



SRWA
STANISLAUS REGIONAL
WATER AUTHORITY

156 S. Broadway, Ste. 270, Turlock, CA 95380

(209) 668-4142 (phone) (209) 668-5695 (fax)

Board Meeting Agenda

***August 15, 2019 at 3:30 p.m.
2701 4th Street, Ceres, CA, Council Chambers***

*Chair, Chris Vierra
Vice Chair, Gil Esquer
Director, Amy Bublak
Director, Bret Durossette
Director (alternate), Channce Condit
Director (alternate), Nicole Larson*

*General Manager, Robert Granberg
Interim Legal Counsel, Richard P. Shanahan
Board Secretary, Allison Martin*

NOTICE REGARDING NON-ENGLISH SPEAKERS: The Stanislaus Regional Water Authority (SRWA) meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

EQUAL ACCESS POLICY: If you have a disability which affects your access to public facilities or services, contact the Board Secretary at the phone number set forth above. The Board is committed to taking all reasonable measures to provide access to its facilities and services. Please allow sufficient time for the Board to process and respond to your request.

NOTICE: Pursuant to California Government Code Section 54954.3, any member of the public may directly address the Board on any item appearing on the agenda, including Consent Calendar and Scheduled Matters, before or during the Board's consideration of the item.

AGENDA PACKETS: Prior to the Stanislaus Regional Water Authority Board meeting, a complete Agenda Packet (excluding any closed session materials) is available for review on the SRWA's website at www.stanrwa.org and in the Board Secretary's Office at 156 S. Broadway, Suite 270, Turlock, during normal business hours. Materials related to an item on this Agenda submitted to the Board after distribution of the Agenda Packet are also available for public inspection in the Board Secretary's Office at the address set forth above. Such documents may be available on the SRWA's website subject to staff's ability to post the documents before the meeting.

1. **A. CALL TO ORDER**
 - B. SALUTE TO THE FLAG**
2. **RECOGNITION, APPOINTMENTS, ANNOUNCEMENTS & PRESENTATIONS: None**
3. **A. SPECIAL BRIEFINGS: None**
 - B. STAFF UPDATES**
 1. General Manager Update (*Granberg*)
 2. Finance Director Report (*Lorenzi*)
 - C. PUBLIC PARTICIPATION:** This time is set aside for members of the public to address the Board concerning any item that has been described in the notice for the meeting, including Consent Calendar items, before or during consideration of that item. You will be allowed five (5) minutes for your comments. If you wish to speak regarding an item on the agenda, you may be asked to defer your remarks until the Board addresses the matter.

4. **DECLARATION OF CONFLICTS OF INTEREST AND DISQUALIFICATIONS**
5. **CONSENT CALENDAR:** Information concerning the Consent items listed below has been forwarded to each Board member prior to this meeting for study. Unless the Chair, a Board member, or member of the audience has questions concerning the Consent Calendar, the items are approved at one time by the Board. The action taken by the Board in approving the Consent items is set forth in the explanation of the individual items.
 - A. *Motion:* Approve minutes of Special Meeting of August 1, 2019
 - B. *Motion:* Accept the Stanislaus Regional Water Authority's audited Financial Statements for the fiscal year ended June 30, 2018 and related reports
6. **PUBLIC HEARINGS:** None
7. **SCHEDULED MATTERS**
 - A. Regional Surface Water Supply Project funding and financing discussion (*Granberg*)
8. **MATTERS TOO LATE FOR THE AGENDA**
9. **BOARD ITEMS FOR FUTURE CONSIDERATION**
10. **BOARD COMMENTS:** Board members may provide a brief report on notable topics of interest. The Brown Act does not allow discussion or action by the legislative body.
11. **NEXT MEETING DATE:** September 19, 2019, Regular meeting
12. **ADJOURNMENT**



-
1. A. **CALL TO ORDER:** Chair Vierra called the meeting to order at 3:30 p.m.
PRESENT: Chair Vierra, Vice Chair Esquer, Director Durossette, Director (Alternate) Larson
ABSENT: None
 - B. **SALUTE TO THE FLAG**
 2. **RECOGNITION, APPOINTMENTS, ANNOUNCEMENTS & PRESENTATIONS:** None
 3. A. **SPECIAL BRIEFINGS:** None
 - B. **STAFF UPDATES:**
 1. General Manager Robert Granberg provided an update on Major TAC and PM Team Work Focus Areas, including the evaluation of proposals from the 3 short-listed design-build teams, wet well construction activities, SRF loan application packages and TID water rights petition protest(s) resolution. Wet well construction activities include wall pours, top deck concrete pours and the PM team responding to submittals and requests for information. The construction management team is evaluating two change orders for the extended freeze and wall sloughing. Approximately 69% of the project budget has been expended as of June. Upcoming milestones and tasks include completing the wet well structure and preparing for infiltration gallery pump testing, the design-build procurement, finance plans, SRF financial application package, finalizing the TID lease agreement, an amendment to the 2015 water sales agreement and the award of DB contract in September.

Citizen Milt Trieweiler asked about silt issues at the infiltration gallery and wet well facility.

General Manager Robert Granberg explained that the silt will decrease over time and half of the wet well can be shut down for cleaning as needed.
 2. Finance Director Marie Lorenzi provided an update on financial activity as of July 29, 2019. Revenue and expenses were reviewed.
 - C. **PUBLIC PARTICIPATION:** None
 4. **DECLARATION OF CONFLICTS OF INTEREST AND DISQUALIFICATIONS:** None
 5. **CONSENT CALENDAR:**

Vice Chair Esquer requested a clarification to the minutes regarding his question on the validity of the form used for the Ceres easement agreement, not the date.

Action: Motion by Vice Chair Esquer, second by Director Durossette, adopting the consent calendar and approving the minutes as amended for the Regular Meeting of June 20, 2019, and accepting the July 16, 2019 SRWA Surface Water Supply Project Cost Update Memorandum. Motion carried by the following vote:

Director Larson	Director Durossette	Vice Chair Esquer	Chair Vierra
Yes	Yes	Yes	Yes

6. PUBLIC HEARINGS: None

7. SCHEDULED MATTERS:

- A. General Manager Robert Granberg requested to approve an Amendment to the Bylaws of the Stanislaus Regional Water Authority, Article V(3) to read as follows: 3. The regular meetings of the Board will be held on the third Thursday of each month at 3:30 p.m. at one of the designated City offices listed below, as specified in the particular meeting notice/agenda:
 - a. Turlock, CA - Turlock City Hall, 156 S Broadway,
 - b. Ceres, CA - Ceres Community Center, 2701 4th Street.

Discussion:

General Manager Robert Granberg clarified that the change is being made to generalize the meeting location due to availability.

Chair Vierra opened public participation. There being no public response, Chair Vierra closed public participation.

Action: Motion by Director Durossette, second by Vice Chair Esquer, approving an Amendment to the Bylaws of the Stanislaus Regional Water Authority, Article V(3) to read as follows: 3. The regular meetings of the Board will be held on the third Thursday of each month at 3:30 p.m. at one of the designated City offices listed below, as specified in the particular meeting notice/agenda: a. Turlock, CA - Turlock City Hall, 156 S Broadway, b. Ceres, CA - Ceres Community Center, 2701 4th Street. Motion carried by the following vote:

Director Larson	Director Durossette	Vice Chair Esquer	Chair Vierra
Yes	Yes	Yes	Yes

- B. General Manager Robert Granberg requested to approve Amendment No. 6 to the Agreement between West Yost Associates and SRWA to extend the agreement term and authorize continued Phase 2 Program Management Services from August 31, 2019 through December 31, 2019.

Discussion:

Chair Vierra opened public participation. There being no public response, Chair Vierra closed public participation.

Action: Motion by Director Durossette, second by Director Larson, approving Amendment No. 6 to the Agreement between West Yost Associates and SRWA to extend the agreement term and authorize continued Phase 2 Program Management Services from August 31, 2019 through December 31, 2019. Motion carried by the following vote:

Director Larson	Director Durossette	Vice Chair Esquer	Chair Vierra
Yes	Yes	Yes	Yes

C. General Manager Granberg requested to adopt a resolution selecting CH2M Hill Engineers, Inc. as the design-build procurement Successful Proposer and authorizing the General Manager to negotiate a Design-Build Contract and related Guaranty Agreement.

Discussion:

Lindsey Smith from West Yost Associates reviewed the procurement selection history from 2016 to 2017, the lump sum design-build attributes, the project elements included in the design-build procurement and the procurement process. The proposal evaluation includes the request for proposals, proposal evaluation reviews and recommendations, the evaluation criteria, ranking of the relative best value proposals and the successful proposer recommendation. Contract negotiations will be a collaborative process between the successful proposer and SRWA and expected to result in further cost reductions. The tentative schedule, pending approval, would start negotiation discussions next week with final approval of the design-build contract at the September SRWA Regular Board meeting.

Chair Vierra opened public participation.

Citizen Milt Trieweiler noted a section of the draft agreement that mentioned the Stanislaus River instead of the Tuolumne River.

Legal Counsel Shanahan will make the appropriate modifications.

Chair Vierra closed public participation.

Action: Resolution 2019-008 Motion by Director Durossette, second by Vice Chair Esquer, adopting a resolution selecting CH2M Hill Engineers, Inc. as the design-build procurement Successful Proposer and authorizing the General Manager to negotiate a Design-Build Contract and related Guaranty Agreement. Motion carried by the following vote:

Director Larson	Director Durossette	Vice Chair Esquer	Chair Vierra
Yes	Yes	Yes	Yes

8. MATTERS TOO LATE FOR THE AGENDA: None

9. BOARD ITEMS FOR FUTURE CONSIDERATION: None

10. BOARD COMMENTS: None

11. NEXT MEETING DATE: August 15, 2019 Regular Meeting

12. ADJOURNMENT: Motion by Vice Chair Esquer, second by Director Larson, to adjourn at 4:06 p.m. Motion carried 4/0.

Respectfully submitted,

DRAFT

Allison Martin, Board Secretary



From: Marie Lorenzi, Finance Director

Prepared by: Marie Lorenzi, Finance Director

1. ACTION RECOMMENDED:

Motion: Accepting the Stanislaus Regional Water Authority's audited Financial Statements for the fiscal year ended June 30, 2018 and related reports

2. DISCUSSION OF ISSUE:

The Authority's independent external auditors, Maze & Associates, have completed the Authority's annual audit for the fiscal year ended June 30, 2018 and a copy of their audit report is attached to this Staff report.

The financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) by Finance Staff from the City of Turlock who provide accounting assistance to the Authority. The external auditors have the responsibility to audit these statements in accordance with Generally Accepted Auditing Standards with the goal of determining whether the financial statements are free of material misstatement. If this goal can be supported with the results of their audit, the external auditor will issue an unqualified or "clean" opinion. The above listed financial statements contain an unqualified opinion.

Within the financial statements is a narrative section titled "Management's Discussion and Analysis (MD&A)" (see page 3 in the statements). The MD&A provides the reader with an introduction, overview, and analysis of the Authority's basic financial statements. It tells the "number's story" in words and helps explain the significance of the numbers in the financial statements which follow.

In addition to the financial statements, the Memorandum on Internal Controls and Required Communications are also attached to this Staff report. These documents provide additional information of which the auditors would like to Board to take note. The Memorandum on Internal Controls delineates area(s) of improvement in the Authority's financial systems for Board consideration. The Required Communications provides the governing body with information regarding new accounting policies which may impact the Authority's financial statements in the future as well as various issues that the auditors are required, under professional auditing standards, to communicate with the governing body.

3. FISCAL IMPACT / BUDGET AMENDMENT:

Funds are budgeted for the independent audit services required. There is no additional fiscal impact.

4. INTERIM GENERAL MANAGER'S COMMENTS:

Recommend acceptance

5. ENVIRONMENTAL DETERMINATION:

N/A

6. ALTERNATIVES:

A. None as Staff is only asking for acceptance of these reports

STANISLAUS REGIONAL WATER AUTHORITY

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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**STANISLAUS REGIONAL WATER AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

Table of Contents

	<u>Page</u>
<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements:</i>	
Statement of Net Position.....	6
Statement of Revenues, Expenses and Change in Net Position	7
Statement of Cash Flows.....	8
Notes to Basic Financial Statements	9
<i>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</i>	13

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stanislaus Regional Water Authority
Turlock, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Stanislaus Regional Water Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, and the change in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mane & Associates

Pleasant Hill, California
July 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following narrative provides an overview and analysis of the financial activities of the Stanislaus Regional Water Authority (the Authority) for the year ended June 30, 2018 with comparative information for June 30, 2017. It is provided in order to enhance the information in the financial audit and should be reviewed together with that report.

THE PURPOSE OF THE AUTHORITY

The Authority was established by the Cities of Ceres, Modesto and Turlock on September 26, 2011. In November 2015, the City of Modesto formally withdrew from membership in the Authority and in December 2015 the Authority's Bylaws as well as the Joint Powers Authority Agreement were amended to reflect this change. Currently only the cities of Ceres and Turlock (Participants) are participating members of the Authority.

The Participants are interested in finding and evaluating surface water supply options and facilities to supplement the ground-water potable water sources currently serving the municipal and industrial water customers within their service areas. Each of the cities is authorized to develop, obtain, and serve a municipal and industrial water supply, pursuant to California law. The Participants are working with the Turlock Irrigation District (TID) to develop a Regional Surface Water Supply Project (RSWSP) that will provide a safe and reliable high quality surface water supply for the long-term drinking water needs of each participating City. The Participants have formed this Joint Powers Authority (JPA) for the purpose of making responsible decision related to the development and operation of the future RSWSP.

FINANCIAL HIGHLIGHTS

- At June 30, 2018 the Authority's assets exceed liabilities by \$4,393,086 (net position).
- Total net position increased by \$1,977,629 over the balance at June 30, 2017 of \$2,415,457.
- Total Authority revenues for 2017-18 were \$2,330,880 compared to expenses of \$353,251. The Authority also expended \$2,446,231 on project costs which were capitalized and are presented on the Statement of Net Position as "Capital assets not being depreciated".

THE BASIC FINANCIAL STATEMENTS

The basic financial statements comprise the statement of net position and the statement of revenues, expenses and change in net position. The Statement of Net Position provides information about the financial position of the Authority as a whole, including all its capital assets and long-term liabilities. The Statement of Revenues, Expenses and Change in Net Position explains in detail the change in net position for the year.

The Statement of Net Position presents information on Authority's assets, liabilities and deferred outflows/inflows of resources; the difference between them representing Authority's net position. Net position includes the amount invested in capital assets.

The Statement of Revenues, Expenses and Change in Net Position presents information showing total revenues versus total expenses and shows how Authority's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of Authority's operations and significant accounting policies and clarify unique financial information.

**Stanislaus Regional Water Authority
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2018**

The following is a condensed Statement of Net Position for the Authority as of June 30:

Statements of Net Position

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 141,706	\$ 719,224
Accounts receivable	404,000	106,958
Interest receivable		631
Capital assets not being depreciated	<u>4,371,696</u>	<u>1,925,465</u>
Total assets	<u>4,917,402</u>	<u>2,752,278</u>
Liabilities		
Accounts payable	<u>524,316</u>	<u>336,821</u>
Total liabilities	<u>524,316</u>	<u>336,821</u>
Net position:		
Net investment in capital assets	4,371,696	1,925,465
Unrestricted	<u>21,390</u>	<u>489,992</u>
Total liabilities	<u>\$ 4,393,086</u>	<u>\$ 2,415,457</u>

The following is a condensed Statement of Revenues, Expenses and Change in Net Position for the years ended June 30:

Statements of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating Revenues	\$ 2,330,184	\$ 2,420,618
Operating Expenses	<u>353,251</u>	<u>244,387</u>
Net Operating Income	1,976,933	2,176,231
Non-Operating Revenues	<u>696</u>	<u>3,100</u>
Change in net position	1,977,629	2,179,331
Net position, July 1	<u>2,415,457</u>	<u>236,126</u>
Net Position, June 30	<u>\$ 4,393,086</u>	<u>\$ 2,415,457</u>

**Stanislaus Regional Water Authority
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2018**

FINANCIAL ACTIVITIES OF THE AUTHORITY AS A WHOLE

This analysis focuses on the net position and changes in net position of the Authority's activities in the statement of net position and statement of revenues, expenses and change in net position.

As of June 30, 2018 total assets of \$4,917,402 were offset by liabilities of \$524,316. Assets primarily consist of \$4.4 million in capital assets. These represent contractual expenditures incurred in the development of the project including work required to prepare and issue the Environmental Impact Report; the development of the design, size and scope of the potential treatment facility; and the development of design and specifications for the construction of a wet well to assist in determining the viability of underground infrastructure previously constructed in addition to the award of the contract for the construction of the wet well.

The completion of these tasks will provide the Authority Board with the information and documents necessary to make final decisions related to the size and scope of the project and the type of water treatment facilities that the Authority may decide to construct as well as the environmental documents necessary to proceed with the project.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

These Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances. Questions about this report should be directed to the City of Turlock, Finance Department, at 156 South Broadway, Suite 110, Turlock, CA 95380.

STANISLAUS REGIONAL WATER AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Current Assets

City of Turlock Investment Pool (Note 2)	\$141,706
Accounts receivable	<u>404,000</u>
Total Current Assets	545,706

Non-Current Assets

Capital assets not being depreciated (Note 3)	<u>4,371,696</u>
Total Assets	<u>4,917,402</u>

LIABILITIES

Current Liabilities

Accounts payable	<u>524,316</u>
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NET POSITION

Investment in Capital Assets	4,371,696
Unrestricted	<u>21,390</u>
Total net Position	<u>\$4,393,086</u>

See accompanying notes to the financial statements

STANISLAUS REGIONAL WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Participant operating contributions	<u>\$2,330,184</u>
OPERATING EXPENSES	
Administrative services	163,163
Contractual services	<u>190,088</u>
Total Operating Expenses	<u>353,251</u>
Operating Income	1,976,933
NON-OPERATING REVENUES	
Interest income	<u>696</u>
Change in Net Position	1,977,629
Net Position, beginning of year	<u>2,415,457</u>
Net Position, end of year	<u><u>\$4,393,086</u></u>

See accompanying notes to the financial statements

STANISLAUS REGIONAL WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from participants	\$2,033,142
Payments for administrative services	(143,072)
Payments to suppliers	<u>(195,477)</u>
Net Cash Provided by Operating Activities	<u>1,694,593</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(2,273,438)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>1,327</u>
Net Cash Flows	(577,518)
CASH AND INVESTMENTS AT BEGINNING OF YEAR	<u>719,224</u>
CASH AND INVESTMENTS AT END OF YEAR	<u><u>\$141,706</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$1,976,933
Change in assets and liabilities:	
Due from participants	(297,042)
Accounts payable	<u>14,702</u>
Net Cash Provided by Operating Activities	<u><u>\$1,694,593</u></u>

See accompanying notes to the financial statements

STANISLAUS REGIONAL WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Description and Reporting Entity*

The Stanislaus Regional Water Authority (the Authority) was originally established by the Cities of Ceres, Modesto, and Turlock (Participants) on September 26, 2011. In November 2015, the City of Modesto formally withdrew from membership in the Authority. Subsequently, the Authority's governing documents were amended to reflect Modesto's withdrawal as well as to revise the functional administrative duties of the remaining participants and the composition of the Board of Director's, which now consists of two members of the City Council for each City participant.

The Participants are interested in finding and evaluating surface water supply options and facilities to supply water to the municipal and industrial customers within their service areas. Each of the Participants is authorized to develop, obtain, and serve a municipal and industrial water supply, pursuant to California law. The Participants are working with the Turlock Irrigation District (TID) to develop a Regional Surface Water Supply Project (RSWSP) that will provide a safe and reliable high-quality surface water supply for the long-term drinking water needs of each participating city. The Participants formed the Authority as a Joint Powers Authority (JPA) for the purpose of making responsible decisions related to the development and operation of the future RSWSP. Each Participant is responsible for its share of expenditures incurred by the Authority during a fiscal year pursuant to various funding/cost sharing agreements approved by the Authority's Board of Directors and each Participant's respective governing body.

Since December 2015, the City of Turlock assumed responsibility for the processing all financial transactions and accounting for the Authority. The following is a summary of the more significant policies.

B. *Basis of Presentation*

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

C. *Fund Accounting*

The Authority is accounted for as an enterprise fund. This fund is a set of self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

STANISLAUS REGIONAL WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred, regardless of when cash changes hands. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues are those revenues that are generated from the primary operations of the Authority. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Authority. All other expenses are reported as non-operating expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STANISLAUS REGIONAL WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 2 – CASH AND INVESTMENTS

The Authority participates in the City of Turlock’s cash and investment pool.

Cash and investments of the Authority are pooled with other City of Turlock funds. The Authority’s portion of this pooled amount was \$141,706 at June 30, 2018. At June 30, 2018, the City’s investment pool is unrated. The Authority can spend cash at any time without prior notice or penalty. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant’s average quarterly cash and investment balance. Detailed information concerning the City of Turlock’s pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Turlock’s Basic Financial Statements as of June 30, 2018, the fair value of the Authority’s position in the pool is the same as the value of its pool shares.

Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority’s investment in the City’s investment pool is not subject to the fair value hierarchy.

NOTE 3 – CAPITAL ASSETS

Capital assets acquired by the Authority are recorded at cost and are depreciated using the straight-line method over estimated useful lives. The Authority has set the capitalization threshold for reporting capital assets at \$5,000. Operating expenses include depreciation on all depreciable capital assets. Repairs and maintenance are charged to expense when the services are rendered.

During fiscal year 2017, the Authority began the Regional Surface Water Supply Project and during fiscal year 2018, costs totaling \$2,446,231 were incurred and project costs to date of \$4,371,696 have been recorded as construction in progress as of June 30, 2018.

**STANISLAUS REGIONAL WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

NOTE 4 – NET POSITION

A. Net Position

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions and are described below:

Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the capital 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 Authority cannot unilaterally alter.

Unrestricted describes the portion of Net Position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

NOTE 5 – RELATED PARTY TRANSACTIONS

The Authority reimburses the City of Turlock for administrative and other costs incurred by the City of Turlock on the Authority’s behalf. During the year ended June 30, 2018, contractual service expenditures of \$26,490 were allocated to the Authority from the City of Turlock.

In addition, an employee of the City of Ceres provided Interim General Manager services for the Authority during fiscal year 2018 through May 31, 2018, and the cost of those services totaled \$106,176 for the fiscal year. Effective June 1, 2018, the Authority hired a contract General Manager.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Program Management and Other Contracts

The Authority had the following outstanding commitments at June 30, 2018 related to the Regional Surface Water Supply Project:

Wet Well Construction	\$7,297,400
Program Management	4,617,878
Wet Well Construction Contract Management	596,707
Environmental Impact Review	332,840
Contractor Financial Evaluation	42,515
Governmental Consulting Services	32,818
Wet Well Design	30,741
Audit Services	3,650

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

To the Board of Directors
Stanislaus Regional Water Authority
Turlock, 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 basic financial statements of the Stanislaus Regional Water Authority (the Authority), as of and for the year ended June 30, 2018, and have issued our report thereon dated July 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated July 18, 2019, which is an integral part of our audit and should be read in conjunction with this report.

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



Pleasant Hill, California
July 18, 2019

STANISLAUS REGIONAL WATER AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2018

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STANISLAUS REGIONAL WATER AUTHORITY

MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2018

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Status of Prior Year Schedule of Other Matters	3

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Directors
Stanislaus Regional Water Authority
Turlock, California

In planning and performing our audit of the basic financial statements of the Stanislaus Regional Water Authority (the Authority) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Management's written responses in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Authority Board, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive, flowing script.

Pleasant Hill, California
July 18, 2019

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MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

2016-01 Insurance/Bonds Provisions of the Joint Exercise of Powers Agreement

Article XIV, Insurance/Bonds, of the Authority's amended Joint Exercise of Powers Agreement includes the provision that the Authority "shall at all times maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary...Such insurance may be maintained in whole or in part in the form of self-insurance." And, Article XX, Participant Employees, indicates that "Each Participant shall assume all liability related to its employees who provide services in connection with this Agreement...However, the Authority may, in its sole discretion, procure a policy or policies of insurance in the types and amounts it deems appropriate. In the event such policy or policies of insurance are procured by the Authority, such insurance coverage shall be primary over any obligation of the Participant under this section."

The Authority has not obtained worker's compensation, liability or property damage insurance policies to date or documented the manner in which it is self-insured.

The Authority should review the need for insurance coverage as contemplated by Articles XIV and XX of the Agreement and formally document what policies are in place, not in place, or in what manner the Authority is self-insured.

Current Status (Prepared by Management):

The Authority continues to review its insurance needs and will bring any recommendations to the Board as the Authority's needs warrant.

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STANISLAUS REGIONAL WATER AUTHORITY
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2018

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STANISLAUS REGIONAL WATER AUTHORITY

REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2018

Table of Contents

	<u>Page</u>
<i>Required Communications</i>	1
Significant Audit Findings.....	1
<i>Accounting Policies</i>	1
<i>Unusual Transactions, Controversial or Emerging Areas</i>	1
<i>Accounting Estimates</i>	2
<i>Disclosures</i>	2
<i>Difficulties Encountered in Performing the Audit</i>	2
<i>Uncorrected Misstatements</i>	2
<i>Disagreements with Management</i>	2
<i>Management Representations</i>	2
<i>Management Consultations with Other Independent Accountants</i>	2
<i>Other Audit Findings or Issues</i>	3
Other Information Accompanying the Financial Statements.....	3

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REQUIRED COMMUNICATIONS

To the Board of Directors
Stanislaus Regional Water Authority
Turlock, California

We have audited the basic financial statements of the Stanislaus Regional Water Authority for the year ended June 30, 2018. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the year.

The following pronouncements became effective, but did not have a material effect on the financial statements:

- GASB 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*
- GASB 81 – *Irrevocable Split-Interest Agreements*
- GASB 85 – *Omnibus 2017*
- GASB 86 – *Certain Debt Extinguishment Issues*

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Authority's financial statements was:

Estimated Fair Value of Investments: As of June 30, 2018, the Authority held approximately \$141,700 of cash and investments in the City of Turlock's investment pool as measured by fair value as disclosed in Note 2 to the Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2018. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2018.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Authority Board.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in a management representation letter dated July 18, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

This information is intended solely for the use of Authority Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Mane & Associates

Pleasant Hill, California
July 18, 2019

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