting world has changed significantly since these permits were negotiated and obtained. Due to this decision, in 2016 the District wrote off \$1,060,902 in permitting costs incurred 2005 through 2013. These costs were previously included in Construction in Progress.

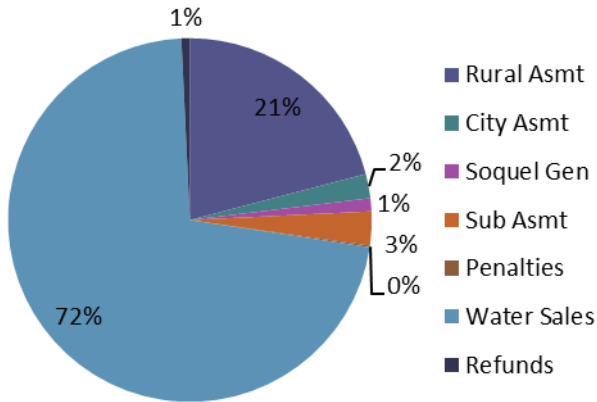
Significant Net Position Activity – The balance of net assets is comprised of restricted and unrestricted net assets. The District’s assets exceeded liabilities by \$32.4 million. Capital assets are not liquid nor are they available for future spending but have been acquired over time and through their utilization, provide the District with revenue.

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

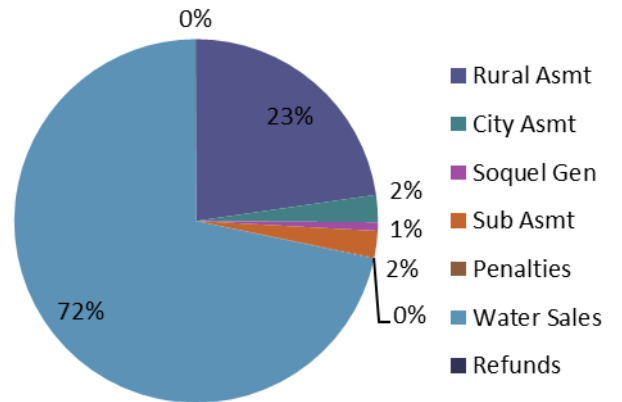
	2017	2016
Operating Revenue	\$ 23,136,529	\$ 20,840,919
Operating Expenses	<u>(16,783,994)</u>	<u>(17,073,808)</u>
Operating Income (Loss)	<u>\$ 6,352,535</u>	<u>\$ 3,767,111</u>
Non-operating Revenue	\$ 3,442,390	\$ 2,538,906
Non-operating Expenses	<u>(2,876,098)</u>	<u>(3,948,671)</u>
Non-operating Income (Loss)	<u>\$ 566,292</u>	<u>\$ (1,409,765)</u>
Special Item	-	<u>\$ (1,060,902)</u>
Increase (Decrease) in Net Position	\$ 6,918,827	\$ 1,296,444
Net Position, beginning of year	<u>\$ 25,498,826</u>	<u>\$ 24,202,382</u>
Net Position, end of year	<u>\$ 32,417,653</u>	<u>\$ 25,498,826</u>

Madera Irrigation District
 Management Discussion and Analysis
 December 31, 2017

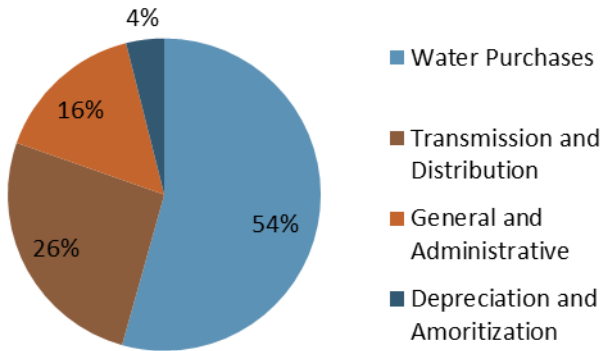
2017 Operating Revenues



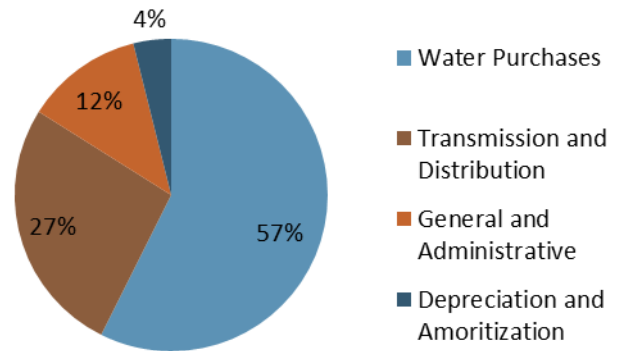
2016 Operating Revenues



2017 Operating Expenses



2016 Operating Expenses



Madera Irrigation District
Management Discussion and Analysis
December 31, 2017

Economic Factors and Rates

For the first time since 2011, Madera Irrigation District received a 100% Class 1 water allocation from the USBR. MID's Friant Class 1 contract amount is 85,000 acre-feet. In addition, Friant contractors were able to schedule and take delivery of Class 2 water supplies up to their contract maximum during the "uncontrolled season", which ended July 26, 2017. The District took delivery of approximately 18,000 acre-feet of Class 2 water during the "uncontrolled season." The USBR also made a late declaration of 3% residual Class 2, which added 5,580 acre-feet. Additional water sources in 2017 included Unreleased Restoration Flows (URF), Recovered Water Account (RWA), Hensley Lake, and Pre-1914 water supplies. The price of water to District growers ranged from \$25 to \$95 per acre-feet. This year's operations were exceptionally notable. The season, which began in January, was the longest running season in over 40 years of the District's history. With over a quarter of a million (250,000) acre-feet utilized, the District recharged water in recently rehabilitated recharge basins throughout the District. The District balanced its budget and avoided withdrawing from reserves.

The District, in 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 its growers affordable. By keeping the crop water rates affordable, the District hopes to encourage use of surface water to help preserve groundwater levels within the Madera Irrigation District.

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 9(d) contract with the USBR. That election passed by 67% on March 15, 2011 thus increasing the assessments by approximately \$28.06 per acre (amount varies dependent on land category) to the rural parcel assessments. This approved increase in assessments is referred to as the 2011 Assessment. Pursuant to Board action taken on March 15, 2011, Resolution No. 2011-04 includes a provision which allows an increase of the 2011 Assessment by 3% annually for a ten-year period. This increase is covenanted by the Water Revenue Refunding Bonds, Series 2015. Thus, the annual 3% increase will take place until the year 2022. The 2011 Assessment resulted in an additional \$3,300,000 this year in dedicated revenue.

In 2016 Madera Irrigation District transferred the billing and collection duties for MID's assessments and standby charges to the County of Madera (County). The transfer took place with MID's 2017 assessments and 2016 standby charges. The transfer was for the benefit of landowners and taxpayers, simplifying the payment process as one payment could be made for County property taxes, MID assessments, and MID standby charges. This transfer has resulted in a significant decrease in the delinquency rate for the collection of assessments and standby charges.

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)

	December 31,	
	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and investments:		
Unrestricted	\$17,251,852	\$13,259,703
Restricted	<u>1,120,222</u>	<u>606,913</u>
	<u>18,372,074</u>	<u>13,866,616</u>
Receivables:		
Accounts	1,236,050	600,389
Assessments	7,555,251	7,287,961
Certificates of sale	168,506	225,083
Supplies inventory	275,171	238,398
Prepaid expenses	<u>233,019</u>	<u>259,416</u>
Total Current Assets	<u>27,840,071</u>	<u>22,477,863</u>
Noncurrent assets:		
Investments in Water and Power Authorities	5,314,894	5,061,961
Water entitlements	27,061,855	27,061,855
Capital assets, not being depreciated	19,978,164	19,944,942
Other capital assets, net of accumulated depreciation	<u>9,446,593</u>	<u>9,526,232</u>
Total Noncurrent Assets	<u>61,801,506</u>	<u>61,594,990</u>
Total Assets	<u>89,641,577</u>	<u>84,072,853</u>
Deferred outflow of resources		
Deferred loss on bond refunding	8,955,398	9,577,524
Debt issue costs, net of accumulated amortization	<u>267,894</u>	<u>285,579</u>
Total Deferred Outflow of Resources	<u>9,223,292</u>	<u>9,863,103</u>
Total Assets and Deferred Outflow of Resources	<u>\$98,864,869</u>	<u>\$93,935,956</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)

	December 31,	
	<u>2017</u>	<u>2016</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 199,744	\$ 671,931
Other liabilities	19,328	12,930
Accrued salaries and related liabilities	59,128	61,990
Accrued compensated absences	289,954	230,200
Accrued interest	756,939	740,159
Other unearned revenue	3,328,998	2,131,087
Current portion of long-term debt	<u>2,240,000</u>	<u>2,220,000</u>
Total Current Liabilities	<u>6,894,091</u>	<u>6,068,297</u>
Noncurrent liabilities:		
Accrued compensated absences	72,489	57,550
Water deposits	34,552	300,000
Long-term liabilities, net of current portion	<u>53,600,198</u>	<u>56,261,074</u>
Total Noncurrent Liabilities	<u>53,707,239</u>	<u>56,618,624</u>
Total Liabilities	<u>60,601,330</u>	<u>62,686,921</u>
Deferred inflow of resources:		
Unearned assessment revenue	<u>5,845,886</u>	<u>5,750,209</u>
Total Deferred Inflow of Resources	<u>5,845,886</u>	<u>5,750,209</u>
Total Liabilities and Deferred Inflow of Resources	<u>66,447,216</u>	<u>68,437,130</u>
Net position:		
Investment in capital assets	17,637,207	17,294,489
Restricted	1,120,222	606,913
Unrestricted	<u>13,660,224</u>	<u>7,597,424</u>
Total Net Position	<u>\$32,417,653</u>	<u>\$25,498,826</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>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from water sales and related activities	\$17,076,245	\$ 15,119,462
Cash received from assessments	5,863,041	575,931
Cash received from other operating activities	441,447	174,919
Cash paid for water purchases and related activities	(9,114,496)	(9,796,530)
Cash paid to other vendors for other operating activities	(3,227,082)	(2,688,668)
Cash paid to employees and related benefits	<u>(4,187,080)</u>	<u>(3,699,965)</u>
Net cash provided (used) by operating activities	<u>6,852,075</u>	<u>(314,851)</u>
Cash flows from noncapital financing activities		
Transfers from Irrigation fund	838,292	
Transfers to Water Enhancement fund	<u>(838,292)</u>	
Net cash provided (used) by capital and related financing activities	<u> </u>	<u> </u>
Cash flows from capital and related financing activities:		
Advance refunding of long-term debt		(37,368,283)
Proceeds from long-term debt issued		26,966,473
Principal payments on long-term debt	(2,640,876)	(2,185,000)
Interest paid on long-term debt	(1,875,595)	(2,821,717)
Debt issuance costs paid		(127,993)
Capital expenditures	(602,653)	(732,822)
Grant proceeds	28,484	365,919
Long-term agreements	692,281	1,305,271
Other non-operating activities	<u>256,958</u>	<u>92,369</u>
Net cash used by capital and related financing activities	<u>(4,141,401)</u>	<u>(14,505,783)</u>
Cash flows from investing activities:		
Interest received	138,140	68,434
Net investments in Water Authorities	1,454,625	(909,051)
Net land lease revenue	188,093	270,392
Rental of District equipment	<u>13,926</u>	<u>3,390</u>
Net cash provided (used) by investing activities	<u>1,794,784</u>	<u>(566,835)</u>
Net increase (decrease) in cash and cash equivalents	4,505,458	(15,387,469)
Cash and cash equivalents at beginning of year	<u>13,866,616</u>	<u>29,254,085</u>
Cash and cash equivalents at end of year	<u>\$18,372,074</u>	<u>\$ 13,866,616</u>
Unrestricted cash and cash equivalents	\$17,251,852	\$ 13,259,703
Restricted cash and cash equivalents with fiscal agent	<u>1,120,222</u>	<u>606,913</u>
Total cash and cash equivalents	<u>\$18,372,074</u>	<u>\$ 13,866,616</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>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 6,352,535	\$ 3,767,111
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	659,670	665,895
(Increase) decrease in:		
Receivables	(846,374)	(5,460,335)
Supplies inventory	(36,773)	(85,559)
Prepaid expenses	26,397	(88,156)
Increase (decrease) in:		
Accounts payable	(472,187)	383,788
Other liabilities	6,398	(33,575)
Accrued salaries and related liabilities	(2,862)	25,101
Accrued compensated absences	74,693	21,151
Other unearned revenue	1,260,349	268,449
Water deposits	(265,448)	100,000
Unearned assessment revenue	<u>95,677</u>	<u>121,279</u>
Total adjustments	<u>499,540</u>	<u>(4,081,962)</u>
Net cash provided (used) by operating activities	<u>\$ 6,852,075</u>	<u>\$ (314,851)</u>

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

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Madera Irrigation District (District) is located in Madera County and covers an area of approximately 140,000 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, 2017

(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. Measurement Focus, Accounting Basis, and Financial Statement Presentation

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.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the statement of net position reports separate sections for Deferred Outflow of Resources, and Deferred Inflow of Resources, when applicable.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

Deferred Outflow of Resources – This amount represents outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflow of Resources – This amount represents inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

C. Supplies Inventory

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.

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

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

F. Deferred Inflow of Resources – 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 June of each year is to acquire funds for operations and debt service during the next calendar year. To properly match revenues with expense, the revenues from 2018 assessments, levied in 2017, 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.

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, 2017.

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.

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.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

L. Investments

Authorized investments include deposits in the State of California administered Local Agency Investment Fund, insured certificates of deposits, collateralized certificates of deposits, money market funds and securities backed by the U.S. Government. All investments are stated at fair value.

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.

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. Financial Statement Presentation

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.

Certain reclassifications have been made to the prior year balances to conform to the current year presentation.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 2 – CASH AND INVESTMENTS:

Cash and investments held by the District are reflected in the accompanying statement of net position at December 31, 2017 as follow:

Cash and investments:	
Unrestricted	\$17,251,852
Restricted	<u>1,120,222</u>
	<u>\$18,372,074</u>

Cash and investments as of December 31, 2017 consist of the following:

Cash on hand	\$ 300
Deposits with financial institutions	636,738
Sweep account	1,090,004
Investments	<u>16,645,032</u>
Total cash and investments	<u>\$18,372,074</u>

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, 2017.

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.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 2 – CASH AND INVESTMENTS (continued):

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.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
State Investment Pool-LAIF	<u>\$16,645,032</u>	<u>\$16,645,032</u>	<u>\$</u>	<u>\$</u>

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>
State Investment Pool-LAIF	<u>\$16,645,032</u>	N/A	<u>\$</u>	<u>\$16,645,032</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.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 2 – CASH AND INVESTMENTS (continued):

As of December 31, 2017, 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).

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:

In 2017, the District transferred the billing and collection duties for assessments and standby charges to the County of Madera. The transfer took place with the District's 2017 assessments and 2016 standby charges. The assessment and standby charges receivable balance at December 31, 2017 was \$7,555,251. All assessments are considered to be collectible because any delinquent assessments remain on the County property tax roll and will be received by the District when the property is sold.

Accounts receivable consists of the following at December 31, 2017:

Grant	\$ 107,083
Water	18,672
Interest	47,501
Other districts	608,151
Miscellaneous	186,160
PG&E Soquel Power Revenue	<u>268,483</u>
	<u>\$1,236,050</u>

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 4 – INVESTMENT IN WATER AND 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	2017
Madera-Chowchilla Water and Power Authority	\$ 715,704
Friant Power Authority	<u>4,599,190</u>
	<u>\$5,314,894</u>

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:

	2017
Total assets	\$ 1,560,066
Total liabilities	<u>128,661</u>
Total net position	<u>\$ 1,431,405</u>
Total operating revenue	\$ 2,238,585
Total operating expenses	(2,508,052)
Total non-operating expenses over (under) non-operating revenue	<u>163,937</u>
Change in net position	<u>\$ (105,530)</u>

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 4 – INVESTMENT IN WATER AND POWER AUTHORITIES (continued):

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, 2017 are as follows:

	2017
Total assets	\$40,255,121
Total liabilities	<u>412,928</u>
Total net position	<u>\$39,842,193</u>
Total revenue	\$ 9,069,498
Total expenses	(1,895,724)
Net contributions from members	<u>876,877</u>
Change in net position	<u>\$ 8,050,651</u>

Jointly Governed Organizations

Friant Water Authority

The Friant Water Authority (FWA) is comprised of 15 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 2017 the District paid FWA the monthly share of the San Luis Delta Mendota Water Authority Exchange Contractors costs. Separate financial statements are available through the Authority.

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.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 5 – CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2017 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>208,913</u>	<u>242,135</u>	<u>(208,913)</u>	<u>242,135</u>
Total capital assets not being depreciated	<u>19,944,942</u>	<u>242,135</u>	<u>(208,913)</u>	<u>19,978,164</u>
Capital assets being depreciated:				
Transmission/Distribution system	27,664,927	223,046		27,887,973
Madera Ranch – improvements	222,788			222,788
Buildings	703,989			703,989
Madera Ranch – Vernal Pools	899,588			899,588
Construction and shop equipment	2,383,029	123,635	(12,085)	2,494,579
Transportation equipment	935,383	157,697		1,093,080
Office furniture	448,212			448,212
Yards and grounds	<u>112,244</u>	<u>75,653</u>		<u>187,897</u>
Total capital assets being depreciated	<u>33,370,160</u>	<u>580,031</u>	<u>(12,085)</u>	<u>33,938,106</u>
Less accumulated depreciation for:				
Transmission/distribution system	21,018,581	315,309		21,333,890
Madera Ranch – improvements	174,245	38,856		213,101
Buildings	628,249	8,623		636,872
Construction and shop equipment	989,164	167,824	12,085	1,144,903
Transportation equipment	676,559	90,710		767,269
Office furniture and equipment	287,600	28,040		315,640
Yards and grounds	<u>69,530</u>	<u>10,308</u>		<u>79,838</u>
Total accumulated depreciation	<u>23,843,928</u>	<u>659,670</u>	<u>12,085</u>	<u>24,491,513</u>
Total capital assets being depreciated, net	<u>9,526,232</u>	<u>(79,639)</u>		<u>9,446,593</u>
Total capital assets, net	<u>\$29,471,174</u>	<u>\$162,496</u>	<u>\$(208,913)</u>	<u>\$29,424,757</u>

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 6 – LONG-TERM DEBT:

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Balance</u> <u>January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2017</u>	<u>Amounts Due</u> <u>Within</u> <u>One Year</u>
Water Revenue Bonds					
Series 2015	\$27,905,000	\$	\$1,465,000	\$26,440,000	\$1,505,000
Add issuance premium	<u>3,654,830</u>	<u> </u>	<u>265,806</u>	<u>3,389,024</u>	<u> </u>
	<u>31,559,830</u>	<u> </u>	<u>1,730,806</u>	<u>29,829,024</u>	<u>1,505,000</u>
Water Revenue Refunding					
Bonds Series 2016	23,710,000		755,000	22,955,000	735,000
Add issuance premium	<u>3,211,244</u>	<u> </u>	<u>155,070</u>	<u>3,056,174</u>	<u> </u>
	<u>26,921,244</u>	<u> </u>	<u>910,070</u>	<u>26,011,174</u>	<u>735,000</u>
	<u>\$58,481,074</u>	<u>\$ </u>	<u>\$2,640,876</u>	<u>\$55,840,198</u>	<u>\$2,240,000</u>

2015 Water Revenue Refunding Bonds

In September 2015, the District issued \$29,275,000 in water revenue refunding bonds to advance refund \$32,365,000 of outstanding 2011 Series bonds. The net bond proceeds of \$32,729,008 (including a premium of \$3,987,088 and reduced by payments of \$533,080 in issuance costs) plus an additional \$6,470,872 in 2011 sinking fund monies and assessments on hand with the District, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2011 bonds. As a result, the 2011 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net position.

The 2015 revenue bonds bear interest at 2.0% to 5.0% and are payable semi-annually on March 1, and September 1, commencing March 1, 2016. The bonds mature annually at various amounts through September 1, 2030. The bonds are payable primarily from the proceeds of the 2011 assessments levied as a result of Proposition 218.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 6 – LONG-TERM DEBT (continued):

The aggregate debt service payments on the new debt are approximately \$20,927,405 less than the old debt. The issuance of the new debt resulted in an economic gain (the difference between the present value of the old and new debt payments) of approximately \$7,627,614. The annual debt service requirements to maturity for the 2015 water revenue refunding bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 1,505,000	\$ 1,306,950	\$ 2,811,950
2019	1,565,000	1,246,750	2,811,750
2020	1,645,000	1,168,500	2,813,500
2021	1,725,000	1,086,250	2,811,250
2022	1,815,000	1,000,000	2,815,000
2023-2027	10,525,000	3,545,000	14,070,000
2028-2030	<u>7,660,000</u>	<u>778,500</u>	<u>8,438,500</u>
Totals	<u>\$26,440,000</u>	<u>\$10,131,950</u>	<u>\$36,571,950</u>

2016 Water Revenue Refunding Bonds

In September 2016, the District issued \$23,710,000 in water revenue refunding bonds to advance refund \$34,280,000 of outstanding 2008 Series bonds. The bonds were issued to provide funds to defease the outstanding 2008 water revenue bonds, pay the costs of a municipal bond insurance policy and a reserve fund surety policy, and to pay bond issuance costs. The net bond proceeds of \$26,495,574 (including a premium of \$3,256,473 and reduced by payments of \$470,899 in issuance costs) plus an additional contribution from the District of \$7,500,000 and 2008 reserve funds of \$2,667,925 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2008 bonds. As a result, the 2008 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net position.

The 2016 revenue bonds bear interest at 3.0% to 5.0% and are payable semi-annually on March 1, and September 1, commencing March 1, 2017. The bonds mature annually at various amounts through September 1, 2037. The bonds are payable from net revenues of the District.

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Continued)

NOTE 6 – LONG-TERM DEBT (continued):

The aggregate debt service payments on the new debt are approximately \$20,785,987 less than the old debt. The issuance of the new debt resulted in an economic gain (the difference between the present value of the old and new debt payments) of approximately \$9,137,686. The annual debt service requirements to maturity for the 2016 water revenue refunding bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 735,000	\$ 939,050	\$ 1,674,050
2019	760,000	917,000	1,677,000
2020	790,000	886,600	1,676,600
2021	820,000	855,000	1,675,000
2022	860,000	814,000	1,674,000
2023-2027	5,000,000	3,379,500	8,379,500
2028-2032	6,335,000	2,037,900	8,372,900
2033-2037	<u>7,655,000</u>	<u>717,800</u>	<u>8,372,800</u>
Totals	<u>\$22,955,000</u>	<u>\$10,546,850</u>	<u>\$33,501,850</u>

NOTE 7 – 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:

<u>Year Ended December 31,</u>	<u>Transfers to (from) the Irrigation Fund</u>
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	(2,137,786)
2015	(2,579,928)
2016	(5,340,227)
2017	<u>(838,292)</u>
Net Transferred	<u>\$(23,783,654)</u>

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

(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, 2017 of \$268,483.

NOTE 9 – COMMITMENTS AND CONTINGENCIES:

- A. Under its 9(d) 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 2017 is \$503,520 plus an additional \$10.23 per acre foot Restoration Fund charge on 24,000 acre feet, required by the Central Valley Improvement Act.
- B. Under its new 9(d) contract with USBR, the District is entitled to receive (if available) up to 85,000 acre feet of Class 1 Friant water and up to 186,000 acre feet of Class 2 Friant water. The District is obligated to pay only for water actually delivered at the 2017 rates of \$38.21 per acre foot for Class 1 water and \$25.33 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 \$30.61 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."

MADERA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

(Continued)

NOTE 9 – COMMITMENTS AND CONTINGENCIES (continued):

- 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 2017 was approximately \$202,000. The payroll for employees covered by the District 401(k) Plan for the year ended 2017 was approximately \$2,376,000.

- 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 2017, 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.

- 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.

SUPPLEMENTARY INFORMATION

MADERA IRRIGATION DISTRICT
COMBINING STATEMENT OF NET POSITON
DECEMBER 31, 2017

	Irrigation Fund	Water Enhancement Fund	Total
Assets			
Current assets:			
Cash and investments:			
Unrestricted	\$16,529,050	\$ 722,802	\$17,251,852
Restricted	<u>1,120,222</u>		<u>1,120,222</u>
	<u>17,649,272</u>	<u>722,802</u>	<u>18,372,074</u>
Receivables:			
Accounts	1,236,050		1,236,050
Assessments	7,555,251		7,555,251
Certificates of sale	168,506		168,506
Supplies inventory	275,171		275,171
Prepaid expenses	<u>233,019</u>		<u>233,019</u>
Total Current Assets	<u>27,117,269</u>	<u>722,802</u>	<u>27,840,071</u>
Noncurrent assets:			
Investments in Water Authorities	5,314,894		5,314,894
Water entitlements	27,061,855		27,061,855
Capital assets, not being depreciated	1,354,506	18,623,658	19,978,164
Other capital assets, net of accumulated depreciation	<u>8,537,319</u>	<u>909,274</u>	<u>9,446,593</u>
Total Noncurrent Assets	<u>42,268,574</u>	<u>19,532,932</u>	<u>61,801,506</u>
Total Assets	<u>69,407,856</u>	<u>20,255,734</u>	<u>89,641,577</u>
Deferred outflow of resources:			
Deferred loss on bond refunding	6,057,068	2,898,330	8,955,398
Debt issue costs, net of accumulated amortization	<u>147,773</u>	<u>120,121</u>	<u>267,894</u>
Total Deferred Outflow of Resources	<u>6,204,841</u>	<u>3,018,451</u>	<u>9,223,292</u>
Total Assets and Deferred Outflow of Resources	<u>\$75,612,697</u>	<u>\$ 23,274,185</u>	<u>\$98,864,869</u>

MADERA IRRIGATION DISTRICT
COMBINING STATEMENT OF NET POSITON
DECEMBER 31, 2017

(Continued)

	<u>Irrigation Fund</u>	<u>Water Enhancement Fund</u>	<u>Total</u>
Liabilities			
Current liabilities:			
Accounts payable	199,744		199,744
Other liabilities	19,328		19,328
Accrued salaries and related liabilities	59,128		59,128
Accrued compensated absences	289,954		289,954
Accrued interest	440,464	316,475	756,939
Other unearned revenue	2,998,708	330,290	3,328,998
Current portion of long-term debt	<u>1,505,000</u>	<u>735,000</u>	<u>2,240,000</u>
Total Current liabilities	<u>5,512,326</u>	<u>1,381,765</u>	<u>6,894,091</u>
Noncurrent liabilities:			
Accrued compensated absences	72,489		72,489
Water deposits	34,552		34,552
Long-term liabilities net of current portion	<u>28,324,024</u>	<u>25,276,174</u>	<u>53,600,198</u>
Total Noncurrent Liabilities	<u>28,431,065</u>	<u>25,276,174</u>	<u>53,707,239</u>
Total Liabilities	<u>33,943,391</u>	<u>26,657,939</u>	<u>60,601,330</u>
Deferred inflow of resources			
Unearned assessment revenue	<u>5,845,886</u>	_____	<u>5,845,886</u>
Total Deferred Inflow of Resources	<u>5,845,886</u>	_____	<u>5,845,886</u>
Net position:			
Invested in capital assets, net of related debt	9,891,825	7,745,382	17,637,207
Restricted	1,120,222		1,120,222
Unrestricted	<u>24,789,360</u>	<u>(11,129,136)</u>	<u>13,660,224</u>
Total Net Position	<u>\$35,801,407</u>	<u>\$ (3,383,754)</u>	<u>\$32,417,653</u>

MADERA IRRIGATION DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2017

	<u>Irrigation Fund</u>	<u>Water Enhancement Fund</u>	<u>Total</u>
Operating revenues:			
Assessments:			
Rural	\$ 4,839,999	\$	\$ 4,839,999
City	499,190		499,190
Subordinate lands	695,393		695,393
Penalties and costs	34,199		34,199
Water sales	16,626,301		16,626,301
Refunds	172,964		172,964
Soquel electric generation revenues		<u>268,483</u>	<u>268,483</u>
Total operating revenues	<u>22,868,046</u>	<u>268,483</u>	<u>23,136,529</u>
Operating expenses:			
Water purchases	9,121,754		9,121,754
Transmission and distribution	4,369,899		4,369,899
General and administrative	2,586,137	46,534	2,632,671
Depreciation and amortization	<u>620,814</u>	<u>38,856</u>	<u>659,670</u>
Total operating expenses	<u>16,698,604</u>	<u>85,390</u>	<u>16,783,994</u>
Operating income	6,169,442	183,093	6,352,535
Non-operating revenues and (expenses):			
Madera-Chowchilla Water & Power Authority:			
Electric generation revenue	654,309		654,309
Power projects lease payments	(291,147)		(291,147)
Loss from power authority	(52,765)		(52,765)
Gain from Friant Power Authority	1,397,161		1,397,161
Grant revenue	28,484		28,484
Investment income	138,140		138,140
Interest expense	(1,578,209)	(953,977)	(2,532,186)
Gain on disposition of capital assets	10,600		10,600
Miscellaneous	238,203	10	238,213
Rental of District equipment	13,926		13,926
Long-term agreements	280,070	430,956	711,026
Land lease revenue		<u>250,531</u>	<u>250,531</u>
Total non-operating revenues and (expenses)	<u>838,772</u>	<u>(272,480)</u>	<u>566,292</u>
Income (loss) before transfers	7,008,214	(89,387)	6,918,827
Transfers in (out)	<u>(838,292)</u>	<u>838,292</u>	<u> </u>
Increase in net position	6,169,922	748,905	6,918,827
Net position, beginning of year	<u>29,631,485</u>	<u>(4,132,659)</u>	<u>25,498,826</u>
Net position, end of year	<u>\$35,801,407</u>	<u>\$(3,383,754)</u>	<u>\$32,417,653</u>

MADERA IRRIGATION DISTRICT
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	<u>Irrigation Fund</u>	<u>Water Enhancement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from water sales and related activities	\$16,807,762	\$ 268,483	\$17,076,245
Cash received from assessments	5,863,041		5,863,041
Cash received from other operating activities	441,447		441,447
Cash paid for water purchases and related activities	(9,114,496)		(9,114,496)
Cash paid to other vendors for other operating activities	(3,180,548)	(46,534)	(3,227,082)
Cash paid to employees and related benefits	(4,187,080)		(4,187,080)
Net cash provided by operating activities	<u>6,630,126</u>	<u>221,949</u>	<u>6,852,075</u>
Cash flows from noncapital financing activities:			
Transfers from Irrigation fund		838,292	838,292
Transfers to Water Enhancement fund	(838,292)		(838,292)
Net cash provided (used) by capital and related financing activities	<u>(838,292)</u>	<u>838,292</u>	<u> </u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(1,730,806)	(910,070)	(2,640,876)
Interest paid on long-term debt	(1,106,365)	(769,230)	(1,875,595)
Capital expenditures	(602,653)		(602,653)
Grant proceeds	28,484		28,484
Long-term agreements	261,325	430,956	692,281
Other non-operating activities	256,948	10	256,958
Net cash used by capital and related financing activities	<u>(2,893,067)</u>	<u>(1,248,334)</u>	<u>(4,141,401)</u>
Cash flows from investing activities:			
Interest received	138,140		138,140
Net investments in Water Authorities	1,454,625		1,454,625
Net land lease revenue		188,093	188,093
Rental of District equipment	13,926		13,926
Net cash provided by investing activities	<u>1,606,691</u>	<u>188,093</u>	<u>1,794,784</u>
Net increase in cash and cash equivalents	4,505,458		4,505,458
Cash and cash equivalents at beginning of year	<u>22,399,233</u>	<u>722,802</u>	<u>13,866,616</u>
Cash and cash equivalents at end of year	<u>\$26,904,691</u>	<u>\$ 722,802</u>	<u>\$18,372,074</u>
Unrestricted cash and cash equivalents	\$16,529,050	\$ 722,802	\$17,251,852
Restricted cash and cash equivalents	<u>1,120,222</u>		<u>1,120,222</u>
	<u>\$17,649,272</u>	<u>\$ 722,802</u>	<u>\$18,372,074</u>

MADERA IRRIGATION DISTRICT
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	<u>Irrigation Fund</u>	<u>Water Enhancement Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 6,169,442	\$ 183,093	\$ 6,352,535
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	620,814	38,856	659,670
(Increase) decrease in:			
Receivables	(846,374)		(846,374)
Supplies inventory	(36,773)		(36,773)
Prepaid expenses	26,397		26,397
Increase (decrease) in:			
Accounts payable	(472,187)		(472,187)
Other liabilities	6,398		6,398
Accrued salaries and related liabilities	(2,862)		(2,862)
Accrued compensated absences	74,693		74,693
Other deferred revenue	1,260,349		1,260,349
Water deposits	(265,448)		(265,448)
Unearned assessment revenue	<u>95,677</u>		<u>95,677</u>
Total adjustments	<u>460,684</u>	<u>38,856</u>	<u>499,540</u>
Net cash provided by operating activities	<u>\$ 6,630,126</u>	<u>\$ 221,949</u>	<u>\$ 6,852,075</u>

OTHER INDEPENDENT AUDITOR'S REPORT



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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 6, 2018.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Clovis, California

March 6, 2018