



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

GOVERNANCE LETTER

Board of Directors
Delta Conveyance Finance Authority
Sacramento, California

We have audited the financial statement of the Delta Conveyance Finance Authority (Authority) for the year ended June 30, 2019, and have issued our report thereon dated September 27, 2019. Professional standards require that we provide you with the following information about our responsibility under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 17, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statement prepared by management with your oversight is fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statement does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statement and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no material weaknesses in internal control as a result of our audit.

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 17, 2019.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

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

no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

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.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No misstatements were noted during our audit.

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 statement 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 the management representation letter dated September 27, 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 statement or a determination of the type of auditor's opinion that may be expressed on that statement, 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.

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

Richardson & Company, LLP

September 27, 2019



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

MANAGEMENT LETTER

Board of Directors
Delta Conveyance Finance Authority
Sacramento, California

In planning and performing our audit of the financial statement of Delta Conveyance Finance Authority (Authority) for the year ended June 30, 2019, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity'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. 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.

No recommendations for improvement were noted during our audit.

* * * * *

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

Richardson & Company, LLP

September 27, 2019

**DELTA CONVEYANCE
FINANCE AUTHORITY**

Audited Statement of Cash Receipts and Disbursements

June 30, 2019

DELTA CONVEYANCE FINANCE AUTHORITY

AUDITED FINANCIAL STATEMENT

June 30, 2019

TABLE OF CONTENTS

Independent Auditor's Report	1
<u>Financial Statement</u>	
Statement of Cash Receipts and Disbursements	3
Notes to the Financial Statement	4



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delta Conveyance Finance Authority
Sacramento, California

We have audited the accompanying financial statement of the Delta Conveyance Finance Authority (the Authority), which comprise the statement of cash receipts and disbursements for the year ended June 30, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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 statement referred to above presents fairly, in all material respects, the cash receipts and cash disbursements of the Authority for the year ended June 30, 2019, in accordance with the cash basis of accounting described in Note A.

Board of Directors
Delta Conveyance Finance Authority

Basis of Accounting

We draw attention to Note A of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Richardson & Company, LLP

September 27, 2019

DELTA CONVEYANCE FINANCE AUTHORITY
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
Years Ended June 30, 2019

CASH RECEIPTS		
Contributions from member agencies	\$ 400,000	
Interest income	1,900	
	401,900	TOTAL CASH RECEIPTS
CASH DISBURSEMENTS		
Executive director	109,170	
Insurance premiums	11,943	
Treasury and accounting	30,000	
Meeting expenses	2,100	
Professional services	22,657	
	175,870	TOTAL CASH DISBURSEMENTS
EXCESS OF RECEIPTS OVER DISBURSEMENTS	226,030	
Cash and investments at beginning of year	-	
	\$ 226,030	CASH AND INVESTMENTS AT END OF YEAR

The accompanying notes are an integral part of the financial statement.

DELTA CONVEYANCE FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENT

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Authority is a Joint Powers Authority organized under California Government Code Section 6505. The Authority was created July 3, 2018 to assist the Department of Water Resources (DWR) and public agency participants to finance all or a portion of the California WaterFix. The California WaterFix is a major project that will deliver water from the Sacramento River near the northern end of Sacramento-San Joaquin Delta to the existing State Water Project and Central Valley Project pumping plants in the southern end of the delta. Its members consist of water agencies that contract with DWR for the purchase of water. Its operations are supported by the collection of contributions from its members. The governing board is made up of eleven representatives from member agencies.

Basis of Presentation and Accounting: The accompanying statement of cash receipts and disbursements has been prepared on the cash receipts and disbursements basis of accounting. Under that basis, the only asset recognized is cash and investments and no liabilities are recognized. All transactions are recognized as either cash receipts or cash disbursements, and noncash transactions are not recognized. The cash basis differs from generally accepted accounting principles primarily because revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

NOTE B – CASH AND INVESTMENTS

At June 30, 2019, all of the Authority's cash and investments are maintained in Metropolitan Water District of Southern California's (MWD's) Treasury.

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The following table identifies the investment types that are authorized for the Authority by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	No limit
Bankers' Acceptances	180 days	40%	25%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	5%
Certificates of Time Deposit	5 years	30%	No limit
Repurchase Agreements	270 days	20%	No limit
Medium-Term Notes	5 years	30%	5%
Money Market Mutual Funds	N/A	20%	No limit
Municipal Bond Notes	5 years	40%	No limit
Metropolitan Water District Pooled Investment Fund	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
California Asset Management Program (CAMP)	N/A	10%	No limit

DELTA CONVEYANCE FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

The Authority complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The Authority will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investment in the MWD Investment Pool: The Authority's cash is held in the MWD's cash and investment pool which is managed by the MWD Treasurer. The Authority's cash balances invested in the MWD Treasurer's cash and investment pool are stated at amortized cost, which approximates fair value. The amount invested by all public agencies in MWD's cash and investment pool is \$1,182,641,000 at June 30, 2019. MWD does not invest in any derivative financial products. MWD's Board delegates to the treasurer the oversight responsibility for MWD's cash and investment pool. The value of pool shares in MWD that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool. Cash held in the MWD's investment pool will be disbursed within 5 days. Close-out of the cash held in the pool requires 30-day notice.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment in MWD's pool has an average maturity of 238 days as of June 30, 2019.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The external investment pool is not rated.

Concentration of Credit Risk: The investment policy of the Authority limits the amount that can be invested by any one issuer to the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total Authority investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit 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 investments or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect deposits or investments in securities with governmental investment pools (such as MWD's investment pool).

NOTE C – RELATED PARTY TRANSACTIONS

The Authority contracts for treasury and accounting services with MWD, who is also a member agency. The expenses for treasury and accounting services totaled \$30,000 for the year ending June 30, 2019.

DELTA CONVEYANCE FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

June 30, 2019

NOTE D – CONDUIT DEBT

The Authority has the power to issue, sell and deliver, in accordance with the Joint Powers Act, bonds, notes, or other obligations to provide funds for the acquisition, construction and/or financing of the Conveyance Project known as the California WaterFix. The Authority Finance Program acts as a conduit of debt and as a result, the financing obligations are not recorded in the Authority's financial statement. Currently, the Authority has not issued any conduit debt as of June 30, 2019.

NOTE E - CONTINGENCY

The Authority was created to support the financing of all or a portion of the Delta Conveyance facility. On May 2, 2019, as a result of the Governor's determination that a smaller facility was appropriate, the Department of Water Resources withdrew its proposed permits for the project and initiated a renewed environmental process. This action has deferred the need to finance construction of the facility.