Arvin-Edison Water Storage District

Financial Statements

February 28, 2017 and February 29, 2016

Arvin-Edison Water Storage District

County of Kern, State of California

Officers

President ....Edwin A. Camp
Vice President...Jeffrey G. Giumarra
Secretary - Treasurer ....John C. Moore
Engineer - Manager .... Steven C. Collup
Deputy General Manager - Assistant Secretary Treasurer .... David A. Nixon

Directors

Ronald R. Lehr ....Division 1
Jeffrey G. Giumarra...Division 2
Howard R. Frick ....Division 3
Dennis B. Johnston...Division 4
John C. Moore ....Division 5
Edwin A. Camp ....Division 6
Charles Fanucchi ....Division 7
Catalino M. Martinez ....Division 8
Kevin E. Pascoe...Division 9

C O N T E N T S

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report

Board of Directors
Arvin-Edison Water Storage District
Arvin, California

We have audited the accompanying financial statements of Arvin-Edison Water Storage District as of and for the years ended February 28, 2017 and February 29, 2016, and the related notes to the financial statements, which collectively comprise the District'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.

Auditors' 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. 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 auditors' 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arvin-Edison Water Storage District as of February 28, 2017 and February 29,

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2016, and the respective changes in financial position and cash flows for the years 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 and budgetary comparison information on pages 3 through 8, 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 audits 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 District's financial statements as a whole. The schedule of cash, invested cash, investments and temporarily restricted assets, schedule of water in storage, schedules of operating expenses, and schedules of revenues and expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
July 11, 2017

As management of the Arvin-Edison Water Storage District (the District), we offer readers of the District's financial statements this narrative overview, analysis and comparative of the District's financial performance during the fiscal years ended February 28, 2017 and February 29, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The District's total net position increased $269,000 or .3% over the course of the year's operations.

- The District's operating revenue decreased $1,805,000 or 9.1%, during the fiscal year ended February 28, 2017, primarily due to a decrease in water banking revenue of approximately $2,498,000, offset by an increase in water revenue of approximately $1,045,000.

- The District's operating expenses increased $1,194,000 or 4.3% during the fiscal year ended February 28, 2017. The change is mainly due to an increase of approximately $2,817,000 in water costs, offset by a decrease of approximately $1,653,000 in power costs from the 2016 Water Year.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the District and selected additional information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statements of Cash Flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and the changes in them. One can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Statements of Net Assets

To begin our analysis, a summary of the District's Statements of Net Position is presented in Table A-1.

Table A-1
Condensed Statements of Net Position
February 28, 2017 and February 29, 2016
(000's)

	2017	*2016*	*Dollar Change*	*Percentage Change*
Current assets	$ 19,892	$ 21,675	$ (1,783)	-8.2%
Temporary restricted assets	3,969	3,736	233	6.2%
Capital assets	99,054	98,355	699	0.7%
Other assets	13,694	14,235	(541)	-3.8%
Total assets	136,609	138,001	(1,392)	-1.0%
Current liabilities	8,661	8,498	163	1.9%
Other liabilities	4,458	4,240	218	5.1%
Long-term debt	25,112	27,154	(2,042)	-7.5%
Total liabilities	38,231	39,892	(1,661)	-4.2%
Invested in capital assets, net of related debt	71,900	69,229	2,671	3.9%
Restricted	2,511	2,496	15	0.6%
Unrestricted	23,966	26,384	(2,418)	-9.2%
Total net position	$ 98,377	$ 98,109	$ 268	0.3%

Current assets decreased by $1.8 million, to $19.9 million, primarily due to decreases of $1 million in banked water receivable and $1 million in accounts receivable from Power and Water Resources Pooling Authority. Capital assets increased by $.7 million to $99.1 million, primarily due to the new well construction projects and improvements at the pumping plant. Other assets decreased by $.5 million, to $13.7 million, mainly due to decreases of $.3 million in the water in storage at the District. The District's long-term debt decreased by $2 million to $25.1 million due to the payments on long-term debt.

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended February 28, 2017 and February 29, 2016
(000's)

	2017	*2016*	*Dollar Change*	*Percentage Change*
Operating revenues	$ 18,053	$ 19,858	$ (1,805)	-9.1%
Nonoperating revenues	11,998	11,979	19	0.2%
Total revenues	30,051	31,837	(1,786)	-5.6%
Operating expenses	28,783	27,589	1,194	4.3%
Nonoperating expenses	999	1,066	(67)	-6.3%
Total expenses	29,782	28,655	1,127	3.9%
Change in net position	269	3,182	(2,913)	-91.5%
Net position, beginning of year	98,109	94,927	3,182	3.4%
Net position, end of year	$ 98,378	$ 98,109	$ 269	0.3%

While the Statements of Net Position shows the change in financial position of net position of the District, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table A-2 above, net income is the source of the decrease in net assets and net position during the fiscal year ended February 28, 2017.

The District's operating revenues decreased $1.8 million, to $18.1 million, during the year ended February 28, 2017, primarily due to a decrease of $2.5 million in water banking revenue, offset by an increase of $1 million in water revenue. The District's operating expenses increased $1.2 million, to $28.8 million, during the year ended February 28, 2017, primarily due to an increase of $2.8 million in water costs, offset by a decrease of $1.7 million in power costs.

Budgetary Highlights

The District adopts an annual cash budget each year based on a 30 year average of water and power supplies at current prices to project the expected coming year's operations. The budget includes proposed expenses and the means of financing them on a cash basis. The District's cash-basis budget remained in effect the entire year and was not revised. A February 28, 2017 budget comparison to actual is analyzed by management throughout the year; however it is not reported on nor shown in the financial statement section of this report.

A fiscal year February 28, 2017 cash budget comparison to accrual-basis actual is presented in Table A-3.

Table A-3
Budget vs. Actual Comparison
February 28, 2017
(000's)

	Actual	*Budget*	*Dollar Variance*	*Percentage Variance*
Operating revenues	$ 18,053	$ 26,276	$ (8,223)	-31.3%
Operating expenses	26,307	27,453	(1,146)	-4.2%
Depreciation	2,476	-	2,476	100.0%
Other income	10,999	12,533	(1,534)	-12.2%
Change in net position	$ 269	$ 11,356	$ (11,087)	-97.6%

Operating revenue for the year ended February 28, 2017 is under budget by $8.2 million to $18.1 million, primarily due to decreases in water revenue by $5.1 million and water banking revenue budget by $2.8 million.

Operating expense for the year ended February 28, 2017 is under budget by $1.1 million, to $27.5 million, primarily due to decreases in power costs by $1.4 million and water costs by $.8 million, offset by an increase in repairs and maintenance expenses budget by $.6 million.

Capital Assets

As of February 28, 2017, the District had invested $149.9 million in capital assets as shown in Table A-4.

Table A-4
Capital Assets
February 28, 2017 and February 29, 2016
(000's)

	2017	*2016*	*Dollar Change*	*Percentage Change*
Organization costs	$ 375	$ 375	$ -	0.0%
Water rights - CVC	134	134	-	0.0%
Water rights - USBR	14,472	14,472	-	0.0%
Land	8,567	8,567	-	0.0%
Source of supply	46,449	42,721	3,728	8.7%
Pumping plant	18,052	10,756	7,296	67.8%
Transmission and distribution	56,272	56,272	-	0.0%
General plant	4,314	4,107	207	5.0%
Construction in progress	1,219	9,523	(8,304)	-87.2%
	149,854	146,927	2,927	2.0%
Less: accumulated depreciation	50,800	48,572	2,228	4.6%
Net capital assets	$ 99,054	$ 98,355	$ 699	0.7%

The $2.9 million increase is mainly related to $1.1 million in new well construction projects and $.9 million in improvements at the Forrest Frick Pumping Plant during the year ended February 28, 2017.

Debt Service Requirements

During 2002, the District received a twenty year Proposition 204 loan in the amount of $5,000,000. This was used to construct the North Canal spreading works. The loan balance as of February 28, 2017 is $1,347,281. Principal on the bonds is payable in increasing annual installments. Principal and interest on the bonds is payable semi-annually at 2.4%.

During December 2005, the District received a twenty year $10,000,000 loan. The loan was used to repair pumping units at the Forrest Frick Pumping Plant, participate in the expansion of the Cross Valley Canal and expansion of the Sycamore spreading works, expansion of the N1 Balancing Reservoir, North and South canal liner repairs, and modify the wasteway facility. This loan was refinanced during October 2010 in the amount of $8,630,247. The loan balance as of February 28, 2017 is $5,498,092. Principal and interest on the loan is payable semi-annually at 3.65%.

During November 2007, the District received a twenty year $7,500,000 loan used for the District's share of the Cross Valley Canal Expansion. The remaining loan balance of $6,100,000 was refinanced during February 2014 at 1.2% lower than the original interest rate of 4.28%. The loan balance as of February 28, 2017 is $4,955,066. Principal and interest on the loan is payable semi-annually at 3.08%.

During November 2010, the District received a twenty year $19,792,064 loan. The loan is to fund a capital obligation to the USBR for the Repayment Contract. The loan balance as of February 28, 2017 is $15,353,496. Principal and interest on the loan is payable semi-annually at 3.89%.

Contacting the District's Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Nixon, Deputy General Manager, P.O. Box 175, Arvin, CA 93203.

Arvin-Edison Water Storage District

Statements of Net Position
February 28, 2017 and February 29, 2016

ASSETS	***2017***	***2016***
Current Assets		
Cash	$ 619,945	$ 1,489,159
Invested cash	13,736,089	13,145,625
Accounts receivable, water banking	-	957,793
Accounts receivable, water	89,695	401,896
Accounts receivable, assessments, less allowance for delinquencies: 2017 - $538,913; 2016 - $691,572	2,830,437	2,512,846
Accounts receivable, Power and Water Resources Pooling Authority	130,841	1,150,242
Accounts receivable, other	20,408	528,058
Materials and supplies inventory	1,095,740	764,828
Prepaid expenses	1,345,523	710,392
Accrued interest receivable	23,016	14,090
	19,891,694	21,674,929
Temporary Restricted Assets	3,968,943	3,736,034
Capital Assets , at cost	149,854,587	146,927,593
Less accumulated depreciation	50,800,154	48,572,408
	99,054,433	98,355,185
Other Assets		
Long-term investments	35,303	46,310
Investment in Power and Water Resources Pooling Authority	3,234,490	3,394,218
Public Purpose Program Fund	65,059	54,821
Prepaid Friant surcharge	4,658,100	4,658,100
Note receivable, USBR	662,481	662,481
Water inventory	5,038,436	5,419,227
	13,693,869	14,235,157
	$ 136,608,939	$ 138,001,305

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	*2017*	*2016*
Current Liabilities		
Current maturities of long-term debt	$ 2,041,696	$ 1,972,714
Trade accounts payable	4,054,136	4,098,201
Accrued expenses	708,672	688,805
Unearned water revenue, current portion	1,856,312	1,738,632
	8,660,816	8,498,352
Unearned Water Banking Revenue, long-term	3,000,000	3,000,000
Deferred Compensation Plan Fund	1,457,840	1,240,195
Long-Term Debt , less current maturities	25,112,238	27,153,934
Contingencies		
Net Position		
Net investment in capital assets, net of related debt	71,900,499	69,228,538
Restricted net position	2,511,103	2,495,839
Unrestricted	23,966,443	26,384,447
	98,378,045	98,108,824
	$ 136,608,939	$ 138,001,305

Arvin-Edison Water Storage District

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended February 28, 2017 and February 29, 2016

	2017	2016
Operating Revenues:		
Water sales - irrigation	$ 16,600,472	$ 15,555,828
Water banking - regulation	-	1,939,887
Water banking - OM & R	-	557,839
Water sales - M & I	497	674
Miscellaneous	1,452,564	1,803,965
	18,053,533	19,858,193
Operating Expenses:		
Source of supply	11,544,618	13,376,663
Pumping plant	2,765,355	1,128,501
Transmission and distribution	7,548,552	6,205,194
Customer accounts	337,205	323,952
General and administrative	3,037,598	2,811,142
Maintenance of general plant	1,063,600	974,850
Depreciation	2,475,837	2,169,588
Water purchases	10,534	599,817
	28,783,299	27,589,707
Operating loss	(10,729,766)	(7,731,514)
Nonoperating Revenue (Expense):		
Interest income	113,970	70,951
Gain on sale of assets	91,293	65,924
General administrative and general project service charges	10,680,038	10,229,592
Prior year income	300,261	244,250
Other income	812,207	1,368,539
Interest expense	(998,782)	(1,066,207)
	10,998,987	10,913,049
Change in net position	269,221	3,181,535
Net Position, Beginning of Year	98,108,824	94,927,289
Net Position, End of Year	$ 98,378,045	$ 98,108,824

See Notes to Financial Statements.

Arvin-Edison Water Storage District

Statements of Cash Flows
For the Years Ended February 28, 2017 and February 29, 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers	$ 22,592,277	$ 25,830,409
Receipts from general administrative and general project service charges	10,362,447	9,433,411
Payments to suppliers for goods and services	(21,838,494)	(19,743,606)
Payments to employees for services	(4,895,854)	(4,739,212)
Net cash provided by operating activities	6,220,376	10,781,002
Cash flows from investing activities:		
Net change in investments	11,007	15,176
Interest income	105,044	65,076
Net cash provided by investing activities	116,051	80,252
Cash flows from capital and related financing activities:		
Purchase of capital assets	(3,479,229)	(8,310,739)
Proceeds from sale of assets	91,293	65,924
Payments on long-term debt	(1,972,714)	(1,906,196)
Cash paid for interest	(1,021,618)	(1,088,136)
Net cash used in capital financing activities	(6,382,268)	(11,239,147)
Net decrease in cash and cash equivalents	(45,841)	(377,893)
Cash and cash equivalents at beginning of year	18,370,818	18,748,711
Cash and cash equivalents at end of year	$ 18,324,977	$ 18,370,818

See Notes to Financial Statements.

	2017	2016
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (10,729,766)	$ (7,731,514)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,475,837	2,169,588
Investment	159,728	(8,372)
Write-off of construction in progress	304,144	-
General administrative and general project service charges	10,680,038	10,229,592
Other income	1,112,468	1,612,789
Changes in operating assets, liabilties and other income:		
Receivables	2,479,454	87,524
Inventory	(330,912)	(39,466)
Prepaid expenses and other assets	(645,369)	478,246
Water inventory	380,791	1,020,246
Trade accounts payable and accrued expenses	(1,362)	10,552
Unearned water revenue	117,680	3,096,359
Deferred compensation plan fund	217,645	(144,542)
Net cash provided by operating activities	$ 6,220,376	$ 10,781,002

Supplemental disclosures of cash flow information:

	2017	2016
Reconciliation of cash:		
Cash	$ 619,945	$ 1,489,159
Invested cash	13,736,089	13,145,625
Temporary restricted cash	3,968,943	3,736,034
	$ 18,324,977	$ 18,370,818

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of District's activities:

The Arvin-Edison Water Storage District (the District), comprised of approximately 131,600 acres of agricultural land, was organized January 29, 1942 under the provisions of the California Water Storage Act. The organization meeting of the Board of Directors was held on February 10, 1942.

The District entered into a contract in 1962 with the United States Bureau of Reclamation (USBR) to borrow up to $41,000,000 to construct a distribution system to deliver Central Valley Project water to land within the District. The total estimated cost of the distribution system, including land, was $45,600,000, of which the District was required to raise $4,600,000.

The District entered into a water contract with the USBR for annual deliveries of 40,000 acre-feet of Class 1 water and up to 311,675 acre-feet of Class 2 water. The deliveries were to be through the Friant-Kern Canal, a unit of the Central Valley Project. On July 27, 1962, a District election was held where the voters approved the construction and water service contracts by a substantial margin. Deliveries following the District's original water contract with USBR were provided under various renewal contracts since 1995, and then during 2010 the District entered into a permanent Repayment Contract, as described at Note 7.

The District received its first distribution of water in 1966, all of which was percolated into underground storage. The District made its first distribution to water users on June 6, 1967. The USBR notified the District in November 1969 that the project facilities were transferred from construction status to operating and maintenance status effective September 1, 1969.

The District entered into an agreement on April 4, 1974 with the Kern County Water Agency to participate in the Cross Valley Canal (CVC) Project. On the same date, the District entered into contracts with various other water districts for an exchange of water supplies. The contracts, including subsequent amendments, call for the District to receive Federal Delta Water annually through the State Aqueduct and the Cross Valley Canal in exchange for a portion of its annual water entitlement from the Friant-Kern Canal.

On December 19, 1997 the District entered into an agreement with Metropolitan Water Storage District of Southern California (MWD) calling for the District to store MWD water on a long-term basis and return it to them when requested. Under the terms of the agreement, the District will be required to bank and return between 250,000 and 350,000 acre-feet of MWD water over the next 25 years. The regulation and return of this water to MWD required the District to construct approximately 500 acres of additional spreading ponds, 15 wells, and the intertie pipeline connecting the Arvin-Edison Basin and the California Aqueduct. Further described at Note 12.

Basis of accounting and financial reporting:

The District uses the economic resources measurement focus and accrual basis of accounting, in conformity with the uniform system of accounts prescribed for water districts by the Controller of the State of California. Revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of cash payments or receipts.

When the District has both unrestricted and restricted resources available for District purposes, it is the District's practice to first expend restricted resources, subsequently utilizing unrestricted resources as needed.

The District utilizes a net position presentation in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net position is categorized as net investment in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows:

> *Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
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> *Restricted components of net position* - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
>
> *Unrestricted components of net position* - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund accounting:

The District utilizes a proprietary enterprise fund category to account for its activities. Enterprise funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Other items not properly included among operating revenues are reported as non-operating revenues. All assets and liabilities associated with an enterprise fund's activities are included on its statements of net position.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are water sales and service revenues charged to water users. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Accounts receivable:

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Charges to water users for contract water sales that are uncollected as of February 28 of each year are considered delinquent. Consistent with established policy and California Water Code, the District can initiate statutory proceedings to obtain a certificate of sale for accounts considered delinquent which are represented by liens on the respective property. An allowance for delinquent accounts has been set up as of February 28, 2017 and February 29, 2016.

The allowance for delinquency provision for general administrative and general project service charges is based on a percentage of assessments levied. The percentage is determined annually by the Board of Directors.

Revenue recognition:

Income is derived primarily from the sale of water and the levy of general administrative and general project service charges as determined annually by the Board of Directors.

Revenue from the sale of water is recognized on the accrual basis as water is delivered. General administrative and general project service charges are established and levied by the Board of Directors for the period July 1 through June 30 of the following year. These service charges are reported as income to the District in July of the year levied. The general service charges are billed to the landowners on their county property tax statements.

The District has entered into groundwater banking relationships with banking partners, which are water districts located in California. Revenue for banking is recognized in the period when annual fees are billed and when water is stored or returned for each respective banking partner.

Concentration of credit risk:

Credit is extended, in the form of accounts receivable, to landowners who are located in the District's service area and water banking partners.

Inventory:

The District maintains an inventory of parts and supplies used to repair District facilities. The inventory of materials and supplies is stated at the lower of cost or market using the first-in, first-out (FIFO) cost flow method.

Capital assets:

Capital assets, which include property, plant, equipment and intangible assets, are reported in the District's financial statements at historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as project construction is completed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, equipment and intangible assets with exhaustible useful lives are capitalized when acquired and depreciation is computed principally on the straight-line method over the following estimated useful lives of the capital assets:

	Years
Source of supply	15 - 100
Pumping plant	30 - 60
Transmission and distribution	15 - 100
General plant	3 - 30
Intangible assets	25 - 50

Intangible assets lack physical substance, are nonfinancial in nature and have an estimated useful life extending beyond a single reporting period. The term depreciation, as used in this footnote, includes amortization of intangible assets. Long-lived and indefinite-lived intangible assets are reviewed for impairment when events or changes in circumstances indicate that the service utility of the capital asset may have significantly and unexpectedly declined. If such assets are considered to be impaired, the impairment to be recognized by the District using an approach as defined by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets.*

Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Water inventory:

Water in storage

Water imported to the District is often percolated into underground storage. This water is then pumped from District wells into the District's water distribution system in periods when sufficient imported surface water is not available for purchase. The costs associated with water percolated into underground storage are deferred until later years when the water is pumped from the underground storage and delivered to landowners. Water in underground storage is reflected on the District's statements of net position and is accounted for on the last-in, first-out (LIFO) cost flow method.

Banked water

At any given time, the District has water stored at other water districts. This water belongs to the District and can be recalled based on certain agreed upon terms entered into prior to the banking process. Costs incurred to bank the water are typically shared between both districts. Banked water is reflected on the District's statements of net position and is accounted for on the first-in, first-out (FIFO) cost flow method.

Compensated absences:

Compensated absences accrued at February 28, 2017 and February 29, 2016 were $281,903 and $261,626, respectively, and is included in accrued expenses.

Pension:

The District has a defined contribution pension plan covering substantially all employees. During the years ended February 28, 2017 and February 29, 2016, the District contributed 12% or 17% of eligible employees' wages based upon the employee's position within the District. The employees had the option to contribute up to the IRS limit, with a minimum deferral of 4% of eligible wages. The District's total wages for the years ended February 28, 2017 and February 29, 2016 were $3,498,748 and $3,405,081, respectively. Wages for eligible employees were $3,190,420 and $3,179,488 for the years ended February 28, 2017 and February 29, 2016, respectively. The District's pension contributions for the years ended February 28, 2017 and February 29, 2016 were $401,963 and $399,990, respectively. The District's policy is to fund pension costs in the current year.

Cash and cash equivalents:

For purposes of reporting cash flows, the District considers cash equivalents to be all highly liquid debt instruments purchased with a maturity of three months or less at time of purchase. At February 28, 2017 and February 29, 2016, cash and cash equivalents include cash on hand and amounts deposited with banks, financial institutions, the County of Kern and the State Treasurer's office.

The District invests any excess funds not needed for immediate needs into State of California managed Local Agency Investment Fund (LAIF), which is a permitted investment by both State law and the District's investment policy. Created by state statute, the LAIF is a component of a pooled money program that is administered by the State Treasurer's Office. The fund has regulatory oversight from the Local Investment Advisory Board, which is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. As the LAIF does not make share-value adjustments due to immaterial differences between fair value and cost, the District's cost basis in the fund is reflected in cash and cash equivalents on the combined statements of net position as of February 29, 2017 and February 28, 2016.

Cash flows:

GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* states for purposes of preparing the statements of cash flows, all transactions that are not classified as capital and related financing activities, noncapital financing activities or investing activities are classified as operating activities. The adjustments to reconcile operating income to net cash provided by operating activities includes other income which consists primarily of miscellaneous sales and income and expenses from prior years.

Deposits with banks, savings and loans and State Controller:

Cash funds deposited with various banks and savings and loans are covered by Federal depository insurance. Deposits with the State Treasurer are fully collateralized. Cash funds deposited with the Kern County Treasurer's office are appropriately collateralized by cash, investments and securities.

Investments:

The District is permitted by both Board policy and State law to invest in various authorized investments, subject to a variety of limits and controls, including State of California bonds, U.S. Government Agency securities (Treasury and other federal agencies) and other securities (bankers' acceptances, negotiable certificates of deposit, etc.). The District investment portfolio is primarily comprised of holdings in Federal agency securities.

Recently adopted accounting pronouncements:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* GASB 72 improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement is effective for periods beginning after June 15, 2015 and did not impact the District's financial statements

Note 2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments as of February 28, 2017 and February 29, 2016, are classified in the accompanying financial statements as follows:

Cash and cash equivalents:	***2017***	***2016***
Cash	$ 619,945	$ 1,489,159
Invested cash	13,736,089	13,145,625
Temporary restricted assets	3,968,943	3,736,034
	18,324,977	18,370,818
Investments:		
Long-term investments	35,303	46,310
	$ 18,360,280	$ 18,417,128

Cash and investments as of February 28, 2017 and February 29, 2016 consist of the following:

	2017	2016
Cash on hand	$ 600	$ 600
Deposits with banks	619,345	1,488,559
Deposits with Kern County and LAIF	16,081,642	15,487,354
Investments with financial institutions	200,853	200,420
Fiduciary fund- Deferred Plan	1,457,840	1,240,195
	$ 18,360,280	$ 18,417,128

Investments Authorized by the California Government Code and the District's Investment Policy:

The table below identifies the investment types that are authorized for the District by the California Government Code §53601 and 53635. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	*Maximum Maturity*	*Maximum Percentage of Portfolio **	*Maximum Investment in One Issuer*
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Corporate Bonds	N/A	20%	None
Mutual Funds	N/A	20%	None
Money Market Mutual Funds	N/A	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

All short-term and long-term corporate securities must have a rating of A-1 or A, respectively.

Disclosures relating to 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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market rate interest rate fluctuations is provided by the following table that shows the maturity date of each investment as of February 28, 2017:

	Maturity Date	*Reported Amount*	
GNMA PL Security	June 20, 2037	$	35,303
RMA Money Market Fund	N/A	$	91,966
UBS Bank USA Business Account	N/A	$	73,583
Kern County Treasurer	N/A	$	7,433,406
State Investment Pool - LAIF	N/A	$	8,648,236

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 below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Invesment Type	*Minimum Legal Requirement*	*Exempt from Disclosure*	*S&P AAA Moody Aaa*	*Not Rated*
GNMA PL	A		$ 35,303	
RMA Money Market	N/A			$ 91,966
UBS Bank USA BA	N/A			$ 73,583
Kern County Treasurer	N/A			$ 7,433,406
LAIF	N/A			$ 8,648,236

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represented 5% or more of total District investments at February 28, 2017 and February 29, 2016.

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions 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% of the total deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At February 28, 2017 and February 29, 2016, the District had no risk associated with custodial assets.

As of February 28, 2017, District investments in the following investment types that were held by the two broker-dealers (counterparties) that were used by the District to buy the securities:

Investment type	*Reported Amount*	
U.S. Treasury notes	$	35,303
Money market funds	$	165,549

Note 3. Temporarily Restricted Assets

Restricted assets, at February 28, 2017 and February 29, 2016 are as follows:

		2017		***2016***
Loan Reserve Fund	$	309,010	$	306,336
Reserve Fund		2,202,093		2,189,503
Deferred Compensation Plan Fund		1,457,840		1,240,195
	$	3,968,943	$	3,736,034

Loan Reserve Fund:

The provisions of the District's various loans from the State of California require the District to reserve the current year repayment amounts until the bonds have been paid back.

Reserve Fund:

The provisions of the District's financing agreements with Bank of America, N.A., require the District to initially and continuously fund, from legally available funds of the District, an amount equal to $2,155,000, or the reserve requirement, as defined in the agreements, so long as any debt payments are outstanding. As of February 28, 2017 and February 29, 2016, $2,202,093 and $2,189,503 had been funded, respectively.

Deferred Compensation Plan Fund:

The Board of Directors approved a "Deferred Compensation Plan" by Resolution 76-19 passed April 20, 1976, whereby employees may elect to defer a portion of their current salary until their service to the District is terminated. Participants may select the way in which funds are invested. Segregated accounts are kept for each participant.

The following is a summary of the deferred compensation plan fund transactions for the years ended February 28, 2017 and February 29, 2016:

	Payable 2/29/16	***Additions (deletions)***	***Payable 2/28/17***
Deferred plan	$ 1,240,195	$ 217,645	$ 1,457,840

	Payable 2/28/15	***Additions (deletions)***	***Payable 2/29/16***
Deferred plan	$ 1,384,737	$ (144,542)	$ 1,240,195

Note 4. Capital Assets

Capital assets, at cost, consist of the following at February 28, 2017 and February 29, 2016:

	Assets - At Cost				
	Balance 2/29/2016	Acquisitions	Retirements	Transfers	Balance 2/28/2017
Capital assets, not being depreciated:					
Land	$ 8,567,078	$ -	$ -	$ -	$ 8,567,078
Water rights-USBR	14,471,483	-	-	-	14,471,483
Construction in progress	9,522,745	3,024,356	(304,143)	(11,023,316)	1,219,642
	32,561,306	3,024,356	(304,143)	(11,023,316)	24,258,203
Capital assets, being depreciated:					
Organization costs	375,168	-	-	-	375,168
Water rights-CVC capacity	133,794	-	-	-	133,794
Source of supply	42,721,453	-	-	3,727,672	46,449,125
Pumping plant	10,756,126	-	-	7,295,644	18,051,770
Transmission and distributior	56,272,472	-	-	-	56,272,472
General plant	4,107,274	454,873	(248,092)	-	4,314,055
	114,366,287	454,873	(248,092)	11,023,316	125,596,384
	$ 146,927,593	$ 3,479,229	$ (552,235)	$ -	$ 149,854,587

	Accumulated Depreciation				
	Balance 2/29/2016	Depreciation	Retirements	Transfers	Balance 2/28/2017
Organization costs	$ 263,754	$ 14,653	$ -	$ -	$ 278,407
Water rights-CVC capacity	93,660	2,676	-	-	96,336
Source of supply	13,797,797	880,959	-	-	14,678,756
Pumping plant	7,891,022	420,156	-	-	8,311,178
Transmission and distributior	23,128,701	901,281	-	-	24,029,982
General plant	3,397,474	256,112	(248,091)	-	3,405,495
	$ 48,572,408	$ 2,475,837	$ (248,091)	$ -	$ 50,800,154

	Assets - At Cost				
	Balance 2/28/2015	***Acquisitions***	***Retirements***	***Transfers***	***Balance 2/29/2016***
Capital assets, not being depreciated:					
Land	$ 8,567,078	$ -	$ -	$ -	$ 8,567,078
Water rights-USBR	14,471,483	-	-	-	14,471,483
Construction in progress	14,981,824	8,615,070	-	(14,074,149)	9,522,745
	38,020,385	8,615,070	-	(14,074,149)	32,561,306
Capital assets, being depreciated:					
Organization costs	375,168	-	-	-	375,168
Water rights-CVC capacity	133,794	-	-	-	133,794
Source of supply	29,923,143	-	-	12,798,310	42,721,453
Pumping plant	10,756,126	-	-	-	10,756,126
Transmission and distributior	55,590,576	-	-	681,896	56,272,472
General plant	4,424,387	289,612	(606,725)	-	4,107,274
	101,203,194	289,612	(606,725)	13,480,206	114,366,287
	$ 139,223,579	$ 8,904,682	$ (606,725)	$ (593,943)	$ 146,927,593

	Accumulated Depreciation				
	Balance 2/28/2015	***Depreciation***	***Retirements***	***Transfers***	***Balance 2/29/2016***
Organization costs	$ 249,101	$ 14,653	$ -	$ -	$ 263,754
Water rights-CVC capacity	90,984	2,676	-	-	93,660
Source of supply	13,041,094	756,703	-	-	13,797,797
Pumping plant	7,614,883	276,139	-	-	7,891,022
Transmission and distributior	22,227,420	901,281	-	-	23,128,701
General plant	3,786,063	218,136	(606,725)	-	3,397,474
	$ 47,009,545	$ 2,169,588	$ (606,725)	$ -	$ 48,572,408

Note 5. Investment in Power and Water Resources Pooling Authority

During 2004, the District joined the Power and Water Resources Pooling Authority (PWRPA) under the Joint Powers Agreement. PWRPA is a public agency, comprised of 14 public agencies, which has the authority to purchase power on behalf of these agencies. The District records the investment in PWRPA on the equity basis. The District, along with the other 13 member agencies, assigned their Western Area Power Administration (WAPA) power contracts to PWRPA. Arvin Edison Water Storage District is a 20.3141% and 20.2722% voting share in PWRPA as of December 31, 2016 and 2015, respectively. The District's membership share in PWRPA as of February 28, 2017 and February 29, 2016 is $3,234,490 and $3,394,218, respectively.

The WAPA contracts assigned to PWRPA are for base resource power from the Central Valley Project. The Contract for power is for January 1, 2005 through December 31, 2024. PWRPA also contracted with the power providers for day-ahead and block power purchases.

Condensed audited financial information as of and for the years ended December 31, 2016 and 2015 for PWRPA is as follows:

	2016	***2015***
Total assets	$ 21,346,182	$ 24,233,001
Total liabilities	9,160,398	10,462,461
Net position	$ 12,185,784	$ 13,770,540
Total revenues	$ 39,609,311	$ 50,748,467
Total expenses	41,194,067	52,781,940
Change in net position	$ (1,584,756)	$ (2,033,473)

Note 6. Public Purpose Program Fund

The Public Purpose Program Fund ("P3") establishes that each participant in PWRPA shall contribute an amount equal to 2.85% times the amount invoiced for energy delivered, based upon the current pro-forma rates in effect for the period. The Public Utilities Code requires that PWRPA collect these fees which may be used to fund investments in certain designated projects including energy efficiency, energy conservation, and renewable energy, by the designated participant. Any PWRPA participant may propose a P3 project and request disbursement from that participant's designated P3 funds. Every conforming P3 project, as determined and approved by PWRPA's Board, receives funding from that requesting participant's available designated P3 funds. At February 28, 2017 and February 29, 2016, the District's balance in the Public Purpose Program Fund was $65,059 and $54,821, respectively.

Note 7. USBR Water Rights and Prepaid Friant Surcharge

On January 20, 2001, the District and United States Department of the Interior Bureau of Reclamation (USBR) executed a 25 year long-term renewal water service contract effective March 1, 2001. Under this contract (sometimes referred to as a 9(e) contract), the District paid a capital obligation to the USBR included in the contract rates for the allocated acre-feet of project water, or Class 1 and Class 2 water, delivered to the District. As described at Note 16, after 18 years of litigation, the District and others entered into a Settlement Agreement with various environmental interests, which was subject to a Congressional authorization, and as part of the Act of Congress authorizing implementation of the Settlement Agreement, the District was provided an option to convert its existing water service contract to a permanent Repayment Contract (sometimes referred to as a 9(d) contract), provided that it accelerate payment of certain capital obligations. Effective November 1, 2010, the District entered into such a contract with the USBR, and thereafter under terms of the Repayment Contract, the District paid its capital obligation of $19,792,064 in full through financing. Under the terms of the Repayment Contract, the District was granted permanent right to a stated quantity of Project water, relieved its landowners of the acreage limitation, reporting and full cost pricing provisions of Reclamation Law, and relieved the District of tiered pricing provisions, among other things. Under the terms of the new Repayment Contract, water will be diverted through the same USBR facilities and distributed through the same District facilities as water made available under the previous 25 year water service contract.

As a result of executing the conversion provision of the Repayment Contract discussed above, the District acquired water rights and obtained a reduction in the Friant surcharge based on future water deliveries. These two components are accounted for as follows:

- Consistent with the authorization legislation, included in the Repayment Contract, the District was granted a reduction in the Friant surcharge paid per acre-foot of water delivered to the District via the Friant-Kern Canal, whereby the Friant surcharge will be reduced from $7 per acre-foot to $4 per acre-foot of water delivered beginning in the year 2020 through 2039. As calculated by the USBR, the total credit for the Friant surcharge reduction is $4,658,100 based on a forecasted annual delivery of 77,635 acre-feet (for that purpose only) of water from 2020-2039. At February 28, 2011, the District has recognized this benefit as a prepaid asset and will amortize it based on water deliveries received beginning in the 2020 water year. Also, as a result of the Repayment Contract, in 2020 the District will recognize a one-time credit of $662,481 that has been recorded at year ended February 28, 2011 by the District as a note receivable from the USBR. The balance at February 28, 2017 and February 29, 2016 was $662,481.

- The remaining balance of $14,471,483 was recognized by the District as water rights, an intangible capital asset as defined by GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District's 9(d) Repayment Contract with the USBR, does not place an expiration date on the District's rights to receive water from the Project, so long as the District is not in material breach of the Contract, therefore these water rights are considered to have an indefinite useful life. The water rights will not be amortized by the District and will be evaluated for any changes in circumstances that limit the life of the rights and any impairment annually. The District performed the impairment test as of February 28, 2017 and February 29, 2016, in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets*, and determined that the USBR water rights were not impaired and, accordingly, no impairment charge has been recognized.

Note 8. Water Inventory

The estimated ground water storage and banked water of the District at February 28, 2017 and February 29, 2016 consisted of the following:

	February 28, 2017		*February 29, 2016*	
	Acre-feet	*Value*	*Acre-feet*	*Value*
Water in storage:				
District water in storage	110,339	$ 831,572	111,738	$ 1,153,563
Banked water:				
Rosedale-Rio Bravo Water Storage District *	62,806	$ 3,838,867	67,142	$ 4,265,664
Metropolitan Water Storage District**	12,238	367,997	-	-
	75,044	$ 4,206,864	67,142	$ 4,265,664
Total water inventory	185,383	$ 5,038,436	178,880	$ 5,419,227

*During the years ended February 28, 2010, the District revised its previous water banking agreement with Rosedale-Rio Bravo Water Storage District (RRBWSD). Under the terms of the revised agreement, the water delivered by the District to RRBWSD since 1995, under various programs, were consolidated with both Districts sharing the water banking costs.

**As of year ended February 28, 2017 and February 29, 2016, under the existing agreement with Metropolitan Water District (Note 12), the District created a Water Quality Sub-Account whereby water would be transferred between the two districts and returned within the same year based on convenience and source. During the years ended February 28, 2017 and February 29, 2016, the District delivered 29,999 acre-feet and -0- acre-feet, respectively, to MWD. During the years ended February 28, 2017 and February 29, 2016 the District received 17,761 acre-feet and -0- acre-feet, respectively, from MWD that was previously delivered in the same year.

Note 9. Long-Term Debt

Long-term debt at February 28, 2017 and February 29, 2016 consisted of the following:

	Current Maturities	*2017*	*2016*
Note payable, Bank of America, N.A., 3.89%, secured by the water storage and distribution system, $716,325 payable semi-annually including interest, due November 1, 2030	$ 843,524	$ 15,353,495	$ 16,165,139
Note payable, State of California, 2.4%, unsecured, $158,769 payable semi-annually including interest, due April 1, 2021	287,041	1,347,281	1,627,501
Note payable, Bank of America, N.A., 3.65%, secured by the water storage and distribution system and net revenues, $361,116 payable semi-annually including interest, due November 1, 2025	526,310	5,498,092	6,005,706
Note payable, Bank of America, N.A., 3.08%, secured by various hydrological pumps, $267,248 payable semi-annually, including interest, due November 1, 2027	384,821	4,955,066	5,328,302
	$ 2,041,696	27,153,934	29,126,648
Less current maturities		2,041,696	1,972,714
		$ 25,112,238	$ 27,153,934

The following is a summary of the long-term debt transactions for the years ended February 28, 2017 and February 29, 2016:

	Payable 2/29/2016	***Debt Issued (Retired)***	***Payable 2/28/2017***
State of California	$ 1,627,501	$ (280,220)	$ 1,347,281
Bank of America, N.A.	6,005,706	(507,614)	5,498,092
Bank of America, N.A.	16,165,139	(811,644)	15,353,495
Bank of America, N.A.	5,328,302	(373,236)	4,955,066
	$ 29,126,648	$ (1,972,714)	$ 27,153,934

	Payable 2/28/2015	***Debt Issued (Retired)***	***Payable 2/29/2016***
State of California	$ 1,901,147	$ (273,646)	$ 1,627,501
Bank of America, N.A.	6,495,286	(489,580)	6,005,706
Bank of America, N.A.	16,946,108	(780,969)	16,165,139
Bank of America, N.A.	5,690,303	(362,001)	5,328,302
	$ 31,032,844	$ (1,906,196)	$ 29,126,648

The annual requirements to amortize all debt outstanding as of February 28, 2017 are as follows:

Years ending February 28,	***Principal***	***Interest***	***Total***
2018	$ 2,041,696	$ 965,318	$ 3,007,014
2019	2,113,065	893,950	3,007,015
2020	2,187,010	820,005	3,007,015
2021	2,263,588	743,427	3,007,015
2022	2,184,120	664,077	2,848,197
2023-2027	10,582,171	2,142,490	12,724,661
2028-2031	5,782,284	482,812	6,265,096
	$ 27,153,934	$ 6,712,079	$ 33,866,013

Note 10. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are quoted market prices for similar assets or liabilities, quoted market prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities; Level 3 inputs are significant unobservable inputs for assets or liabilities. The District's recurring fair value measurements as of February 28, 2017 and February 29, 2016 are as follows:

		February 29, 2017		
		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Investments:				
U.S. Treasury notes	$ 35,304	$ 35,304	$ -	$ -
Deferred Compensation:				
Mutual funds	$ 1,457,840	$ 1,457,840	$ -	$ -

		February 28, 2016		
		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Investments:				
U.S. Treasury notes	$ 46,310	$ 46,310	$ -	$ -
Deferred Compensation:				
Mutual funds	$ 1,240,195	$ 1,240,195	$ -	$ -

Note 11. Contingencies

Self insurance:

The District is a member of the Association of California Water Agencies, Joint Powers Insurance Authority (JPIA). JPIA is a group of California water districts who have pooled funds to provide self-insurance coverage as follows:

	Limits Per Occurrence	
Type of Coverage	*JPIA Self Insurance*	*Excess Insurance*
General liability, automobile liability, public officials liability	$ 5,000,000	$ 171,000,000
Property insurance	$ 100,000	$ 150,000,000
Fidelity Insurance	$ 100,000	$ -

The District has no retention (deductible) per occurrence for auto and general liability, $10,000 per occurrence for buildings, personal property, and fixed equipment. $5,000 per occurrence for mobile equipment, $2,500 per occurrence on licensed vehicles and $1,000 per occurrence on fidelity claims. Claims over the retention levels are insured by the group to the self-insurance limits (see above) and by policies purchased by JPIA from Allied World Assurance Co., Market-Evanston/Great American Insurance Co., Great American Insurance Co. of New York, Endurance/Great American of NY/Great American E&S, and General Security Indemnity Co. of Arizona.

JPIA bills each district a deposit premium at the beginning of each policy year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are charged against the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the districts are billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the districts.

Water supply conditions:

The 2017/2018 United States Bureau of Reclamation February 28, 2017 Initial Friant Division Declaration is 100% Class 1 and Class 2 supplies of up to Contract maximums as long as there is a need to evacuate water from Millerton Lake (uncontrolled season). This initial declaration gives the District 40,000 acre-feet of Class 1 water and up to 351,000 acre feet of Class 2. With this initial declaration and other water supplies available this year due to the extremely large snow pack the District anticipates it will be able to make full deliveries for the entire 2017/2018 water year to all Long Term and Temporary lands under contract and recharge an estimated 150,000 acre-feet in the District's spreading facilities.

Note 12. Water Banking Project

Arvin-Edison Water Storage District/Metropolitan Water District of Southern California Water Management Program:

On December 19, 1997 the District entered into an agreement with Metropolitan Water Storage District of Southern California (MWD) calling for the District to store MWD water on a long-term basis and return it to them when requested. Under the terms of the agreement, the District will be required to bank and return between 250,000 and 350,000 acre-feet of MWD water over the next 25 years. The regulation and return of this water to MWD required the District to construct approximately 500 acres of additional spreading ponds, 15 wells, and the intertie pipeline connecting the Arvin-Edison Basin and the California Aqueduct.

On January 13, 1999, MWD advanced the District $12 million to be utilized in the construction of the bi-directional intertie pipeline. These funds are to be repaid to MWD through water banking and return fees over the next 25 years. For the first 277,778 acre-feet of water delivered to the District, MWD will be charged a regulation fee of $90 per acre-foot minus $35 per acre-foot in credit of Metropolitan's advanced payment. For all water returned to MWD the District will charge a regulation fee of $40 per acre-foot minus $9.11 per acre-foot in credit of Metropolitan's advance payment. The advance was paid in full as of April 2010. For all water delivered to the District beyond 277,778 acre-feet, MWD will pay a regulation fee of $70 per acre-foot of delivered water; and MWD will pay a regulation return fee of $30 per acre-foot for water returned to MWD. These fees will be adjusted at the beginning of each calendar year. The District will be paid a per acre-foot fee for water banked as well as a fee for operations, maintenance and replacement. The MWD agreement was amended and restated as of October 9, 2007. As a result of the amendment, for the years 2007 through 2030, MWD will make an annual initial payment toward regulation fees of $1,000,000, with applicable credits as defined in agreement.

During the years ended February 28, 2017 and February 29, 2017, the District returned -0- and 43,428 acre-feet to MWD, which left 108,125 acre-feet banked at the District as of February 28, 2017 and February 29, 2017, respectively. Net water regulation fees and operations, power costs, maintenance and replacement fees from MWD for the years ended February 28, 2017 and 2016 were $-0- and $2,497,726, respectively.

At February 28, 2017 and February 29, 2016, MWD owed the District $-0- and $957,793, respectively, for water banking fees. At February 28, 2017 and February 29, 2016, the District owed MWD $3,000,000, to be paid back under the terms of the water management program.

Note 13. Prior Year Income (Expense)

Prior year income (expense) for the years ended February 28, 2017 and February 29, 2016 consisted of the following:

		2017		***2016***
General administrative and project service charges	$	370,619	$	(82,760)
USBR contract water costs		250,000		(216,820)
KWCA - CVC expenses		161,563		76,738
Friant Water Authority refund		170,154		130,273
Bureau of Reclamation - prior year water costs		(43,953)		-
Other		(608,122)		336,819
	$	300,261	$	244,250

Note 14. Related Party Transactions

During the years ended February 28, 2017 and February 29, 2016, the District incurred power costs paid to PWRPA, a related party, of $8,731,425 and $10,377,883, respectively. The District provided accounting services to PWRPA and received $60,596 and $62,790 for the years ended February 28, 2017 and February 29, 2016, respectively.

Note 15. Board Designated Reserves

The Reserve Funds are presented as internally designated Unrestricted Net Position of the District to be used for their respective purposes.

Reserve Funds Internally Designated for the Noted Purposes:		
Contingency Reserve Fund	$	3,000,000
Water Rate Stabilization Fund		7,035,807
		10,035,807
Undesignated		13,930,636
	$	23,966,443

Contingency Reserve Fund:
The District adopted Resolution 92-23 in October 1992 to establish reserve funds known as the Contingency Reserve Fund.

The Contingency Reserve Fund was established for the purpose of complying with Article XIII B, Section 5 of the California Constitution. The fund can maintain a maximum amount of $3,000,000, which can only be expended to meet extraordinary and unanticipated financial obligations.

Water Rate Stabilization Fund:
The Water Rate Stabilization Fund was established to safeguard the District water users from adverse financial impact caused by unpredictable water supplies and unfavorable effects of Federal and State legislation.

Note 16. Litigation

Natural Resources Defense Council, et al. v. Patterson, et al. (CIV-88-1658-LKK-EM)

This action was initiated in 1988 to challenge the renewal of Friant water service contracts by the Bureau of Reclamation ("Bureau"). The plaintiffs asserted that the Bureau has violated California Fish and Game Code Section 5937 because the Bureau has failed to release adequate water from the Friant Dam for fish below the dam. On August 27, 2004, the court ruled in favor of the plaintiff that the Bureau has violated California Fish and Game Code Section 5937, however, no remedy of the current situation has been determined. The remedy phase trial of alleged violations of Fish and Game Code Section 5937 was scheduled to commence on February 14, 2006. To avoid the uncertainties of further litigation, on September 13, 2006 the District and the other Friant Division contractors and the United States entered into a Settlement Agreement with the Plaintiffs. The principle components of the Settlement include:

- Restoration flows beginning 2014 which studies show will on average reduce District supplies up to about 10,500 acre feet annually;
- Flows cannot be changed until 2026, after which the Court could change flows following a reference to the State Board. In wet years, water can be purchased at lesser cost ($10/acre foot) to extent water is lost to restoration flows;
- Funding is to be from redirecting exiting fees paid by Friant Division districts and other Federal and State sources, thereby capping Friant Division financial obligations to current charges;
- Federal authorization legislation is required to implement settlement. The implementation legislation was enacted on March 30, 2009. The authorization legislation provides for conversion of the District's contract to a repayment contract and additional measures for the water management goal beyond that provided in the settlement. Implementation legislation was enacted on March 30, 2009. Implementation of the settlement and implementing legislation is proceeding.

City of Fresno, et. al. v. United States of America, United States Court of Federal Claims, Case No. 16-1276 L ("Federal Claims")

On October 5, 2016 the District and sixteen other water agencies and the City of Fresno entitled to receive water from the San Joaquin River from the United States, Department of the Interior, Bureau of Reclamation from the Friant Division of the Central Valley Project joined together to bring suit against the United States of America seeking a money judgment equal to the fair market value of their water and water rights taken in 2014 along with reasonable attorneys' fees, litigation expenses and interest to the extent provided by law. This Federal Claims action does not involve any claim for monetary relief against the District but rather concerns only the District's effort to recover a monetary award in favor of the District and against the United States for the unconstitutional taking of its water and water rights in 2014. On February 10, 2017 the United States filed a Motion to Dismiss the Complaint. The District's legal counsel, Marzulla Law, LLC, Washington, D.C., filed opposition to the Motion to Dismiss on April 21, 2017 and the United States filed its final reply brief on May 30, 2017.

On April 19, 2017 the San Luis Mendota Water Authority, and others, representing 28 public water agencies filed a Motion to Intervene in the Court of Claims case as defendants. On May 8, 2017 the San Joaquin River Exchange Contractors Water Authority, and others, representing five water agencies likewise filed a Motion to Intervene (collectively "Motions for Intervention").

On June 5, 2017 the Court issued an order staying the litigation in order for the parties to discuss potential resolution of the Motions for Intervention. The parties have engaged in good faith discussions. On September 6, 2017 the stay on briefing on the Motions for Intervention shall be lifted. The District and other Friant Parties will file any response to the motions on October 6, 2017. If necessary, the Court will conduct a telephonic oral argument on the Motions for Intervention. A hearing on the Motion to Dismiss has not been scheduled and will be heard by the Honorable Judge Mary Ellen Coster Williams following resolution of the pending Motions for Intervention.

Supplementary Information

Arvin-Edison Water Storage District

Schedule of Cash, Invested Cash, Investments and Temporarily Restricted Assets February 28, 2017

Cash:		
Bank of America, Arvin, California:		
General checking, noninterest bearing	$	567,862
Payroll checking account, noninterest bearing		49,983
Petty cash checking account		1,500
Cash on hand		600
	$	619,945
Invested Cash:		
Kern County Treasurer's Office, varying money market interest rate, 0.830% at February 28, 2017	$	7,433,406
State of California, Treasurer's Office Local Agency Investment Fund, varying money market average effective yield, 0.093% at February 28, 2017		6,137,134
UBS Financial Services, Inc., money market, 0.1% at February 28, 2017		91,966
UBS Financial Services, Inc., business account, 0.01% average interest rate at February 28, 2017		73,583
	$	13,736,089

Investments:	
UBS Financial Services, Inc., government bond, 5.5% at February 28, 2017	$ 35,303
Temporary Restricted Asset:	
Loan Reserve Fund	
State of California, Treasurer's Office Local Agency Investment Fund, varying money market, average effective yield, 0.093% at February 28, 2017	$ 309,010
Reserve Fund:	
State of California, Treasurer's Office Local Agency Investment Fund, varying money market, average effective yield, 0.093% at February 28, 2017	2,202,093
Deferred Compensation Plan Fund:	
Lincoln National Life Insurance Company	1,457,840
	$ 3,968,943
Total cash, invested cash, investments and temporary restricted assets	$ 18,360,280

Arvin-Edison Water Storage District
Water in Storage
February 28, 2017

A portion of the water imported into the District is percolated into underground storage. This water is then pumped from District wells into the District's water system in periods when sufficient surface water is not available for purchase. The costs associated with water percolated into underground storage is deferred until later years when the water is pumped from the underground storage and delivered to landowners.

The District initiated an "actual cost" method of computing the deferred costs of water added to underground storage during the fiscal year ended June 30, 1967. In that year, the District entered into the Cross Valley Canal exchange program whereby it agreed to exchange a substantial portion of its Central Valley Project water for a supply of Federal Delta water. Since June 30, 1967, the "Source of Supply" costs allocated to water in storage are based on the ratio of gross acre-feet of water stored to the total acre-feet of water received. The last-in, first-out (LIFO) cost flow method is used to determine the cost of water pumped from the underground storage.

The costs deferred for water added to (pumped from or transferred in lieu of pumping) the underground storage for the period June 30, 1967 to February 28, 2017 are as follows:

Year ended February 28:	***Acre-feet Added (Pumped)***	***Cost***
Balance forward from February 29, 1992	445,560	$ 3,679,822
1993	(84,483)	(776,619)
1994	113,806	2,857,566
1995	(62,440)	(1,565,371)
1996	108,131	3,229,716
1997	54,106	1,644,445
1998	59,524	2,091,761
1999	60,445	1,775,917
2000	(20,614)	(605,639)
2001	(27,179)	(798,518)
2002	(94,249)	(3,134,320)
2003	(60,272)	(1,817,105)
2004	(10,440)	(311,828)
2005	(25,444)	(759,975)
2006	101,632	4,822,211
2007	63,844	3,045,957
2008	(109,025)	(5,189,742)
2009	(96,295)	(3,868,508)
2010	16,178	643,882
2011	71,631	4,204,885
2012	25,331	1,380,177
2013	(98,268)	(5,676,723)
2014	(144,894)	(2,401,830)
2015	(95,190)	(716,781)
2016	(79,657)	(599,817)
Balance, February 29, 2016	111,738	1,153,563
Percolation	31,611	-
Current year activity	(33,010)	(321,991)
Balance, February 28, 2017	110,339	$ 831,572

Arvin-Edison Water Storage District

Schedules of Operating Expenses
For the Years Ended February 28, 2017 and February 29, 2016

	2017	2016
Source of supply:		
Salaries and wages	$ 839,583	$ 830,993
Employee benefits	350,192	332,505
Equipment repair and maintenance	172,088	239,064
Facilities maintenance	1,302,774	2,056,744
Purchased water	6,298,574	2,891,902
Utilities	2,391	2,821
Power	2,579,016	7,022,634
	$ 11,544,618	$ 13,376,663
Pumping plant:		
Salaries and wages	$ 357,226	$ 332,765
Employee benefits	151,230	144,959
Operating supplies	8,487	3,804
Equipment repair and maintenance	267,578	178,562
Utilities	5,391	6,085
Power	1,975,443	462,326
	$ 2,765,355	$ 1,128,501
Transmission and distribution:		
Salaries and wages	$ 1,234,116	$ 1,220,778
Employee benefits	512,056	486,658
Equipment repair and maintenance	449,645	426,547
Facilities maintenance	1,132,982	1,128,500
Power	4,219,753	2,942,711
	$ 7,548,552	$ 6,205,194
Customer accounts:		
Salaries and wages	$ 237,727	$ 229,440
Employee benefits	95,716	90,960
Operating supplies	3,762	3,552
	$ 337,205	$ 323,952

	2017	2016
General and administrative:		
Salaries and wages	$ 683,352	$ 670,892
Employee benefits	198,613	168,197
Contributions	2,296	1,511
Supplies	58,806	54,912
Legal and court costs	145,388	144,239
Legal publications	1,273	2,678
Accounting and other consulting	90,423	102,648
Fees, publicity and promotion	30,134	41,105
Membership fees and dues	698,717	350,850
Utilities	34,523	37,948
Insurance, property	154,455	141,332
Insurance, workers comp and other	165,199	181,442
Directors fees	23,486	19,904
Licenses and fees	350,186	332,960
Education	11,037	6,328
Rents and leases	4,415	4,375
Engineering	335,551	544,088
Contract labor	49,744	5,733
	$ 3,037,598	$ 2,811,142
Maintenance of general plant:		
Salaries and wages	$ 198,110	$ 190,817
Employee benefits	80,637	75,873
Operating supplies	235,214	293,165
Equipment, repairs and maintenance	413,606	324,455
Facilities maintenance	136,033	90,540
	$ 1,063,600	$ 974,850
Depreciation	$ 2,475,837	$ 2,169,588
Water purchases	$ 10,534	$ 599,817

Arvin-Edison Water Storage District

Schedules of Revenues and Expenses
For the Years Ended February 28, 2017 and February 29, 2016

	2017	2016
Operating Revenue:		
Water sales - usage revenue	$ 16,598,571	$ 15,556,502
Water management - regulation	-	1,939,887
Water management - OM&R	-	557,839
Temporary water revenue	2,398	-
Miscellaneous revenue	1,452,564	1,803,965
	18,053,533	19,858,193
Operating Expenses:		
Employee costs	4,938,558	4,774,837
Water costs	6,309,108	3,491,719
Power	8,774,212	10,427,671
Repairs and maintenance	4,118,407	4,741,381
Utilities	42,305	46,854
Legal/engineering/accounting	572,635	793,653
Insurance	319,654	322,774
Travel/mileage and directors fees	53,620	61,009
General and administrative	1,178,963	760,221
Depreciation	2,475,837	2,169,588
	28,783,299	27,589,707
Operating loss	(10,729,766)	(7,731,514)
Nonoperating Revenue (Expenses):		
Interest income	113,970	70,951
Gain on sale of assets	91,293	65,924
General administrative and general project service charges	10,680,038	10,229,592
Prior year income (expense)	300,261	244,250
Other income	812,207	1,368,539
Interest expense	(998,782)	(1,066,207)
	10,998,987	10,913,049
Change in net position	$ 269,221	$ 3,181,535