

Arvin-Edison Water Storage District

Financial Statements

February 28, 2021 and February 29, 2020

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.....Jeevan S. Muhar
Deputy General Manager - Assistant Secretary TreasurerDavid A. Nixon

Directors

Brian Kirschenmann Division 1
Jeffrey G. Giumarra Division 2
Derek J. Yurosek Division 3
Dennis B. Johnston Division 4
John C. Moore Division 5
Edwin A. Camp Division 6
Catherine Fanucchi Division 7
Catalino M. Martinez..... Division 8
Vacant Division 9

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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, 2021 and February 29, 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

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, 2021 and February 29, 2020, and the respective changes in financial position and cash flows thereof 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 basic financial statements. 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 on pages 37 through 43 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 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BARBICH HOOPER KING

DILL HOFFMAN

Accountancy Corporation



Bakersfield, California

July 13, 2021

Arvin-Edison Water Storage District

Management's Discussion and Analysis

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, 2021 and February 29, 2020. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The District's total net position decreased \$4,927,000 or 3.7% over the course of the year's operations. The change is mainly due to decreases of approximately \$5,415,000 in water in storage for the District and \$2,231,000 in invested cash and temporarily restricted assets, and offset by an increase of \$2,782,000 in capital assets.
- The District's operating revenue decreased \$2,617,000 or 10.3%, during the fiscal year ended February 28, 2021, primarily due to decreases of approximately \$1,977,000 in water banking revenue, and \$1,200,000 of lower transfer and exchanges water revenue.
- The District's operating expenses increased \$16,006,000 or 66.3% during the fiscal year ended February 28, 2021. The change is mainly due to increases of approximately \$6,841,000 in water costs, \$6,151,000 in power costs, and \$1,240,000 in repair and maintenance costs.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' 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 Statement of Cash Flows. This statement reports 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.

Arvin-Edison Water Storage District

Management's Discussion and Analysis

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.

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, 2021 and February 29, 2020
(000's)

	<u>2021</u>	<u>2020</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current assets	\$ 34,008	\$ 32,083	\$ 1,925	6.0%
Temporarily restricted assets	5,942	8,892	(2,950)	-33.2%
Capital assets, net	106,111	106,253	(142)	-0.1%
Other assets	24,176	29,660	(5,484)	-18.5%
Total assets	<u>170,237</u>	<u>176,888</u>	<u>(6,651)</u>	-3.8%
Current liabilities	9,696	8,471	1,225	14.5%
Other liabilities	2,275	1,995	280	14.0%
Long-term debt	29,064	32,293	(3,229)	-10.0%
Total liabilities	<u>41,035</u>	<u>42,759</u>	<u>(1,724)</u>	-4.0%
Invested in capital assets, net of related debt	75,883	75,820	63	0.1%
Restricted	3,668	6,897	(3,229)	-46.8%
Unrestricted	49,651	51,412	(1,761)	-3.4%
Total net position	<u>\$ 129,202</u>	<u>\$ 134,129</u>	<u>\$ (4,927)</u>	-3.7%

Arvin-Edison Water Storage District

Management's Discussion and Analysis

The District's current assets increased by \$1.9 million, to \$34 million, during the year ended February 28, 2021, primarily due to increase of \$1.2 million in accounts receivable of general administrative and general project service assessments. Other assets decreased by \$5.5 million, to \$24.2 million, mainly due to decrease of \$5.4 million in the water in storage for the District. Current liabilities increased by \$1.2 million, to \$9.7 million, mainly due to increase of \$1.6 million in accounts payable. The District's long-term debt decreased by \$3.2 million to \$29.1 million due to the scheduled payments on long-term debt.

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended February 28, 2021 and February 29, 2020
(000's)

	<u>2021</u>	<u>2020</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 22,825	\$ 25,442	\$ (2,617)	-10.3%
Nonoperating revenues	13,433	13,346	87	0.7%
Total revenues	<u>36,258</u>	<u>38,788</u>	<u>(2,530)</u>	-6.5%
Operating expenses	40,139	24,134	16,005	66.3%
Nonoperating expenses	1,045	897	148	16.5%
Total expenses	<u>41,184</u>	<u>25,031</u>	<u>16,153</u>	64.5%
Change in net position	(4,926)	13,757	(18,683)	-135.8%
Net position, beginning of year	<u>134,128</u>	<u>120,371</u>	<u>13,757</u>	11.4%
Net position, end of year	<u>\$ 129,202</u>	<u>\$ 134,128</u>	<u>\$ (4,926)</u>	-3.7%

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, change in net position is the source of the increase in net position during the fiscal year ended February 28, 2021.

The District's operating revenues decreased \$2.6 million, to \$22.8 million, during the year ended February 28, 2021, primarily due to decreases of \$1.2 million in transfer and exchange water revenue and \$2 million in water banking revenue. The District's operating expenses increased \$16 million, to \$40.1 million, primarily due to increases of \$6.8 million in water costs, \$6.2 million in power costs, and \$1.2 million in repair and maintenance costs.

Arvin-Edison Water Storage District

Management's Discussion and Analysis

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, 2021 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, 2021 cash budget comparison to accrual-basis actual is presented in Table A-3.

Table A-3
Budget vs. Actual Comparison
February 28, 2021
(000's)

	<u><i>Actual</i></u>	<u><i>Budget</i></u>	<u><i>Dollar Variance</i></u>	<u><i>Percentage Variance</i></u>
Operating revenues	\$ 22,825	\$ 25,312	\$ (2,487)	-9.8%
Operating expenses	37,082	29,125	7,957	27.3%
Depreciation	3,057	-	3,057	100.0%
Other income, net	<u>12,388</u>	<u>12,777</u>	<u>(389)</u>	-3.0%
Change in net position	<u>\$ (4,926)</u>	<u>\$ 8,964</u>	<u>\$ (13,890)</u>	-155.0%

Operating revenues for the year ended February 28, 2021 is under budget by \$2.5 million to \$22.8 million, primarily due to decreases in water banking revenue by \$2 million.

Operating expenses for the year ended February 28, 2021 is over budget by \$8 million to \$37.1 million, primarily due to increases in water costs by \$5.1 million, power costs by \$1.6 million, and repair and maintenance costs by \$0.9 million.

Arvin-Edison Water Storage District

Management's Discussion and Analysis

Capital Assets

As of February 28, 2021, the District has invested \$166.8 million in capital assets as shown in Table A-4.

Table A-4
Capital Assets
February 28, 2021 and February 29, 2020
(000's)

	<u>2021</u>	<u>2020</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Organization costs	\$ 375	\$ 375	\$ -	0.0%
Water rights - CVC	134	134	-	0.0%
Water rights - USBR	14,472	14,472	-	0.0%
Land	10,341	10,341	-	0.0%
Source of supply	53,111	49,706	3,405	6.9%
Pumping plant	18,262	18,262	-	0.0%
Transmission and distribution	63,836	63,836	-	0.0%
General plant	4,747	4,567	180	3.9%
Construction in progress	1,524	2,328	(804)	-34.5%
	<u>166,802</u>	<u>164,021</u>	<u>2,781</u>	<u>1.7%</u>
Less: accumulated depreciation	<u>60,691</u>	<u>57,768</u>	<u>2,923</u>	<u>5.1%</u>
Net capital assets	<u>\$ 106,111</u>	<u>\$106,253</u>	<u>\$ (142)</u>	<u>-0.1%</u>

Capital assets increased by \$2.8 million, primarily due to increases of new well construction, groundwater metering, and other projects during the year ended February 28, 2021. Net change in capital assets is \$0.1 million to \$106.1 million after the accumulated depreciation expense.

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. This loan was refinanced during the year ended February 29, 2020 and the loan balance as of February 29, 2020 is \$0-.

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

Arvin-Edison Water Storage District

Management's Discussion and Analysis

refinanced during the year ended February 29, 2020 and the loan balance as of February 29, 2020 is \$-0-.

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 29, 2020 is \$3,342,626. 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. This loan was refinanced during the year ended February 29, 2020 and the loan balance as of February 29, 2020 is \$-0-.

During August 2019, the District refinanced to consolidate the three above-mentioned loans in the amount of \$18,246,529 and additional \$15,000,000 to fund prior and future construction projects. This loan has two separate components: a) principal and interest on the first loan is payable semi-annually at 3.03%, and the loan balance as of February 28, 2021 is \$25,967,433; b) principal and interest on the second loan is payable semi-annually at 3.85%, and the loan balance as of February 28, 2021 is \$2,982,959.

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, 2021 and February 29, 2020*

<i>ASSETS</i>	<u>2021</u>	<u>2020</u>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 1,642,576	\$ 914,766
Invested cash	24,585,988	23,863,053
Accounts receivable, water	1,036,058	1,028,573
Accounts receivable, assessments, less allowance for delinquencies: 2021 - \$922,927; 2020 - \$735,970	4,446,152	3,283,488
Accounts receivable, Power and Water Resources Pooling Authority	277	1,071
Accounts receivable, other	9,075	10,051
Materials and supplies inventory	1,324,589	1,336,494
Prepaid expenses	934,176	1,555,138
Accrued interest receivable	28,938	89,971
	<u>34,007,829</u>	<u>32,082,605</u>
<i>Temporarily Restricted Assets</i>	<u>5,942,097</u>	<u>8,892,073</u>
<i>Capital Assets</i> , at cost	166,802,364	164,020,492
Less accumulated depreciation	60,690,929	57,767,756
	<u>106,111,435</u>	<u>106,252,736</u>
<i>Other Assets</i>		
Long-term investments	15,497	19,843
Investment in Power and Water Resources Pooling Authority	3,160,227	3,218,908
Public Purpose Program Fund	235,352	241,711
Prepaid Friant surcharge	4,658,100	4,658,100
Note receivable, USBR	662,481	662,481
Water inventory	15,443,984	20,859,292
	<u>24,175,641</u>	<u>29,660,335</u>
	<u>\$ 170,237,002</u>	<u>\$ 176,887,749</u>

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	2021	2020
<i>Current Liabilities</i>		
Current maturities of long-term debt	\$ 3,228,570	\$ 3,129,217
Trade accounts payable	5,363,754	3,754,618
Accrued expenses	696,902	729,922
Unearned water revenue	407,170	857,342
	<u>9,696,396</u>	<u>8,471,099</u>
<i>Deferred Compensation Plan Fund</i>	<u>2,274,527</u>	<u>1,995,418</u>
<i>Long-Term Debt</i> , less current maturities	<u>29,064,448</u>	<u>32,293,018</u>
<i>Contingencies</i>		
<i>Net Position</i>		
Net investment in capital assets, net of related debt	75,882,963	75,819,933
Restricted net position	3,667,570	6,896,655
Unrestricted	49,651,098	51,411,626
	<u>129,201,631</u>	<u>134,128,214</u>
	<u>\$ 170,237,002</u>	<u>\$ 176,887,749</u>

Arvin-Edison Water Storage District

*Statements of Revenues, Expenses
and Changes in Net Position
For the Years Ended February 28, 2021 and February 29, 2020*

	<u>2021</u>	<u>2020</u>
<i>Operating Revenues:</i>		
Water sales - irrigation	\$ 22,317,554	\$ 21,757,123
Water banking - regulation	-	1,704,591
Water banking - OM & R	-	272,619
Miscellaneous	507,416	1,707,577
	<u>22,824,970</u>	<u>25,441,910</u>
<i>Operating Expenses:</i>		
Source of supply	21,644,221	7,650,425
Pumping plant	1,338,862	1,766,708
Transmission and distribution	8,874,699	7,902,967
Customer accounts	382,972	370,433
General and administrative	3,498,774	3,630,666
Maintenance of general plant	921,543	902,604
Depreciation	3,056,657	2,339,836
Prior year water and power adjustments	421,169	(430,607)
	<u>40,138,897</u>	<u>24,133,032</u>
Operating income (loss)	<u>(17,313,927)</u>	<u>1,308,878</u>
<i>Nonoperating Revenues (Expenses):</i>		
Interest income	343,075	408,364
Gain on sale of assets	54,695	97,644
General administrative and general project service charges	12,230,756	11,704,199
Prior year income	102,631	309,410
Other income	680,448	826,186
Ground water service program	20,910	217
Interest expense	(1,045,171)	(897,250)
	<u>12,387,344</u>	<u>12,448,770</u>
Change in net position	(4,926,583)	13,757,648
<i>Net Position, Beginning of Year</i>	<u>134,128,214</u>	<u>120,370,566</u>
<i>Net Position, End of Year</i>	<u>\$ 129,201,631</u>	<u>\$ 134,128,214</u>

See Notes to Financial Statements.

Arvin-Edison Water Storage District

*Statements of Cash Flows
For the Years Ended February 28, 2021 and February 29, 2020*

	<u>2021</u>	<u>2020</u>
<i>Cash flows from operating activities:</i>		
Receipts from customers	\$ 23,458,540	\$ 26,340,341
Receipts from general administrative and general project service charges	11,068,092	11,344,716
Payments to suppliers for goods and services	(23,908,229)	(23,500,908)
Payments to employees for services	<u>(5,456,735)</u>	<u>(4,956,878)</u>
Net cash provided by operating activities	<u>5,161,668</u>	<u>9,227,271</u>
<i>Cash flows from investing activities:</i>		
Net change in investments	4,346	3,410
Interest income	<u>404,108</u>	<u>396,798</u>
Net cash provided by investing activities	<u>408,454</u>	<u>400,208</u>
<i>Cash flows from capital and related financing activities:</i>		
Purchase of capital assets	(2,915,356)	(4,247,939)
Proceeds from sale of assets	54,695	97,644
Payments on long-term debt	(3,129,217)	(3,077,563)
Proceeds from issuance of long-term debt	-	15,419,247
Cash paid for interest	<u>(1,079,475)</u>	<u>(891,198)</u>
Net cash provided by (used in) capital financing activities	<u>(7,069,353)</u>	<u>7,300,191</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(1,499,231)	16,927,670
<i>Cash and cash equivalents at beginning of year</i>	<u>33,669,892</u>	<u>16,742,222</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 32,170,661</u>	<u>\$ 33,669,892</u>

See Notes to Financial Statements.

	<u>2021</u>	<u>2020</u>
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>		
Operating income (loss)	\$ (17,313,927)	\$ 1,308,878
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</i>		
Depreciation	3,056,657	2,339,836
Investment in Power and Water Resources Pooling Authority	58,681	122,816
General administrative and general project service charges	12,230,756	11,704,199
Other and prior year income	803,989	1,135,813
<i>Changes in operating assets, liabilities and other income:</i>		
Receivables	(1,168,379)	270,399
Inventory	11,905	68,153
Prepaid expenses and other assets	627,321	(987,102)
Water inventory	5,415,308	(7,164,958)
Trade accounts payable and accrued expenses	1,610,420	1,174,540
Unearned water revenue	(450,172)	(951,712)
Deferred compensation plan fund	279,109	206,409
	<u>\$ 5,161,668</u>	<u>\$ 9,227,271</u>
<i>Supplemental disclosures of cash flow information:</i>		
<i>Reconciliation of cash:</i>		
Cash and cash equivalents	\$ 1,642,576	\$ 914,766
Invested cash	24,585,988	23,863,053
Temporarily restricted cash	5,942,097	8,892,073
	<u>\$ 32,170,661</u>	<u>\$ 33,669,892</u>
<i>Noncash operating activities:</i>		
Refinance of long-term debt	<u>\$ -</u>	<u>\$ 16,238,587</u>
Depreciation capitalized to water inventory	<u>\$ -</u>	<u>\$ 393,002</u>

Arvin-Edison Water Storage District

Notes to Financial Statements

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 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 year contract period. 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. See Note 12 for further information about this agreement.

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.

Notes to Financial Statements

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.

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. 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.

Notes to Financial Statements

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.

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, 2021 and February 29, 2020, cash and cash equivalents include cash on hand and amounts deposited with banks, financial institutions, the County of Kern and the State Treasurer's LAIF.

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 statements of net position as of February 28, 2021 and February 29, 2020.

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 (loss) 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.

Notes to Financial Statements

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 the end 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, 2021 and February 29, 2020.

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.

Notes to Financial Statements

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:

	<u>Years</u>
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 in storage includes water percolated into the ground using either the District's property, or the property of landowners within the District's boundaries from the District's imported water supplies, as well as surface water provided to landowners within the District in-lieu of using wells to extract water. Water in storage generally does not include other water activity, including but not limited to, naturally occurring events (rainfall, underground migration, native groundwater, etc.) and return flows from District irrigation deliveries. Water accounting for financial purposes may not be appropriate for or may be different from other groundwater accounting purposes. Water imported into the District is either delivered to landowners/water users or percolated into underground storage for later use. Subject to District policies, when surface supplies are inadequate to meet the needs of District water users in the Surface Water Service Area, stored groundwater is pumped by the District. Costs associated with this stored water, which is imported into the District and directly percolated into underground storage, are deferred until such time the District pumps the groundwater and consequently delivers such water to the water users. Water in underground storage is reflected on the District's statements

Notes to Financial Statements

of net position and is accounted for on the last-in, first-out (LIFO) cost flow method. Water in storage for financial statement purposes is summarized in Note 8.

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, 2021 and February 29, 2020 were \$295,715 and \$299,417, respectively, and is included in accrued expenses on the statements of net position.

Pension:

The District has a defined contribution pension plan covering substantially all employees. During the years ended February 28, 2021 and February 29, 2020, the District contributed 17% or 12% 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, 2021 and February 29, 2020 were \$3,913,073 and \$3,764,428, respectively. Wages for eligible employees were \$3,743,823 and \$3,603,014 for the years ended February 28, 2021 and February 29, 2020, respectively. The District's pension contributions for the years ended February 28, 2021 and February 29, 2020 were \$448,027 and \$446,380, respectively. The District's policy is to fund pension costs in the current year.

Reclassifications:

Certain reclassifications have been made to the 2020 financial statements in order to conform to the 2021 presentation.

Note 2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments as of February 28, 2021 and February 29, 2020, are classified in the accompanying financial statements as follows:

<i>Cash and cash equivalents:</i>	<i>2021</i>	<i>2020</i>
Cash and cash equivalents	\$ 1,642,576	\$ 914,766
Invested cash	24,585,988	23,863,053
Temporarily restricted assets	5,942,097	8,892,073
	<u>32,170,661</u>	<u>33,669,892</u>
<i>Investments:</i>		
Long-term investments	<u>15,497</u>	<u>19,843</u>
	<u>\$ 32,186,158</u>	<u>\$ 33,689,735</u>

Notes to Financial Statements

Cash and investments as of February 28, 2021 and February 29, 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Cash on hand	\$ 600	\$ 600
Deposits with banks	1,641,976	914,166
Deposits with Kern County and LAIF	28,063,770	30,574,421
Investments with financial institutions	205,285	205,130
Fiduciary fund- Deferred Plan (see Note 3)	2,274,527	1,995,418
	<u>\$ 32,186,158</u>	<u>\$ 33,689,735</u>

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
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.

Notes to Financial Statements

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, 2021:

	<u><i>Maturity Date</i></u>	<u><i>Reported Amount</i></u>
GNMA PL Security	June 20, 2037	\$ 15,497
UBS Bank USA Business Account	N/A	\$ 189,788
Kern County Treasurer	N/A	\$ 7,139,473
State Investment Pool - LAIF	N/A	\$ 20,924,297

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.

<i>Investment Type</i>	<i>Minimum</i>		
	<i>Legal Requirement</i>	<i>S&P AAA Moody Aaa</i>	<i>Not Rated</i>
GNMA PL	A	\$ 15,497	
UBS Bank USA BA	N/A		\$ 189,788
Kern County Treasurer	N/A		\$ 7,139,473
LAIF	N/A		\$ 20,924,297

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, 2021 and February 29, 2020.

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, 2021 and February 29, 2020 the District had no risk associated with custodial assets.

Notes to Financial Statements

As of February 28, 2021, District investments in the following investment types that were held by a broker-dealer (counterparty) that was used by the District to buy the securities:

<u><i>Investment type</i></u>	<u><i>Reported Amount</i></u>
Mortgage backed securities	\$ 15,497
Money market funds	\$ 189,788

Note 3. Temporarily Restricted Assets

Restricted assets at February 28, 2021 and February 29, 2020 are as follows:

	<u><i>2021</i></u>	<u><i>2020</i></u>
Debt Reserve Fund	1,603,024	1,583,327
Deferred Compensation Plan Fund	2,274,527	1,995,418
Bank of America debt proceeds	2,064,546	4,989,432
	<u>\$ 5,942,097</u>	<u>\$ 8,568,177</u>

Debt 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, 2021 and February 29, 2020, \$1,603,024 and \$1,583,327 had been funded, respectively.

Bank of America debt proceeds:

The provisions of the District's financing agreement with Bank of America, N.A., provided \$10,000,000 of tax-exempt proceeds to the District under the 2019 borrowing agreement. The unspent portion are restricted to be spent on specific capital projects. As of February 28, 2021, the District had spent \$8,435,454 of the original \$10,500,000 in tax exempt borrowing. As of February 29, 2020, the District had spent \$5,510,568 of the original \$10,500,000 in tax exempt borrowing. The remaining balance of \$2,064,546 and \$4,989,432 was considered restricted as of February 28, 2021 and February 29, 2020, 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.

Notes to Financial Statements

The following is a summary of the deferred compensation plan fund transactions for the years ended February 28, 2021 and February 29, 2020:

	<i>Payable</i> <i>2/29/20</i>	<i>Additions</i> <i>(deletions)</i>	<i>Payable</i> <i>2/28/21</i>
Deferred plan	\$ 1,995,418	\$ 279,109	\$ 2,274,527
	<i>Payable</i> <i>2/28/19</i>	<i>Additions</i> <i>(deletions)</i>	<i>Payable</i> <i>2/29/20</i>
Deferred plan	\$ 1,789,009	\$ 206,409	\$ 1,995,418

Note 4. Capital Assets

Capital assets, at cost, consist of the following at February 28, 2021 and February 29, 2020:

	<i>Assets - At Cost</i>				
	<i>Balance</i> <i>2/29/2020</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance</i> <i>2/28/2021</i>
<i>Capital assets,</i>					
<i>not being depreciated:</i>					
Land	\$ 10,341,571	\$ -	\$ -	\$ -	\$ 10,341,571
Water rights-USBR	14,471,483	-	-	-	14,471,483
Construction in-progress	2,328,393	2,641,050	-	(3,445,423)	1,524,020
	27,141,447	2,641,050	-	(3,445,423)	26,337,074
<i>Capital assets,</i>					
<i>being depreciated:</i>					
Organization costs	375,168	-	-	-	375,168
Water rights-CVC capacity	133,794	-	-	-	133,794
Source of supply	49,706,112	-	-	3,405,423	53,111,535
Pumping plant	18,262,139	-	-	-	18,262,139
Transmission and distribution	63,835,510	-	-	-	63,835,510
General plant	4,566,322	274,306	(133,484)	40,000	4,747,144
	136,879,045	274,306	(133,484)	3,445,423	140,465,290
	\$ 164,020,492	\$ 2,915,356	\$ (133,484)	\$ -	\$ 166,802,364

Notes to Financial Statements

Accumulated Depreciation

	<i>Balance</i>				<i>Balance</i>
	<i>2/29/2020</i>	<i>Depreciation</i>	<i>Retirements</i>	<i>Transfers</i>	<i>2/28/2021</i>
Organization costs	\$ 322,366	\$ 14,653	\$ -	\$ -	\$ 337,019
Water rights-CVC capacity	104,364	2,676	-	-	107,040
Source of supply	17,459,847	1,103,039	-	-	18,562,886
Pumping plant	9,546,397	418,752	-	-	9,965,149
Transmission and distribution	26,813,103	1,150,917	-	-	27,964,020
General plant	3,521,679	366,620	(133,484)	-	3,754,815
	<u>\$ 57,767,756</u>	<u>\$ 3,056,657</u>	<u>\$ (133,484)</u>	<u>\$ -</u>	<u>\$ 60,690,929</u>

Assets - At Cost

	<i>Balance</i>				<i>Balance</i>
	<i>2/28/2019</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>2/29/2020</i>
<i>Capital assets,</i>					
<i>not being depreciated:</i>					
Land	\$ 9,219,460	\$ 1,122,111	\$ -	\$ -	\$ 10,341,571
Water rights-USBR	14,471,483	-	-	-	14,471,483
Construction in-progress	4,722,108	2,776,785	-	(5,170,500)	2,328,393
	<u>28,413,051</u>	<u>3,898,896</u>	<u>-</u>	<u>(5,170,500)</u>	<u>27,141,447</u>

Capital assets,
being depreciated:

Organization costs	375,168	-	-	-	375,168
Water rights-CVC capacity	133,794	-	-	-	133,794
Source of supply	48,900,688	-	-	805,424	49,706,112
Pumping plant	18,073,588	-	-	188,551	18,262,139
Transmission and distribution	59,658,985	-	-	4,176,525	63,835,510
General plant	4,480,814	349,043	(263,535)	-	4,566,322
	<u>131,623,037</u>	<u>349,043</u>	<u>(263,535)</u>	<u>5,170,500</u>	<u>136,879,045</u>
	<u>\$ 160,036,088</u>	<u>\$ 4,247,939</u>	<u>\$ (263,535)</u>	<u>\$ -</u>	<u>\$ 164,020,492</u>

Notes to Financial Statements

	<i>Accumulated Depreciation</i>				<i>Balance 2/29/2020</i>
	<i>Balance 2/28/2019</i>	<i>Depreciation</i>	<i>Retirements</i>	<i>Transfers</i>	
Organization costs	\$ 307,713	\$ 14,653	\$ -	\$ -	\$ 322,366
Water rights-CVC capacity	101,688	2,676	-	-	104,364
Source of supply	16,497,170	962,677	-	-	17,459,847
Pumping plant	9,133,930	412,467	-	-	9,546,397
Transmission and distribution	25,826,473	986,630	-	-	26,813,103
General plant	3,431,479	353,735	(263,535)	-	3,521,679
	<u>\$ 55,298,453</u>	<u>\$ 2,732,838</u>	<u>\$ (263,535)</u>	<u>\$ -</u>	<u>\$ 57,767,756</u>

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 14 member agencies, assigned their Western Area Power Administration (WAPA) power contracts to PWRPA. The District has a 19.1441% and 19.4375% voting share in PWRPA as of December 31, 2020 and 2019, respectively. The District's investment in PWRPA as of February 28, 2021 and February 29, 2020 is \$3,160,227 and \$3,218,908, 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 contracts with power providers for day-ahead and block power purchases.

Condensed audited financial information as of and for the years ended December 31, 2021 and 2020 for PWRPA is as follows:

	<i>2021</i>	<i>2020</i>
Total assets	\$ 23,729,344	\$ 21,352,104
Total liabilities	10,507,476	7,665,234
Net position	<u>\$ 13,221,868</u>	<u>\$ 13,686,870</u>
Total revenues	\$ 42,022,448	\$ 30,337,144
Total expenses	42,487,450	28,923,231
Change in net position	<u>\$ (465,002)</u>	<u>\$ 1,413,913</u>

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

Notes to Financial Statements

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, 2021 and February 29, 2020 the District's balance in the Public Purpose Program Fund was \$235,352 and \$241,711, 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 17, 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 cost of water was reduced by \$3 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 recognized this benefit as a prepaid asset and began amortizing it based on water deliveries received beginning in the 2020 water year. Also, as a result of the Repayment Contract, in 2021 the District will recognize a one-time credit of \$662,481 that has been recorded during the year ended February 28, 2011 by the District as a note receivable from the USBR. The balance at February 28, 2021 and February 28, 2020 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

Notes to Financial Statements

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, 2021 and February 29, 2020 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, 2021 and February 29, 2020 consisted of the following:

	<u>February 28, 2021</u>		<u>February 29, 2020</u>	
	<u>Acre-feet</u>	<u>Value</u>	<u>Acre-feet</u>	<u>Value</u>
Water in storage:				
District water in storage	254,756	\$10,123,070	316,412	\$14,297,486
Temporary water	-	-	15,927	586,624
In-lieu water	-	-	1,129	41,669
Landowner recharge	4,435	612,517	4,435	612,517
	<u>259,191</u>	<u>\$10,735,587</u>	<u>337,903</u>	<u>\$15,538,296</u>
Banked water:				
Rosedale-Rio Bravo Water Storage District *	64,462	\$ 4,323,856	74,462	\$ 4,936,455
Metropolitan Water District**	-	-	-	-
Westside Mutual Water	5,229	384,541	5,229	384,541
	<u>69,691</u>	<u>\$ 4,708,397</u>	<u>79,691</u>	<u>\$ 5,320,996</u>
Total water inventory	<u><u>328,882</u></u>	<u><u>\$ 15,443,984</u></u>	<u><u>417,594</u></u>	<u><u>\$ 20,859,292</u></u>

*During the year 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, 2021 and February 29, 2020, 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, 2021 and February 29, 2020, the District delivered -0- acre-feet to MWD. The District received -0- acre-feet, respectively, from MWD.

For further explanation, see Note 1, Water in Storage, page 18, and supplemental District Water in Storage schedule, pages 38 and 39.

Notes to Financial Statements

Note 9. Long-Term Debt

Long-term debt at February 28, 2021 and February 29, 2020 consisted of the following:

	<i>Current Maturities</i>	<i>2021</i>	<i>2020</i>
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	\$ 434,866	\$ 3,342,626	\$ 3,764,401
Note payable, Bank of America, N.A., 3.03%, secured by the water storage and distribution system, \$1,561,404 payable semi-annually including interest, due May 1, 2034	2,352,957	25,967,433	28,250,619
Note payable, Bank of America, N.A., 3.85%, secured by the water storage and distribution system, \$275,694 payable semi-annually including interest, due May 1, 2034	440,747	2,982,959	3,407,215
	\$ 3,228,570	32,293,018	35,422,235
Less current maturities		3,228,570	3,129,217
		\$ 29,064,448	\$ 32,293,018

Notes to Financial Statements

The following is a summary of the long-term debt transactions for the years ended February 28, 2021 and February 29, 2020:

	Payable 2/29/2020	Debt Issued (Retired)	Payable 2/28/2021
Bank of America, N.A.	\$ 3,764,401	\$ (421,775)	\$ 3,342,626
Bank of America, N.A.	28,250,619	(2,283,186)	25,967,433
Bank of America, N.A.	3,407,215	(424,256)	2,982,959
	<u>\$ 35,422,235</u>	<u>\$ (3,129,217)</u>	<u>\$ 32,293,018</u>

	Payable 2/28/2019	Debt Issued (Retired)	Payable 2/29/2020
State of California	\$ 847,668	\$ (847,668)	\$ -
Bank of America, N.A.	4,426,086	(4,426,086)	-
Bank of America, N.A.	13,633,316	(13,633,316)	-
Bank of America, N.A.	4,173,481	(409,080)	3,764,401
Bank of America, N.A.	-	28,250,619	28,250,619
Bank of America, N.A.	-	3,407,215	3,407,215
	<u>\$ 23,080,551</u>	<u>\$ 12,341,684</u>	<u>\$ 35,422,235</u>

The annual requirements to amortize all debt outstanding as of February 28, 2021 are as follows:

Years ending February 28,	Principal	Interest	Total
2022	\$ 3,228,570	\$ 980,123	\$ 4,208,693
2023	3,035,031	880,413	3,915,444
2024	3,129,336	786,107	3,915,443
2025	3,226,582	688,862	3,915,444
2026	3,326,863	588,582	3,915,445
2027-2031	12,492,871	1,660,301	14,153,172
2032-2035	3,853,765	251,433	4,105,198
	<u>\$ 32,293,018</u>	<u>\$ 5,835,821</u>	<u>\$ 38,128,839</u>

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, 2021 and February 29, 2020 are as follows:

Notes to Financial Statements

		<i>February 28, 2021</i>		
		<i>Fair Value Measurements Using:</i>		
	<u><i>Fair Value</i></u>	<u><i>Level 1</i></u>	<u><i>Level 2</i></u>	<u><i>Level 3</i></u>
<i>Investments:</i>				
Mortgage backed securities	\$ 15,497	\$ 15,497	\$ -	\$ -
<i>Deferred Compensation:</i>				
Mutual funds	\$ 2,274,527	\$ 2,274,527	\$ -	\$ -
		<i>February 29, 2020</i>		
		<i>Fair Value Measurements Using:</i>		
	<u><i>Fair Value</i></u>	<u><i>Level 1</i></u>	<u><i>Level 2</i></u>	<u><i>Level 3</i></u>
<i>Investments:</i>				
Mortgage backed securities	\$ 19,843	\$ 19,843	\$ -	\$ -
<i>Deferred Compensation:</i>				
Mutual funds	\$ 1,995,418	\$ 1,995,418	\$ -	\$ -

Note 11. Water Supply Conditions

The 2021 United States Bureau of Reclamation declaration with respect to 2021 water deliveries, as of June 24, 2021, for the Friant Division, indicates water contractors will receive 20% of their Class 1 and 0% Class 2 water entitlement. This declaration provides the District 8,000 acre-feet of Class 1 water and 0 acre-feet of Class 2 for the 2021 water year. With this declaration, the District, along with other allocations, transfers/exchange water supplies available and with the ability to extract from water inventory, will be pro-rating water deliveries for the period May through September of the 2021 water year to all Long-Term Water Service Contract lands.

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 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 25 year contract period. 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 were 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

Notes to Financial Statements

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, 2021 and February 29, 2020, the District returned -0- acre-feet and 10,975 acre-feet, respectively, to MWD, and banked -0- acre-feet, leaving MWD with 142,257 acre-feet banked at the District as of February 28, 2021 and February 29, 2020. Net water regulation fees and operations, power costs, maintenance and replacement fees from MWD for the years ended February 28, 2021 and February 29, 2020 were \$-0- and \$2,121,668, respectively.

At February 28, 2021 and February 29, 2020, MWD owed the District \$-0- for water banking fees. At February 28, 2021 and February 29, 2020, the District owed MWD \$-0- to be paid back under the terms of the water management program.

Note 13. Related Party Transactions

During the years ended February 28, 2021 and February 29, 2020, the District incurred power costs paid to PWRPA, a related party, of \$11,579,743 and \$8,508,366, respectively. The District provided accounting services to PWRPA and received \$83,635 and \$85,737 in income for the years ended February 28, 2021 and February 29, 2020, respectively.

Note 14. Prior Year Water and Power Adjustments

Prior year water and power adjustments for the years ended February 28, 2021 and February 29, 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
PWRPA prior year power reconciliation	\$ (365,813)	\$ (516,114)
Tri-Valley Water District	-	20,855
Kern County Water Agency	308,345	77,257
MWD prior year adjustments	246,852	-
Friant Water Authority adjustments	(257,742)	-
Water purchase/exchange adjustments	543,973	
Other adjustments	(54,446)	(12,605)
	<u>\$ 421,169</u>	<u>\$ (430,607)</u>

Notes to Financial Statements

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	17,159,212
	<hr/>
	20,159,212
Undesignated	29,491,886
Unrestricted Net Position	<hr/> \$ 49,651,098 <hr/>

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. 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. The JPIA bills the 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 District is billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the District. During the current year, there were no significant reductions in coverage.

Note 17. 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,

Notes to Financial Statements

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. The hearing on the Motion to Dismiss was held by the Honorable Judge Mary Ellen Coster Williams and the Motion was denied in part and continued with regard to issues relating to Plaintiffs standing.

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

Notes to Financial Statements

discussions. On September 6, 2017 the stay on briefing on the Motions for Intervention was lifted and the District and other Friant Parties filed their response on October 6, 2017.

On November 13, 2017 the Court deferred ruling on the pending motions to intervene until after resolution of Defendant's motion to dismiss. On December 11, 2017 the Court ruled on Defendants Motion to Dismiss ordering that the 12(b)(6) dismissal was denied and deferring ruling on 12(b)(1) motion. Further, the Court ordered the parties to submit a proposed joint schedule for further proceedings by January 12, 2018.

On January 26, 2018 Plaintiffs filed an unopposed motion to amend their complaint to more fully address Defendant's standing argument and Plaintiffs then currently filed an Amended Complaint For Taking of Water Rights Without Just Compensation. The United States filed its Answer to Plaintiffs Amended Complaint on February 26, 2018. On March 26, 2018 the Court denied requests for a ruling on the motions to intervene and deferred any ruling pending resolution of the remaining threshold issue raised by the United States' Motion to Dismiss. The Court has authorized and the Plaintiffs have commenced extensive written discovery against the United States in the case.

On May 31, 2018 on hearing on the Joint Preliminary Status Conference Report filed by the parties the Court issued an Order requesting Plaintiffs to show cause by legal briefing with regard to two questions concerning Plaintiffs Complaint. The Court ordered briefing and hearing for October 10, 2018 later continued to November 6, 2018. During the November 2018 hearing the Court indicated that Plaintiffs case should be "teed up as a takings case and a contract case".

On December 21, 2018 the Court granted Plaintiffs unopposed motion for leave to file a Second Amended Complaint to add a breach of contract claim in addition to the existing takings claim and thereafter issued an order for filing responsive pleadings and further proceedings. Due to extended shut-downs of the Federal Government and other grounds for delay the Defendant and Defendant-Intervenor's response to the Second Amended Complaint or filing of dispositive motions was continued to May 15, 2019. The United States and other Defendants each filed Motions to Dismiss the Second Amended Complaint on May 15, 2019. Pending further proceedings on the Second Amended Complaint the Court has suspended all discovery.

Oral argument was initially scheduled for November 18, 2019 and then to January 9, 2020. On January 9, 2020 Judge Coster Williams recused herself from the case and was reassigned to Judge Kaplan on January 22, 2020 who rescheduled the hearing for March 5, 2020.

On March 25, Judge Kaplan ruled that the motions to dismiss were granted and denied in part. Specifically, the Court held that Defendant's motions to dismiss the contract claims is denied holding that the "City and District Plaintiffs have adequately pleaded a breach of contract . . ." (Op. at 4) However, the Court dismissed the individual Plaintiffs' contract claims (Op. at 13.) Judge Kaplan granted the Defendant's motions to dismiss concluding that "Plaintiffs have failed, to establish standing to pursue takings claims on Reclamation's actions." (Op. 19.)

The United States, and all other defendants filed answers to the Second Amended Complaint on May 29 or soon thereafter. All answers deny most all allegations of the Complaint and also allege various standard affirmative defenses to the complaint for breach of contract.

On May 11, 2021, the Court adopted an updated Status Conference order amending the discovery schedule as follows: January 19, 2020 (Fact discovery shall be completed); May 14, 2021 (Expert

Notes to Financial Statements

disclosures shall be exchanged.); June 14, 2021 (Expert rebuttal disclosures shall be exchanged); July 14, 2021 (All discovery shall close); and July 28, 2021 (The parties shall file a joint post-discovery status report.) Discovery has been initiated and completed (including expert designations and reports) by the Parties in accordance with the Court's prior Status Conference orders. It is anticipated that the Parties will be filing motions for partial and/or complete summary judgment in advance of trial. No trial date has been scheduled.

California Natural Resources Agency, et al. v. Wilbur Ross, Case No. 1:30-cv-00426-DAD-SKO ("Biological Opinion Case #1)

On April 27, 2020 Arvin-Edison Water Storage District was permitted to intervene as a Defendant in the above-referenced litigation provided it makes good faith effort to avoid duplication of arguments raised by the Federal Defendants. The District intervened in order to protect their unique interests in the coordinated operation of the Friant Division of the Central Valley Project and the State Water Project and the 2019 biological opinions and record of decision developed, approved and adopted by the United States Department of Interior, Bureau of Reclamation ("Bureau") to provide for a coordinated operations plan in compliance with applicable Federal and State laws and regulations including biological opinions authorized under the Federal Endangered Species Act (ESA) and the National Environmental Policy Act (NEPA). The State of California's complaint seeks to invalidate the Federal Defendants actions which threaten operational flexibility and reliability of water in the Friant Division of the CVP which is necessary to the District's ongoing water storage project.

Motions to dismiss the Plaintiff's State California Endangered Species Act claim have been fully briefed and submitted to the Court for decision. In response to the change in the Federal administration in January 2021, Judge Drozd issued an order directing that the Parties to advise whether the motion to dismiss be held in abeyance. The Federal Defendants requested that this motion for dismissal be held in abeyance and no party filed any opposition. The Plaintiffs have filed motions to complete and/or supplement the administrative record but those motions have been extended and are not likely to be addressed until the Fall of 2021 and potentially longer. There is no schedule from the Court for merit briefing or final resolution of the matter. No preliminary injunction proceedings are pending.

Rosedale-Rio Bravo Water Storage District, et. al. v. Kern County Water Agency, et.al, Kern County Superior Court, Case No. BCV-21-100418

On March 11, 2021 Arvin-Edison Water Storage District was served with a verified complaint filed in the Kern County Superior Court by Rosedale-Rio Bravo Water Storage District, Cawelo Water District, Pixley Irrigation District and Lower-Tule River Irrigation District (Plaintiffs) against Kern County Water Agency and its Improvement District No. 4, Kern Delta Water District, Rag Gulch Water District, Kern-Tulare Water District, County of Fresno, County of Tulare, Hill-Valley Irrigation District and Tri-Valley Water District as well as Arvin-Edison Water Storage District. The complaint concerns a dispute among the Parties regarding agreements to fund and participate in the construction of various improvements providing for the expansion of the Cross-Valley Canal first constructed in the 1970s and then expanded on or about 2012. Specifically, the complaint seeks the court's determination of the validity and rights, duties, and obligations of the Parties according to an agreement entered on or around 2006 entitled "Contract Among Kern County Water Agency and Various Parties for the Construction of the Expansion of the Cross-Valley Canal" (Operations Agreement), orders for

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specific performance, and injunctive relief relating to certain allocation of capacity and operation costs relating to the Cross-Valley Canal. The complaint does not pray for damages or other monetary relief against the District.

On June 7, 2021, the District filed an answer to the complaint along with various affirmative defenses. On June 26, 2021 Judge Clark ruled on Plaintiffs objection to the answer of the Kern County Water Agency directing amendments in 90 days (October). The Court rescheduled a Case Management Conference to November 16, 2021. No trial or other scheduling order has been issued by the Court.

Supplementary Information

Arvin-Edison Water Storage District

*Schedule of Cash, Invested Cash, Investments
and Temporarily Restricted Assets
February 28, 2021*

Cash:

Valley Republic Bank, Bakersfield, California:

General checking, noninterest bearing	\$ 1,565,476
Payroll checking account, noninterest bearing	75,000
Petty cash checking account	1,500
Cash on hand	600
	<hr/>
	\$ 1,642,576

Invested Cash:

Kern County Treasurer's Office, varying money market interest rate, 1.164% at February 28, 2021	\$ 7,139,473
State of California, Treasurer's Office Local Agency Investment Fund, varying money market accounts average effective yield, 0.407% at February 28, 2021	17,256,727
UBS Financial Services, Inc., business account, 0.01% average interest rate at February 28, 2021	189,788
	<hr/>
	\$ 24,585,988

Investments:

UBS Financial Services, Inc., government bond,
4.69% at February 28, 2021 \$ 15,497

Temporarily Restricted Asset:

Loan Reserve Fund

State of California, Treasurer's Office Local Agency
Investment Fund, varying money market accounts,
average effective yield, 0.407% at February 28, 2021 \$ 2,064,546

Reserve Fund:

State of California, Treasurer's Office Local Agency
Investment Fund, varying money market accounts,
average effective yield, 0.407% at February 28, 2021 1,603,024

Deferred Compensation Plan Fund:

Nationwide Investment Services Corporation 2,200,636

Lincoln National Life Insurance Company 73,891

\$ 5,942,097

Total cash, invested cash, investments
and temporary restricted assets \$ 32,186,158

*Arvin-Edison Water Storage District
District Water in Storage
February 28, 2021*

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, 2021 are as follows:

<i>Year ended February 28/29:</i>	<u><i>Acre-feet Added (Pumped)</i></u>	<u><i>Cost</i></u>
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)
2017	(1,399)	(321,991)
2018	97,763	5,794,613
2019	27,876	2,225,522
2020	80,434	5,445,779
Balance, February 29, 2020	<u>316,412</u>	<u>14,297,486</u>
Percolation	1,148	-
Current year activity	<u>(62,804)</u>	<u>(4,174,416)</u>
Balance, February 28, 2021	<u><u>254,756</u></u>	<u><u>\$ 10,123,070</u></u>

Arvin-Edison Water Storage District

*Schedules of Operating Expenses
For the Years Ended February 28, 2021 and February 29, 2020*

	<u>2021</u>	<u>2020</u>
<i>Source of supply:</i>		
Salaries and wages	\$ 932,031	\$ 566,697
Power	6,305,282	(76,960)
Employee benefits	379,733	368,357
Equipment repair and maintenance	201,205	81,114
Facilities maintenance	604,081	216,604
Purchased water	9,046,934	6,379,999
Water inventory	4,174,416	-
Utilities	539	381
Contract labor	-	114,233
	<u>\$ 21,644,221</u>	<u>\$ 7,650,425</u>
<i>Pumping plant:</i>		
Salaries and wages	\$ 336,927	\$ 380,663
Power	782,667	1,103,599
Employee benefits	135,408	161,092
Operating supplies	1,731	3,441
Equipment repair and maintenance	81,819	117,587
Utilities	310	326
	<u>\$ 1,338,862</u>	<u>\$ 1,766,708</u>
<i>Transmission and distribution:</i>		
Salaries and wages	\$ 1,385,418	\$ 1,293,386
Power	4,504,821	4,414,792
Employee benefits	561,755	535,191
Equipment repair and maintenance	895,426	815,900
Facilities maintenance	1,524,219	840,658
Utilities	3,060	3,040
	<u>\$ 8,874,699</u>	<u>\$ 7,902,967</u>
<i>Customer accounts:</i>		
Salaries and wages	\$ 268,371	\$ 256,786
Employee benefits	106,995	103,994
Operating supplies	7,606	8,154
Contract labor	-	1,499
	<u>\$ 382,972</u>	<u>\$ 370,433</u>

	<u>2021</u>	<u>2020</u>
<i>General and administrative:</i>		
Salaries and wages	\$ 817,225	\$ 800,638
Employee benefits	257,862	229,415
Contributions	5,930	3,320
Supplies	56,796	53,293
Legal and court costs	205,807	319,198
Legal publications	6,863	6,724
Accounting and other consulting	297,948	576,699
Fees, publicity and promotion	15,737	36,658
Membership fees and dues	349,427	451,444
Utilities	74,013	67,219
Insurance, property	180,335	145,464
Insurance, workers comp and other	145,858	189,990
Directors fees	23,467	25,663
Licenses and fees	487,576	448,634
Education	1,850	6,257
Rents and leases	5,072	5,043
Repair and maintenance	13,837	10,377
Engineering	553,171	250,952
Contract labor	-	3,678
	<u>\$ 3,498,774</u>	<u>\$ 3,630,666</u>
<i>Maintenance of general plant:</i>		
Salaries and wages	\$ 217,350	\$ 204,960
Employee benefits	85,746	82,501
Operating supplies	249,701	286,784
Equipment, repairs and maintenance	280,698	246,253
Facilities maintenance	88,048	82,106
	<u>\$ 921,543</u>	<u>\$ 902,604</u>
<i>Depreciation</i>	<u>\$ 3,056,657</u>	<u>\$ 2,339,836</u>
<i>Prior year water and power adjustments</i>	<u>\$ 421,169</u>	<u>\$ (430,607)</u>

Arvin-Edison Water Storage District

Schedules of Revenues and Expenses

For the Years Ended February 28, 2021 and February 29, 2020

	<u>2021</u>	<u>2020</u>
<i>Operating Revenues:</i>		
Water sales - irrigation	\$ 22,316,419	\$ 19,242,269
Water management - regulation	-	1,704,591
Water management - OM&R	-	272,619
Temporary water revenue	1,135	2,514,854
Miscellaneous revenue	507,416	1,707,577
	<u>22,824,970</u>	<u>25,441,910</u>
<i>Operating Expenses:</i>		
Employee costs	5,484,821	5,101,591
Water costs	13,221,350	6,379,999
Power	11,592,770	5,441,431
Repairs and maintenance	3,940,765	2,700,824
Utilities	77,922	70,966
Legal/engineering/accounting	1,063,789	1,153,573
Insurance	326,193	335,454
Travel/mileage and directors fees	39,204	62,321
General and administrative	914,257	977,644
Depreciation	3,056,657	2,339,836
Prior year water and power adjustments	421,169	(430,607)
	<u>40,138,897</u>	<u>24,133,032</u>
Operating income (loss)	<u>(17,313,927)</u>	<u>1,308,878</u>
<i>Nonoperating Revenues (Expenses):</i>		
Interest income	343,075	408,364
Gain on sale of assets	54,695	97,644
General administrative and general project service charges	12,230,756	11,704,199
Prior year income	102,631	309,410
Other income	680,448	826,186
Ground water service program	20,910	217
Interest expense	(1,045,171)	(897,250)
	<u>12,387,344</u>	<u>12,448,770</u>
Change in net position	<u>\$ (4,926,583)</u>	<u>\$ 13,757,648</u>