QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY
San Diego, California

Basic Financial Statements

Fiscal Years Ended June 30, 2018 and 2017

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY
Fiscal Years Ended June 30, 2018 and 2017

TABLE OF CONTENTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

To the Board of Commissioners
of the Quantification Settlement
Agreement Joint Powers Authority

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) as of and for the year ended June 30, 2018, and 2017, and the related notes to the financial statements, which collectively comprise the QSA JPA'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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the QSA JPA, as of June 30, 2018, and 2017, and the respective changes in financial position and and the statement of revenues, expenditures and changes in fund balance – budget to actual of the general fund 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the QSA JPA's basic financial statements. The *budget status report* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The *budget status report* is the responsibility of management and was derived from and relates 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 *budget status report* is 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 November 8, 2018 on our consideration of the QSA JPA'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 QSA JPA's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
November 8, 2018

This page intentionally left blank

This section of the financial statements presents a discussion and analysis of the financial performance of the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the QSA JPA basic financial statements, which follow this section.

Overview of the Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the finances of the QSA JPA. The QSA JPA's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

- The Statements of Net Position and Statements of Activities are *government-wide financial statements,* providing both long-term and short-term information about the QSA JPA's overall financial status.

- The Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balance are *governmental fund financial statements,* focusing on individual parts of the QSA JPA and reporting the QSA JPA's operations in more detail than the government-wide financial statements.

- The governmental fund Balance Sheets and the governmental fund Statements of Revenues, Expenditures, and Changes in Fund Balance also provide a reconciliation to facilitate the comparison between the governmental fund and governmental activities.

Reporting the QSA JPA as a Whole

The accompanying government-wide financial statements include two statements that present financial data for the QSA JPA as a whole, the Statements of Net Position and the Statements of Activities. These statements report all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All current fiscal year revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Net Position present information on the QSA JPA's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in the net position may serve as an indicator of whether the financial position of the QSA JPA is improving or deteriorating.

The Statements of Activities present information showing how the QSA JPA's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that only result in cash flows in future fiscal periods.

Reporting the Major Fund of the QSA JPA

The governmental fund financial statements provide detailed information about the General Fund of the QSA JPA. Some funds are required to be established by State law or bond covenants. All of the QSA JPA's basic services are reported in the General Fund, which focuses on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The General Fund is reported using the modified accrual basis of accounting, which measures cash and all other current financial assets that can be readily converted to cash. The General Fund's financial statements provide a detailed short-term view of the QSA JPA's general government operations and the basic services provided. General Fund information helps determine the financial resources that can be spent in the near future to finance the QSA JPA's programs. The differences between governmental activities (reported in the Statements of Net Position and the Statements of Activities) and the General Fund are described in separate reconciliation statements following the General Fund's financial statements.

The Structure of the QSA JPA

The QSA JPA is comprised of four agencies whose primary purpose is to administer the environmental mitigation measures related to the "Agreement for the Transfer of Conserved Water by and between the Imperial Irrigation District (IID) and the San Diego County Water Authority (SDCWA)." The agency members of the QSA JPA are the Department of Fish and Game (State of California), the Coachella Valley Water District (CVWD), the IID, and the SDCWA.

Condensed Financial Information

Quantification Settlement Agreement
Joint Powers Authority
Condensed Statements of Net Position
(In Millions)

	June 30, 2018	June 30, 2017	June 30, 2016
Total assets	$ 115.5	$ 126.0	$ 140.5
Total liabilities	2.3	3.8	1.5
Total net position	$ 113.2	$ 122.2	$ 139.0

<u>Fiscal Year 2018 Compared to Fiscal Year 2017</u>

Total assets include cash and investments, mitigation contributions receivable, and interest receivable which includes any cumulative accrued interest not yet received from the contributing agencies in relation to the QSA JPA Creation and Funding Agreement (the Agreement) for environmental mitigation contributions. At June 30, 2018, assets totaled $115.5 million, a decrease of $10.5 million or 8.3 percent when compared to the prior fiscal year. Total assets are lower than the prior fiscal year primarily due to decreases from the following: $16.4 million in cash and investments due to the payments for environmental mitigation requirements and $13.5 million in mitigation contributions receivable due to principal payments received from the member agencies; and offset by increases from the following: $18.2 million in cash and investments due to the member agencies mitigation contributions received and $0.9 million in interest receivable. The mitigation contributions receivable of $60.9 million represents the net present value of mitigation receivables from the member agencies in accordance with the Agreement. Refer to Note 4 for further information on the Agreement.

Total liabilities include accounts payable. At June 30, 2018, liabilities totaled $2.3 million, a decrease of $1.5 million or 39.5 percent when compared to the prior fiscal year due to a decrease in environmental mitigation expenses and the related timing of payments.

Net position is unrestricted and totaled $113.2 million at June 30, 2018, a decrease of $9.0 million or 7.4 percent from the prior fiscal year as a result of the above changes.

<u>Fiscal Year 2017 Compared to Fiscal Year 2016</u>

Total assets include cash and investments, mitigation contributions receivable, and interest receivable which includes any cumulative accrued interest not yet received from the contributing agencies in relation to the QSA JPA Creation and Funding Agreement (the Agreement) for environmental mitigation contributions. At June 30, 2017, assets totaled $126.0 million, a decrease of $14.5 million or 10.3 percent when compared to the prior fiscal year. Total assets are lower than the prior fiscal year primarily due to decreases from the following: $21.1 million in cash and investments due to the payments for environmental mitigation requirements and $23.7 million in mitigation contributions receivable due to principal payments received from the member agencies; and offset by increases from the following: $29.2 million in cash and investments due to the member agencies mitigation contributions received and $1.1 million in interest receivable. The mitigation contributions receivable of $74.3 million represents the net present value of mitigation receivables from the member agencies in accordance with the Agreement. Refer to Note 4 for further information on the Agreement.

Total liabilities include accounts payable. At June 30, 2017, liabilities totaled $3.8 million, an increase of $2.3 million or 153.3 percent when compared to the prior fiscal year due to an increase in environmental mitigation expenses for the fourth quarter and the related timing of payments.

Net position is unrestricted and totaled $122.2 million at June 30, 2017, a decrease of $16.8 million or 12.1 percent from the prior fiscal year as a result of the above changes.

Quantification Settlement Agreement
Joint Powers Authority
Condensed Statements of Activities
(In Millions)

	June 30,		
	2018	**2017**	**2016**
Program expenses	$ 14.9	$ 23.4	$ 21.3
Program revenues	5.6	6.5	0.8
Net program expenses	(9.3)	(16.9)	(20.5)
General revenues	0.3	0.1	0.1
Changes in net position	(9.0)	(16.8)	(20.4)
Net position - beginning of year	122.2	139.0	159.4
Net position - end of year	$ 113.2	$ 122.2	$ 139.0

Fiscal Year 2018 Compared to Fiscal Year 2017

Program expenses include environmental mitigation and general operating expenses. For the year ended June 30, 2018, governmental activities expenses totaled $14.9 million, a decrease of $8.5 million or 36.3 percent when compared to the prior fiscal year primarily due to the following: a decrease of $8.5 million for the storage of mitigation water in the Salton Sea and a decrease of $0.3 million for the Salton Sea air quality monitoring; offset by an increase of $0.2 million for funding the biologist team and an increase of $0.1 million for the maintenance of the managed marsh areas.

Program revenues include member contributions which totaled $5.6 million for the year ended June 30, 2018, a decrease of $0.9 million when compared to the prior fiscal year. The majority of this decrease was due to the timing of revenue received related to IID's member contributions. IID's member contribution payment of $4.3 million that was due in fiscal year 2018 was received in fiscal year 2017.

Fiscal Year 2017 Compared to Fiscal Year 2016

Program expenses include environmental mitigation and general operating expenses. For the year ended June 30, 2017, governmental activities expenses totaled $23.4 million, an increase of $2.1 million or 9.9 percent when compared to the prior fiscal year primarily due to the following: an increase of $1.0 million for the Salton Sea air quality monitoring, an increase of $0.9 million for the storage of mitigation water in the Salton Sea at a higher volume and rate, and an increase of $0.2 million for funding the biologist team; offset by a decrease of $0.1 million for the maintenance of the managed marsh areas.

Program revenues include member contributions which totaled $6.5 million for the year ended June 30, 2017, an increase of $5.7 million when compared to the prior fiscal year. The majority of this increase was due to the timing of revenue received related to IID's member contributions. IID's member contribution payment of $4.3 million that was due in fiscal year 2018 was received in fiscal year 2017, and $6.5 million of IID's member contribution that was due in fiscal year 2016 was received in fiscal year 2015.

General Fund Budgetary Highlights

The QSA JPA Commission adopts an annual budget for the payment of environmental costs for QSA water transfer mitigation projects in the Imperial Valley. The annual budget provides revenues, generated from agency contributions and interest earnings, to meet anticipated fiscal year mitigation expenditures.

Fiscal year 2018 revenues were less than budget due to the prior fiscal year collection of $4.3 million from IID attributable to fiscal year 2018 budgeted revenue. Fiscal year 2018 expenditures were $10.6 million less than budget primarily due to the following: deferral of items for the Salton Sea air quality mitigation program task, postponement of the managed marsh creation activities task, deferral of pupfish selenium drain activities task, and postponement of the covered species baseline and monitoring surveys task.

Contacting the QSA JPA Financial Management

The QSA JPA financial report is designed to provide the QSA JPA's Board of Commissioners, creditors, and investors with a general overview of the QSA JPA's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123 or via the website at http://www.sdcwa.org.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
Assets:		
Cash and investments	$ 25,371,686	$ 23,329,867
Mitigation contributions receivable	60,857,941	74,330,653
Interest receivable	29,275,300	28,365,270
Total assets	115,504,927	126,025,790
Liabilities:		
Accounts payable	2,310,375	3,848,655
Net position:		
Unrestricted	$ 113,194,552	$ 122,177,135

See accompanying notes to the basic financial statements.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

STATEMENTS OF ACTIVITIES
FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Program Expenses		
Governmental Activities:		
Environmental mitigation	$ 14,890,812	$ 23,406,274
Program Revenues		
Governmental Activities:		
Operating grants and contributions:		
Mitigation contributions	5,559,380	6,540,675
Net program expenses	(9,331,432)	(16,865,599)
General Revenues		
Interest income	348,849	123,741
Changes in net position	(8,982,583)	(16,741,858)
Net position - beginning of year	122,177,135	138,918,993
Net position - end of year	$ 113,194,552	$ 122,177,135

See accompanying notes to the basic financial statements.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

BALANCE SHEETS
GENERAL FUND
JUNE 30, 2018 AND 2017

	2018	2017
Assets:		
Cash and investments	$ 25,371,686	$ 23,329,867
Mitigation contributions receivable	60,857,941	74,330,653
Interest receivable	29,275,300	28,365,270
Total assets	$ 115,504,927	$ 126,025,790
Liabilities:		
Accounts payable	$ 2,310,375	$ 3,848,655
Deferred inflows of resources:		
Unavailable mitigation contributions	90,024,150	102,648,652
Fund balance:		
Unassigned	23,170,402	19,528,483
Total liabilities, deferred inflows of resources, and fund balance	$ 115,504,927	$ 126,025,790

See accompanying notes to the basic financial statements.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

RECONCILIATION OF THE BALANCE SHEETS OF THE GENERAL FUND
TO THE STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
Fund balance of the General Fund	$ 23,170,402	$ 19,528,483
Amounts reported for governmental activities in the Statements of Net Position are different because:		
The General Fund does not report revenues that are not available to pay for current period expenditures.	90,024,150	102,648,652
Net position of governmental activities	$ 113,194,552	$ 122,177,135

See accompanying notes to the basic financial statements.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Revenues:		
Interest income	$ 348,849	$ 123,741
Mitigation contributions	18,183,882	29,162,833
Total revenues	18,532,731	29,286,574
Expenditures:		
Environmental mitigation	14,890,812	23,406,274
Net changes in fund balance	3,641,919	5,880,300
Fund balance - beginning of year	19,528,483	13,648,183
Fund balance - end of year	$ 23,170,402	$ 19,528,483

See accompanying notes to the basic financial statements.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GENERAL FUND TO THE STATEMENTS OF ACTIVITIES
FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Net changes in fund balance	$ 3,641,919	$ 5,880,300
Amounts reported for governmental activities in the Statements of Activities are different because:		
Revenues that are not available to liquidate liabilities of the current period that were not previously recognized in the General Fund, but were recognized in the Statements of Activities in prior years.	(12,624,502)	(22,622,158)
Changes in net position of governmental activities	$ (8,982,583)	$ (16,741,858)

See accompanying notes to the basic financial statements.

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2018

	Original and Final Budget	Actual Amounts	Variance
Revenues			
Interest income	$ 70,000	$ 348,849	$ 278,849
Mitigation contributions	22,433,882	18,183,882	(4,250,000)
Total revenues	22,503,882	18,532,731	(3,971,151)
Expenditures			
Current:			
Environmental mitigation	25,534,353	14,890,812	10,643,541
Net change in fund balance	(3,030,471)	3,641,919	6,672,390
Fund balance - beginning of year	19,528,483	19,528,483	-
Fund balance - end of year	$ 16,498,012	$ 23,170,402	$ 6,672,390

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual Amounts	Variance
Revenues			
Interest income	$ 45,000	$ 123,741	$ 78,741
Mitigation contributions	24,912,833	29,162,833	4,250,000
Total revenues	24,957,833	29,286,574	4,328,741
Expenditures			
Current:			
Environmental mitigation	29,278,499	23,406,274	5,872,225
Net change in fund balance	(4,320,666)	5,880,300	10,200,966
Fund balance - beginning of year	13,648,183	13,648,183	-
Fund balance - end of year	$ 9,327,517	$ 19,528,483	$ 10,200,966

See accompanying notes to the basic financial statements.

This page intentionally left blank

Note 1: Nature of Business and Significant Accounting Policies

Nature of Entity

The Quantification Settlement Agreement Joint Powers Authority (QSA JPA) was organized on January 1, 2004, under the California Joint Powers Act (the Act) for the primary purpose of paying for environmental mitigation requirements and environmental mitigation costs by and through the collection, investing, and disbursement of funds. The QSA JPA consists of four agencies, each with one representative on the QSA JPA's Board of Commissioners (the Board). The member agencies are the California Department of Fish and Wildlife (State of California), the Imperial Irrigation District (IID), the Coachella Valley Water District (CVWD), and the San Diego County Water Authority (SDCWA).

On October 10, 2003, the IID, CVWD, and Metropolitan Water District of Southern California executed the Quantification Settlement Agreement (QSA) which settled a variety of long-standing Colorado River disputes regarding the priority, use, and transfer of Colorado River water; established the terms for the further distribution of Colorado River water among those entities for a period of time based upon budgets; and included as a necessary component thereof the implementation of the 1998 IID/SDCWA Transfer Agreement and the IID/CVWD Acquisition Agreement.

Basis of Accounting

The *basic financial statements* of the QSA JPA are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting governmental entity as a whole. Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting.* Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board (GASB).

Note 1: Nature of Business and Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

Direct expenses reported include environmental mitigation. Program revenues include revenues derived from environmental mitigation contributions from member agencies. Governmental fund revenues represented by noncurrent receivables are recognized as revenues in the government-wide financial statements.

Fund Financial Statements

The underlying accounting system of the QSA JPA is organized and operated on the basis of a separate fund that has a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures, as appropriate. Financial statements for the General Fund are presented after the government-wide financial statements.

Governmental Fund – General Fund

In the fund financial statements, the General Fund is presented using the *modified-accrual basis of accounting.* Revenues are recognized when they become *measurable* and *available,* provided they are received within 60 days from the end of the fiscal year.

Revenue recognition is subject to the *measurable* and *availability* criteria for the General Fund in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (for example, the related goods or services are provided).

In the General Fund financial statements, amounts are recorded using the *current financial resources measurement focus.* This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of available spendable resources. Governmental fund operating statements present increases (revenues) and decreases (expenditures) in fund balance. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Note 1: Nature of Business and Significant Accounting Policies (Continued)

Governmental Fund – General Fund (Continued)

Noncurrent portions of long-term receivables are reported in the General Fund financial statements in spite of their spending measurement focus. However, the noncurrent portions of long-term receivables are not considered available spendable resources since they do not represent net current assets. Governmental fund revenues represented by noncurrent receivables are not recognized and are reported as deferred inflows of resources in the General Fund until they become current receivables.

Due to the spending measurement focus, expenditure recognition for the General Fund excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as expenditures or fund liabilities.

Environmental Mitigation Contributions

The principal portion of the QSA JPA's revenues are environmental mitigation contributions received from the member agencies. The costs for environmental mitigation requirements up to and not to exceed a present value of $133,000,000 are required to be paid by the IID, CVWD, and SDCWA with the balance of the expenditures above the present value of $133,000,000 to be paid by the State of California. GASB Statement No. 33 requires the entire $133,000,000 to be recorded as a receivable when all eligibility requirements have been met (for example, funding is not dependent upon certain future events). In the fund financial statements, the unavailable revenue was originally recorded as the same amount because the revenue does not represent available spendable resources.

Budgets and Budgetary Accounting

Annual budgets adopted by the Board provide for operations of the QSA JPA. Budgetary controls are set by the Board. The legally adopted budget requires that expenditures not exceed appropriations in total for the QSA JPA. The Board may make appropriation adjustments to the budget during the year as deemed necessary.

Note 2: Cash and Investments

The carrying value of cash and investments held by the QSA JPA as of June 30 consisted of the following:

	2018	2017
Deposits	$ 2,775	$ 5,586
Investments	25,368,911	23,324,281
Total cash and investments	$ 25,371,686	$ 23,329,867

Investments Authorized by the California Government Code and the Investment Policy

The QSA JPA uses the investment policy of the SDCWA for purposes of investments. The following table identifies the investment types that are authorized for the QSA JPA by the California Government Code (Gov't Code), Sections 53600 et seq, and the QSA JPA's Investment Policy (Inv. Policy). The table also identifies certain provisions of the California Government Code (or the QSA JPA's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2018 and 2017

Note 2: Cash and Investments (Continued)

Investments Authorized by the California Government Code and the Investment Policy (Continued)

	Maximum Maturity		Maximum Percentage of Portfolio		Maximum Investment in One Issuer		Minimum Rating	
Investment Types	**Gov't. Code**	**Inv. Policy**	**Gov't. Code**	**Inv. Policy**	**Gov't. Code**	**Inv. Policy**	**Gov't. Code**	**Inv. Policy**
Local agency bonds	5 years	5 years	None	20%	None	5%	None	A
U.S. Treasury securities	5 years	5 years	None	None	None	None	None	None
Federal agency securities	5 years	5 years	None	None	None	None	None	None
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A1/P1/F1
Commercial paper	270 days	270 days	25%	25%	10%	5%	A1/P1/F1	A1/P1/F1
Certificates of deposit	5 years	5 years	30%	20%	None	None	None	None
Placement service deposits	5 years	5 years	30% (4)	30% (5)	None	None	None	None
Negotiable certificates of deposit	5 years	5 years	30% (4)	30% (5)	None	5% (6)	None	A (7)
Repurchase agreements	1 year	1 year	None	20%	None	None	None	A
Reverse repurchase agreements	92 days	92 days	20% of portfolio base value	20% of portfolio base value	None	None	None	None
Medium-term notes	5 years	5 years	30%	30%	None	5%	A	A (7)
Mutual funds	n/a	n/a	20%	20%	10%	10%	AAA	AAA
Money market mutual funds	n/a	n/a	20%	20%	None	20%	AAA	AAA
Mortgage pass-through securities	5 years	5 years	20%	20%	None	5%	AA	AA
County pooled investment funds (1)	n/a	(3)	None	(3)	None	(3)	None	(3)
JPA pools (other investment pools)	n/a	n/a	None	25%	None	None	None	AAA
Supranationals (8)	5 years	5 years	30%	10%	None	5%	AA	AA
Local agency investment fund (LAIF) (2)	n/a	n/a	None	(9)	None	None	None	None

Notes:
(1) Authorized by Government Code Section 53684 (a).
(2) Authorized by Government Code Section 16429.1.
(3) These investments are not authorized by the Investment Policy.
(4) The Government Code maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 30 percent each.
(5) The combined Investment Policy maximum portfolio exposure to certificates of deposit, placement service certificates of deposit and negotiable certificates of deposit is 30 percent.
(6) The Investment Policy maximum investment in one issuer for negotiable certificates of deposit is 5 percent.
(7) Must have a minimum rating of "A" by all three credit rating agencies.
(8) Authorized by Government Code Section 53601 (q).
(9) The Investment Policy's maximum permitted investment amount is governed by current State Law.

Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2018 and 2017

Note 2: Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where 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 its fair value is to changes in market interest rates. One of the ways that the QSA JPA manages its exposure to interest rate risk is by investing in LAIF to provide the liquidity needed for operations.

Information about the sensitivity of the fair values of the QSA JPA's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the QSA JPA's investments by terms to maturity as of June 30, 2018 and 2017, respectively.

Issuer	June 30, 2018 Remaining Maturity (in Months) Less than 12 months
CAMP JPA Pool	$ 4,947,577
LAIF	20,421,334
Total	$ 25,368,911

Issuer	June 30, 2017 Remaining Maturity (in Months) Less than 12 months
U.S. Treasury securities	$ 4,996,650
LAIF	18,327,631
Total	$ 23,324,281

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following tables as of June 30, 2018 and 2017, respectively, is the minimum rating required (where applicable) by the California Government Code or the QSA JPA's Investment Policy, and the actual rating as of year-end for each issuer.

Note 2: Cash and Investments (Continued)

Disclosures Relating to Credit Risk (Continued)

Issuer	Minimum Legal Rating	Rating as of Fiscal Year Ended June 30, 2018	
		AAA	Not Rated
CAMP JPA Pool	AAAm	$ 4,947,577	$ -
LAIF	None	-	20,421,334
Total		$ 4,947,577	$ 20,421,334

Issuer	Minimum Legal Rating	Rating as of Fiscal Year Ended June 30, 2017	
		Exempt From Disclosure	Not Rated
U.S. Treasury securities	None	$ 4,996,650	$ -
LAIF	None	-	18,327,631
Total		$ 4,996,650	$ 18,327,631

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, 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 and the QSA JPA's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure QSA JPA deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. The QSA JPA was not exposed to custodial credit risk as of June 30, 2018 and 2017.

Note 2: Cash and Investments (Continued)

Fair Value Measurements

The QSA JPA categorizes its fair value measurements within the fair value hierarchy established by GASB. The hierarchy is based on the valuation inputs used to measure the fair value of investments. The three levels of the fair value hierarchy are as follows:

LEVEL 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

LEVEL 2: Inputs are significant other observable inputs for the asset or liability.

LEVEL 3: Inputs are significant unobservable inputs for the asset or liability.

The definition of fair value is 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. Fair value is measured as an exit price for financial investments.

The QSA JPA utilizes valuation techniques consistent with market, cost, or income approaches to determine fair value. The most appropriate technique is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs.

The QSA JPA Level 2 investments consist of U.S. Treasury securities with a fair value of $0 and $4,996,650 as of June 30, 2018 and 2017, respectively. The QSA JPA does not own Level 1 and Level 3 investments. Investments in CAMP JPA Pool and LAIF are not subject to fair value categorization.

Concentration of Credit Risk

The QSA JPA did not have any investments with one issuer (other than U.S. Treasury securities and external investment pools, which are all exempt) that exceeded 5 percent or more of its total investments.

Investments in State Investment Pool

The QSA JPA is a voluntary participant in the LAIF that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The fair value of the QSA JPA's investment in the pool is reported in the accompanying financial statements at amounts based upon the QSA JPA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CAMP JPA Pool

The QSA JPA is a voluntary participant in the California Asset Management Program (CAMP), a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. The investments are recorded on an amortized cost basis.

Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2018 and 2017

Note 3: Interest Receivable

Interest receivable consists of the following items: (1) accrued interest due from LAIF, (2) accrued interest for the six month period of January through June due from the contributing agencies related to their annual mitigation contribution payments due on December 31, and (3) cumulative unpaid accrued interest receivable due from the IID for their total current year and prior years unpaid portion of accrued interest, which the agency will make payment on in future year's mitigation contribution payments, per the payment schedule of the QSA JPA Creation and Funding Agreement (the Agreement). Refer to Note 4 for further information on the Agreement. For the fiscal years ended June 30, 2018 and 2017, interest receivable is composed of accrued interest of $2,649,101 and $3,066,642, respectively, and cumulative unpaid accrued interest of $26,626,199 and $25,298,628, respectively, for a total balance of $29,275,300 and $28,365,270, respectively.

Note 4: Mitigation Contributions Receivable

The QSA JPA administers the funding of environmental mitigation requirements related to IID's transfer with the SDCWA and a water acquisition agreement with the CVWD. The QSA JPA was formed pursuant to the QSA JPA Creation and Funding Agreement (the Agreement) executed on October 10, 2003, and is comprised of representatives from the IID, CVWD, SDCWA, and the State of California. Under the Agreement, the collective financial contributions made by the three water agencies are capped at $133 million (in 2003 dollars), with the balance to be paid by the State of California.

As a means of managing cash-flow requirements for mitigation activities, the Agreement permits the three water agencies to adjust their payment schedules by rescheduling future payments from outer years to budget years in the near term. Advanced payments are discounted at six percent from the date of the scheduled payment to the date of the advance. Payment schedules have been modified twice to meet the environmental mitigation funding obligations of the QSA JPA. On April 25, 2007, the QSA JPA agencies executed an agreement to advance payments during fiscal years 2008 and 2009 totaling $13,194,508, with a collective nominal credit of $25,792,750 against future contributions. On May 20, 2015, the IID, CVWD and SDCWA executed an agreement to advance payments over the next seven fiscal years beginning in fiscal year 2016 totaling $40,500,000, with a collective nominal credit of $127,341,394 against future contributions.

As of June 30, 2018 and 2017, the total mitigation contributions receivable balance was as follows:

	Final Contributions Fiscal Year	2018	2017
IID	2036	$ 27,784,281	$ 27,784,281
CVWD	2026	14,128,472	19,032,801
SDCWA	2026	18,945,188	27,513,571
Total		$ 60,857,941	$ 74,330,653

Note 5: Deferred Inflows of Resources

The unavailable mitigation contributions are directly related to the mitigation contributions receivable and consists of the total outstanding principal balance of $60,857,941 and $74,330,653 at June 30, 2018 and 2017, respectively, plus interest receivable of $29,166,209 and $28,317,999 at June 30, 2018 and 2017, respectively, for a total unavailable mitigation contributions balance of $90,024,150 and $102,648,652 at June 30, 2018 and 2017, respectively.

Note 6: Insurance

The QSA JPA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted workers; and natural disasters. The QSA JPA is insured through the IID, which performs all of the work related to the Joint Powers Agreement. The QSA JPA reimburses IID for any costs incurred as a result of QSA JPA activities.

Note 7: Commitments and Contingencies

The QSA JPA may be subject to lawsuits and claims arising out of the normal course of business. As of the date of this disclosure, and to the QSA JPA's actual knowledge, there are no lawsuits or claims currently pending against the QSA JPA. By way of background, in December 2011, the Court of Appeal upheld the QSA JPA Agreement. (*Quantification Settlement Agreement Cases* (2011) 201 Cal.App.4th 758.). In May 2015, all remaining legal challenges affecting the QSA JPA were dismissed (*Quantification Settlement Agreement Cases* (2015) 237 Cal. App. 4th 72.).

QUANTIFICATION SETTLEMENT AGREEMENT
JOINT POWERS AUTHORITY

SUPPLEMENTARY INFORMATION - BUDGET STATUS REPORT
FISCAL YEAR ENDED JUNE 30, 2018

No.	Mitigation Tasks	Adopted FY 2018 Budget	Total Expenditures	Variance
1	QSA Implementation Team	$ -	$ -	$ -
2	QSA Implementation Team Biologists	1,220,330	1,026,602	193,728
3	Environmental Reporting and Monitoring	510	-	510
4	Salton Sea Salinity and Elevation Program	6,600	7,100	(500)
5	Salton Sea Mitigation Water to Salton Sea	9,963,523	9,851,798	111,725
6	Tamarisk Scrub Habitat - Surveys and Mitigation	208,970	-	208,970
7	Drain Habitat - Initial Vegetation and Habitat Surveys	-	-	-
8	Drain Habitat (Aquatic) - Create/Manage/Monitor "Managed Marsh" Areas	1,896,820	439,409	1,457,411
9	Drain Habitat - Restrictions/Requirements for Construction and Maintenance	-	-	-
10/10A	Worker Education Program Covered Species Training and Manual	10,710	-	10,710
11	Desert Habitat Survey and Mapping of Right of Way	32,890	-	32,890
12	Desert Habitat Create/Maintain Desert Habitat	-	-	-
13	Changes to Operations on IID Canals to Avoid Covered Species	-	-	-
14	Burrowing Owl Worker Annual Education and Manual	-	-	-
15	Pre-Construction Activity Burrowing Owl Surveys and Relocation	20,720	7,164	13,556
16	Burrowing Owl Relative Abundance and Distribution Surveys	153,000	-	153,000
17	Farmer and Public Education Program	5,000	1,600	3,400
18	Desert Pupfish Abundance and Distribution Study	5,370	8	5,362
19/19A	Pupfish Selenium Drain Studies	557,820	36,468	521,352
20	Pupfish Construction and Maintenance Conservation Measures	203,390	11,653	191,737
21	Salvage of Razorback Suckers when Dewatering Canals	3,070	-	3,070
22	Maintain Habitat on Fallowed Parcels	-	-	-
23	Covered Species Baseline and Monitoring Surveys	339,620	800	338,820
24	Salton Sea Air Quality	10,787,450	3,483,968	7,303,482
25	Minimize Dust Emissions from Fallowed Lands	-	-	-
26	Drain Connectivity to Salton Sea Elevation Decrease	-	-	-
27	Grade Spoil/Roads from Drain Maintenance	-	-	-
28	Power Line Markers for Pumpback and Seepage Recovery Systems	-	-	-
29	Prepare and Implement Management Plan for Abandoned Portions of AAC	-	-	-
30	Southwestern Willow Flycatcher Surveys and Habitat Monitoring	-	-	-
31	Elf Owl Surveys	-	-	-
32	Desert Tortoise Survey and Avoidance	-	-	-
33	Least Tern Surveys	-	-	-
34	Rail and Bittern Surveys	-	-	-
35	Management and Planning	19,060	1,367	17,693
36	JPA Audit Fees	10,350	10,350	-
37	JPA Bank Fees	1,600	1,526	74
38	Financial Advisor	-	-	-
39	Bond Counsel Fees	-	-	-
40	2001 Biological Opinion Measures	-	-	-
41	Brown Pelican Coast	-	-	-
42	Brown Pelican Sea	-	-	-
43	Salton Sea Shoreline Strand Study	50,000	-	50,000
44	Pupfish Refugium	32,960	-	32,960
45	Recreation Facilities at Salton Sea	4,590	10,999	(6,409)
	Total Expenditures	**$ 25,534,353**	**$ 14,890,812**	**$ 10,643,541**

This page intentionally left blank

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

To the Board of Commissioners
Of the Quantification Settlement
Agreement Joint Powers Authority

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*

Independent Auditor's Report

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 the governmental activities and the general fund of the Quantification Settlement Agreement Joint Powers Authority ("QSA JPA"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the QSA JPA's basic financial statements, and have issued our report thereon dated November 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the QSA JPA'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 QSA JPA's internal control. Accordingly, we do not express an opinion on the effectiveness of the QSA JPA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the QSA JPA'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
November 8, 2018