

***Arvin-Edison Water Storage District***

***Financial Statements***

***February 28, 2018 and 2017***

*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 Treasurer ..... David A. Nixon

*Directors*

Ronald R. Lehr .....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  
Charles Fanucchi .....Division 7  
Catalino M. Martinez .....Division 8  
Kevin E. Pascoe.....Division 9

## *CONTENTS*

	<u><i>Page(s)</i></u>
<i>Independent Auditors' Report</i>	1 - 2
<i>Management's Discussion and Analysis</i>	3 - 8
<i>Financial Statements</i>	
Statements of net position	9 - 10
Statements of revenues, expenses and changes in net position	11
Statements of cash flows	12 - 13
Notes to financial statements	14 - 34
<i>Supplementary Information</i>	
Statements of net position information:	
Schedule of cash, invested cash, investments and temporarily restricted assets	35 - 36
Water in storage	37 - 38
Statements of revenues and expenses information:	
Schedules of operating expenses	39 - 40
Schedules of revenues and expenses	41



BARBICH HOOPER KING  
DILL HOFFMAN  
ACCOUNTANCY CORPORATION

**Independent Auditors' Report**

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

We have audited the accompanying financial statements of Arvin-Edison Water Storage District as of and for the years ended February 28, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arvin-Edison Water Storage District as of February 28, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedule of cash, invested cash, investments and temporarily restricted assets, schedule of water in storage, schedules of operating expenses, and schedules of revenues and expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**BARBICH HOOPER KING**

**DILL HOFFMAN**

**Accountancy Corporation**

*Barbich Hooper King*

Bakersfield, California

July 10, 2018

## ***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, 2018 and February 28, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

#### ***Financial Highlights***

- The District's total net position increased \$17,503,000 or 17.8% over the course of the year's operations. The change is mainly due to increases of approximately \$6,622,000 in water in storage at the District, \$2,024,000 in invested cash, \$1,255,000 in water baking receivable from Metropolitan Water District, and a decrease of approximately \$2,444,000 in Metropolitan's advance payment.
- The District's operating revenue increased \$9,592,000 or 53.1%, during the fiscal year ended February 28, 2018, primarily due to increases in water revenue of approximately \$6,302,000 and water banking revenue of approximately \$4,221,000.
- The District's operating expenses decreased \$7,718,000 or 26.9% during the fiscal year ended February 28, 2018. The change is mainly due to decreases of approximately \$4,274,000 in power costs, \$1,363,000 in repair and maintenance expenses, and \$1,069,000 in prior year water and power adjustments.

#### ***Overview of the Financial Statements***

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

#### ***Required Financial Statements***

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

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

*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.

*Statements of Net Assets*

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

*Table A-1  
Condensed Statements of Net Position  
February 28, 2018 and 2017  
(000's)*

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current assets	\$ 24,585	\$ 19,892	\$ 4,693	23.6%
Temporarily restricted assets	4,208	3,969	239	6.0%
Capital assets	100,887	99,053	1,834	1.9%
Other assets	20,409	13,694	6,715	49.0%
Total assets	<u>150,089</u>	<u>136,608</u>	<u>13,481</u>	9.9%
Current liabilities	8,984	8,661	323	3.7%
Other liabilities	2,226	4,458	(2,232)	-50.1%
Long-term debt	22,999	25,112	(2,113)	-8.4%
Total liabilities	<u>34,209</u>	<u>38,231</u>	<u>(4,022)</u>	-10.5%
Invested in capital assets, net of related debt	75,775	71,900	3,875	5.4%
Restricted	2,537	2,511	26	1.0%
Unrestricted	37,568	23,966	13,602	56.8%
Total net position	<u>\$ 115,880</u>	<u>\$ 98,377</u>	<u>\$ 17,503</u>	17.8%

**Arvin-Edison Water Storage District**

**Management's Discussion and Analysis**

Current assets increased by \$4.7 million, to \$24.6 million, primarily due to increases of \$1.3 million in banked water receivable and \$2 million in invested cash. Capital assets increased by \$1.8 million to \$101 million, primarily due to the new well construction projects, North In-Lieu, North Canal Check Pump Back, Sycamore Check Improvements, and Groundwater Metering. Other assets increased by \$6.7 million, to \$20.4 million, mainly due to increases of \$6.6 million in the water in storage at the District. Other liabilities decreased by \$2.2 million mainly due to repayment to Metropolitan's advance payment. The District's long-term debt decreased by \$2.1 million to \$23 million due to the payments on long-term debt.

**Table A-2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended February 28, 2018 and 2017**  
**(000's)**

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 27,645	\$ 18,053	\$ 9,592	53.1%
Nonoperating revenues	11,773	11,920	(147)	-1.2%
Total revenues	<u>39,418</u>	<u>29,973</u>	<u>9,445</u>	31.5%
Operating expenses	20,987	28,705	(7,718)	-26.9%
Nonoperating expenses	929	999	(70)	-7.0%
Total expenses	<u>21,916</u>	<u>29,704</u>	<u>(7,788)</u>	-26.2%
Change in net position	17,502	269	17,233	6406.3%
Net position, beginning of year	<u>98,378</u>	<u>98,109</u>	<u>269</u>	0.3%
Net position, end of year	<u>\$ 115,880</u>	<u>\$ 98,378</u>	<u>\$ 17,502</u>	17.8%

While the Statements of Net Position shows the change in financial position of net position of the District, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table A-2 above, net income is the source of the decrease in net assets and net position during the fiscal year ended February 28, 2018.

The District's operating revenues increased \$9.6 million, to \$27.6 million, during the year ended February 28, 2018, primarily due to increases of \$6.2 million in water revenue and \$4.2 million in water banking revenue. The District's operating expenses decreased \$7.7 million, to \$21 million, during the year ended February 28, 2018, primarily due to decreases of \$4.3 million in power costs, \$1.4 million in repair and maintenance expenses, and \$1.1 million in prior year water and power adjustments.



*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, 2018 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, 2018 cash budget comparison to accrual-basis actual is presented in Table A-3.

***Table A-3***  
***Budget vs. Actual Comparison***  
***February 28, 2018***  
***(000's)***

	<u><i>Actual</i></u>	<u><i>Budget</i></u>	<u><i>Dollar</i></u> <u><i>Variance</i></u>	<u><i>Percentage</i></u> <u><i>Variance</i></u>
Operating revenues	\$ 27,645	\$ 24,285	\$ 3,360	13.8%
Operating expenses	19,042	28,697	(9,655)	-33.6%
Depreciation	1,945	-	1,945	100.0%
Other income	10,844	13,858	(3,014)	-21.7%
Change in net position	<u>\$ 17,502</u>	<u>\$ 9,446</u>	<u>\$ 8,056</u>	85.3%

Operating revenue for the year ended February 28, 2018 is over budget by \$3.4 million to \$27.6 million, primarily due to an increase in water banking revenue by \$4.2 million.

Operating expense for the year ended February 28, 2018 is under budget by \$9.7 million to \$19 million, primarily due to decreases in power costs by \$5.4 million, water costs by \$1.6 million, and repairs and maintenance expenses by \$1.5 million.

*Arvin-Edison Water Storage District*

*Management's Discussion and Analysis*

*Capital Assets*

As of February 28, 2018, the District had invested \$153.7 million in capital assets as shown in Table A-4.

*Table A-4  
Capital Assets  
February 28, 2018 and 2017  
(000's)*

	<u>2018</u>	<u>2017</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	8,567	8,567	-	0.0%
Source of supply	48,056	46,449	1,607	3.5%
Pumping plant	18,052	18,052	-	0.0%
Transmission and distribution	56,272	56,272	-	0.0%
General plant	4,356	4,314	42	1.0%
Construction in progress	<u>3,437</u>	<u>1,219</u>	<u>2,218</u>	<u>182.0%</u>
	<u>153,721</u>	<u>149,854</u>	<u>3,867</u>	<u>2.6%</u>
Less: accumulated depreciation	<u>52,834</u>	<u>50,800</u>	<u>2,034</u>	<u>4.0%</u>
Net capital assets	<u>\$ 100,887</u>	<u>\$ 99,054</u>	<u>\$ 1,833</u>	<u>1.9%</u>

The \$1.6 million increase is mainly for the new well construction projects and \$2.2 million in North In-Lieu, North Canal Check Pump Back, Sycamore Check Improvements, and Groundwater Metering during the year ended February 28, 2018.

*Debt Service Requirements*

During 2002, the District received a twenty-year Proposition 204 loan in the amount of \$5,000,000. This was used to construct the North Canal spreading works. The loan balance as of February 28, 2018 is \$1,060,239. Principal on the bonds is payable in increasing annual installments. Principal and interest on the bonds is payable semi-annually at 2.4%.

## ***Arvin-Edison Water Storage District***

### ***Management's Discussion and Analysis***

During December 2005, the District received a twenty-year \$10,000,000 loan. The loan was used to repair pumping units at the Forrest Frick Pumping Plant, participate in the expansion of the Cross Valley Canal and expansion of the Sycamore spreading works, expansion of the N1 Balancing Reservoir, North and South canal liner repairs, and modify the wasteway facility. This loan was refinanced during October 2010 in the amount of \$8,630,247. The loan balance as of February 28, 2018 is \$4,971,782. Principal and interest on the loan is payable semi-annually at 3.65%.

During November 2007, the District received a twenty-year \$7,500,000 loan used for the District's share of the Cross Valley Canal Expansion. The remaining loan balance of \$6,100,000 was refinanced during February 2014 at 1.2% lower than the original interest rate of 4.28%. The loan balance as of February 28, 2018 is \$4,570,245. Principal and interest on the loan is payable semi-annually at 3.08%.

During November 2010, the District received a twenty-year \$19,792,064 loan. The loan is to fund a capital obligation to the USBR for the Repayment Contract. The loan balance as of February 28, 2018 is \$14,509,972. Principal and interest on the loan is payable semi-annually at 3.89%.

#### ***Contacting the District's Management***

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

*Arvin-Edison Water Storage District*

*Statements of Net Position  
February 28, 2018 and 2017*

<b>ASSETS</b>	<u>2018</u>	<u>2017</u>
<b><i>Current Assets</i></b>		
Cash and cash equivalents	\$ 700,219	\$ 619,945
Invested cash	15,759,784	13,736,089
Accounts receivable, water banking	1,255,043	-
Accounts receivable, water	930,886	89,695
Accounts receivable, assessments, less allowance for delinquencies: 2018 - \$659,583; 2017 - \$538,913	2,876,835	2,830,437
Accounts receivable, Power and Water Resources Pooling Authority	65,194	130,841
Accounts receivable, other	485,167	20,408
Materials and supplies inventory	1,161,303	1,095,740
Prepaid expenses	1,314,831	1,345,523
Accrued interest receivable	35,636	23,016
	<u>24,584,898</u>	<u>19,891,694</u>
<b><i>Temporarily Restricted Assets</i></b>	<u>4,207,615</u>	<u>3,968,943</u>
<b><i>Capital Assets</i></b> , at cost	153,721,295	149,854,587
Less accumulated depreciation	52,833,769	50,800,154
	<u>100,887,526</u>	<u>99,054,433</u>
<b><i>Other Assets</i></b>		
Long-term investments	26,854	35,303
Investment in Power and Water Resources Pooling Authority	3,341,724	3,234,490
Public Purpose Program Fund	59,623	65,059
Prepaid Friant surcharge	4,658,100	4,658,100
Note receivable, USBR	662,481	662,481
Water inventory	11,660,505	5,038,436
	<u>20,409,287</u>	<u>13,693,869</u>
	<u>\$ 150,089,326</u>	<u>\$ 136,608,939</u>

*See Notes to Financial Statements.*

<b>LIABILITIES AND NET POSITION</b>	<b>2018</b>	<b>2017</b>
<b><i>Current Liabilities</i></b>		
Current maturities of long-term debt	\$ 2,113,065	\$ 2,041,696
Trade accounts payable	5,073,850	4,054,136
Accrued expenses	707,444	708,672
Unearned water revenue	1,089,166	1,856,312
	<u>8,983,525</u>	<u>8,660,816</u>
<b><i>Unearned Water Banking Revenue</i></b>	<u>555,600</u>	<u>3,000,000</u>
<b><i>Deferred Compensation Plan Fund</i></b>	<u>1,670,836</u>	<u>1,457,840</u>
<b><i>Long-Term Debt</i></b> , less current maturities	<u>22,999,173</u>	<u>25,112,238</u>
<b><i>Contingencies</i></b>		
<b><i>Net Position</i></b>		
Net investment in capital assets, net of related debt	75,775,288	71,900,499
Restricted net position	2,536,779	2,511,103
Unrestricted	37,568,125	23,966,443
	<u>115,880,192</u>	<u>98,378,045</u>
	<u>\$ 150,089,326</u>	<u>\$ 136,608,939</u>

**Arvin-Edison Water Storage District**

**Statements of Revenues, Expenses  
and Changes in Net Position  
For the Years Ended February 28, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Water sales - irrigation	\$ 22,787,957	\$ 16,589,061
Water banking - regulation	3,363,181	-
Water banking - OM & R	857,630	-
Miscellaneous	636,722	1,464,471
	<u>27,645,490</u>	<u>18,053,532</u>
<b>Operating Expenses:</b>		
Source of supply	7,021,381	11,547,851
Pumping plant	1,359,718	2,763,933
Transmission and distribution	7,240,938	7,549,973
Customer accounts	370,163	337,205
General and administrative	3,350,656	3,044,899
Maintenance of general plant	846,205	1,063,600
Depreciation	1,945,337	2,475,837
Prior year water and power adjustments	(1,147,820)	(78,677)
	<u>20,986,578</u>	<u>28,704,621</u>
Operating income (loss)	<u>6,658,912</u>	<u>(10,651,089)</u>
<b>Nonoperating Revenue (Expense):</b>		
Interest income	164,006	113,970
Gain on sale of assets	136,993	91,293
General administrative and general project service charges	10,694,961	10,680,038
Prior year income	94,649	221,584
Other income	681,695	812,207
Interest expense	(929,069)	(998,782)
	<u>10,843,235</u>	<u>10,920,310</u>
Change in net position	17,502,147	269,221
<b>Net Position, Beginning of Year</b>	<u>98,378,045</u>	<u>98,108,824</u>
<b>Net Position, End of Year</b>	<u>\$ 115,880,192</u>	<u>\$ 98,378,045</u>

See Notes to Financial Statements.

**Arvin-Edison Water Storage District**

**Statements of Cash Flows**  
**For the Years Ended February 28, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b><i>Cash flows from operating activities:</i></b>		
Receipts from customers	\$ 23,018,242	\$ 22,592,277
Receipts from general administrative and general project service charges	10,648,563	10,362,447
Payments to suppliers for goods and services	(19,750,244)	(21,838,494)
Payments to employees for services	(4,432,493)	(4,895,854)
	<u>9,484,068</u>	<u>6,220,376</u>
<b><i>Cash flows from investing activities:</i></b>		
Net change in investments	8,449	11,007
Interest income	151,386	105,044
	<u>159,835</u>	<u>116,051</u>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Purchase of capital assets	(4,443,923)	(3,479,229)
Proceeds from sale of assets	136,993	91,293
Payments on long-term debt	(2,041,696)	(1,972,714)
Cash paid for interest	(952,636)	(1,021,618)
	<u>(7,301,262)</u>	<u>(6,382,268)</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	2,342,641	(45,841)
<b><i>Cash and cash equivalents at beginning of year</i></b>	<u>18,324,977</u>	<u>18,370,818</u>
<b><i>Cash and cash equivalents at end of year</i></b>	<u>\$ 20,667,618</u>	<u>\$ 18,324,977</u>

*See Notes to Financial Statements.*

	<u>2018</u>	<u>2017</u>
<b><i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i></b>		
Operating income (loss)	\$ 6,658,912	\$ (10,651,089)
<b><i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</i></b>		
Depreciation	1,945,337	2,475,837
Investment	(107,234)	159,728
Write-off of construction in progress	84,868	304,144
General administrative and general project service charges	10,694,961	10,680,038
Other income	776,344	1,112,468
<b><i>Changes in operating assets, liabilities and other income:</i></b>		
Receivables	(2,541,744)	2,479,454
Inventory	(65,563)	(330,912)
Prepaid expenses and other assets	36,128	(645,369)
Water inventory	(6,041,444)	380,791
Trade accounts payable and accrued expenses	1,042,053	(1,362)
Unearned water revenue	(3,211,546)	117,680
Deferred compensation plan fund	212,996	217,645
Net cash provided by operating activities	<u>\$ 9,484,068</u>	<u>\$ 6,299,053</u>
<b><i>Supplemental disclosures of cash flow information:</i></b>		
<b><i>Reconciliation of cash:</i></b>		
Cash and cash equivalents	\$ 700,219	\$ 619,945
Invested cash	15,759,784	13,736,089
Temporarily restricted cash	4,207,615	3,968,943
	<u>\$ 20,667,618</u>	<u>\$ 18,324,977</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. Further described at Note 12.

## *Notes to Financial Statements*

### ***Basis of accounting and financial reporting:***

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

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

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

*Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted components of net position* - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted components of net position* - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

### ***Fund accounting:***

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

## *Notes to Financial Statements*

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

### *Use of estimates:*

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

### *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, 2018 and 2017, 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, 2018 and 2017.

### *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.

### *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.

## *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 February 28 of each year are considered delinquent. Consistent with established policy and California Water Code, the District can initiate statutory proceedings to obtain a certificate of sale for accounts considered delinquent which are represented by liens on the respective property. An allowance for delinquent accounts has been set up as of February 28, 2018 and 2017.

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.

### ***Inventory:***

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

### ***Capital assets:***

Capital assets, which include property, plant, equipment and intangible assets, are reported in the District's financial statements at historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as project construction is completed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Property, plant, equipment and intangible assets with exhaustible useful lives are capitalized when acquired and depreciation is computed principally on the straight-line method over the following estimated useful lives of the capital assets:

*Notes to Financial Statements*

	<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 imported into the District from specific sources and generally does not include other water activity, including but not limited to, from naturally occurring events (rainfall, underground migration, native groundwater, etc.), District in-lieu programs and return flows from District irrigation deliveries. Water accounting for financial statement purposes is not appropriate for 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 to the water users. Water in underground storage is reflected on the District's statements of net position and is accounted for on the last-in, first-out (LIFO) cost flow method. 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, 2018 and 2017 were \$300,365 and \$281,903, respectively, and is included in accrued expenses.

## *Notes to Financial Statements*

### ***Pension:***

The District has a defined contribution pension plan covering substantially all employees. During the years ended February 28, 2018 and 2017, the District contributed 12% or 17% of eligible employees' wages based upon the employee's position within the District. The employees had the option to contribute up to the IRS limit, with a minimum deferral of 4% of eligible wages. The District's total wages for the years ended February 28, 2018 and 2017 were \$3,478,417 and \$3,498,748, respectively. Wages for eligible employees were \$3,157,336 and \$3,190,420 for the years ended February 28, 2018 and 2017, respectively. The District's pension contributions for the years ended February 28, 2018 and 2017 were \$399,270 and \$401,963, respectively. The District's policy is to fund pension costs in the current year.

### ***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.

### ***Reclassifications:***

Certain reclassifications have been made to the 2017 financial statements in order to conform to the 2018 presentation.

## ***Note 2. Cash, Cash Equivalents and Investments***

Cash, cash equivalents and investments as of February 28, 2018 and 2017, are classified in the accompanying financial statements as follows:

<b><i>Cash and cash equivalents:</i></b>	<b><i>2018</i></b>	<b><i>2017</i></b>
Cash and cash equivalents	\$ 700,219	\$ 619,945
Invested cash	15,759,784	13,736,089
Temporarily restricted assets	4,207,615	3,968,943
	<u>20,667,618</u>	<u>18,324,977</u>
<b><i>Investments:</i></b>		
Long-term investments	<u>26,854</u>	<u>35,303</u>
	<u>\$ 20,694,472</u>	<u>\$ 18,360,280</u>

**Notes to Financial Statements**

Cash and investments as of February 28, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 600	\$ 600
Deposits with banks	699,619	619,345
Deposits with Kern County and LAIF	18,122,868	16,081,642
Investments with financial institutions	200,549	200,853
Fiduciary fund- Deferred Plan	1,670,836	1,457,840
	<u>\$ 20,694,472</u>	<u>\$ 18,360,280</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.

<i>Authorized Investment Type</i>	<i>Maximum Maturity</i>	<i>Maximum Percentage of Portfolio *</i>	<i>Maximum Investment in One Issuer</i>
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, 2018:

	<u>Maturity Date</u>	<u>Reported Amount</u>
GNMA PL Security	June 20, 2037	\$ 26,854
RMA Money Market Fund	N/A	\$ 91,556
UBS Bank USA Business Account	N/A	\$ 82,139
Kern County Treasurer	N/A	\$ 7,214,666
State Investment Pool - LAIF	N/A	\$ 10,908,202

**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.

<u>Investment Type</u>	<u>Minimum</u>		
	<u>Legal Requirement</u>	<u>S&amp;P AAA Moody Aaa</u>	<u>Not Rated</u>
GNMA PL	A	\$ 26,854	
RMA Money Market	N/A		\$ 91,556
UBS Bank USA BA	N/A		\$ 82,139
Kern County Treasurer	N/A		\$ 7,214,666
LAIF	N/A		\$ 10,908,202

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, 2018 and 2017.

**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, 2018 and 2017 the District had no risk associated with custodial assets.



*Notes to Financial Statements*

As of February 28, 2018, District investments in the following investment types that were held by the two broker-dealers (counterparties) that were used by the District to buy the securities:

<u><i>Investment type</i></u>	<u><i>Reported Amount</i></u>
U.S. Treasury notes	\$ 26,854
Money market funds	\$ 173,695

**Note 3. Temporarily Restricted Assets**

Restricted assets at February 28, 2018 and 2017 are as follows:

	<u><i>2018</i></u>	<u><i>2017</i></u>
Loan Reserve Fund	\$ 312,676	\$ 309,010
Debt Reserve Fund	2,224,103	2,202,093
Deferred Compensation Plan Fund	1,670,836	1,457,840
	<u>\$ 4,207,615</u>	<u>\$ 3,968,943</u>

***Loan Reserve Fund:***

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

***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, 2018 and 2017, \$2,224,103 and \$2,202,093 had been funded, respectively.

***Deferred Compensation Plan Fund:***

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

The following is a summary of the deferred compensation plan fund transactions for the years ended February 28, 2018 and 2017:

	<u><i>Payable</i></u> <u><i>2/28/17</i></u>	<u><i>Additions</i></u> <u><i>(deletions)</i></u>	<u><i>Payable</i></u> <u><i>2/28/18</i></u>
Deferred plan	<u>\$ 1,457,840</u>	\$ 212,996	<u>\$ 1,670,836</u>
	<u><i>Payable</i></u> <u><i>2/29/16</i></u>	<u><i>Additions</i></u> <u><i>(deletions)</i></u>	<u><i>Payable</i></u> <u><i>2/28/17</i></u>
Deferred plan	<u>\$ 1,240,195</u>	\$ 217,645	<u>\$ 1,457,840</u>

*Notes to Financial Statements*

**Note 4. Capital Assets**

Capital assets, at cost, consist of the following at February 28, 2018 and 2017:

*Assets - At Cost*

	<i>Balance 2/28/2017</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance 2/28/2018</i>
<b>Capital assets, not being depreciated:</b>					
Land	\$ 8,567,078	\$ -	\$ -	\$ -	\$ 8,567,078
Water rights-USBR	14,471,483	-	-	-	14,471,483
Construction in progress	1,219,642	3,812,099	-	(1,593,857)	3,437,884
	<u>24,258,203</u>	<u>3,812,099</u>	<u>-</u>	<u>(1,593,857)</u>	<u>26,476,445</u>
<b>Capital assets, being depreciated:</b>					
Organization costs	375,168	-	-	-	375,168
Water rights-CVC capacity	133,794	-	-	-	133,794
Source of supply	46,449,125	97,944	-	1,508,990	48,056,059
Pumping plant	18,051,770	-	-	-	18,051,770
Transmission and distribution	56,272,472	-	(14)	-	56,272,458
General plant	4,314,055	533,880	(492,334)	-	4,355,601
	<u>125,596,384</u>	<u>631,824</u>	<u>(492,348)</u>	<u>1,508,990</u>	<u>127,244,850</u>
	<u>\$ 149,854,587</u>	<u>\$ 4,443,923</u>	<u>\$ (492,348)</u>	<u>\$ (84,867)</u>	<u>\$ 153,721,295</u>

*Accumulated Depreciation*

	<i>Balance 2/28/2017</i>	<i>Depreciation</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance 2/28/2018</i>
Organization costs	\$ 278,407	\$ 14,653	\$ -	\$ -	\$ 293,060
Water rights-CVC capacity	96,336	2,676	-	-	99,012
Source of supply	14,678,756	883,890	-	-	15,562,646
Pumping plant	8,311,178	410,285	-	-	8,721,463
Transmission and distribution	24,029,982	898,410	-	-	24,928,392
General plant	3,405,495	316,035	(492,334)	-	3,229,196
	<u>\$ 50,800,154</u>	<u>\$ 2,525,949</u>	<u>\$ (492,334)</u>	<u>\$ -</u>	<u>\$ 52,833,769</u>

*Notes to Financial Statements*

*Assets - At Cost*

	<i>Balance 2/29/2016</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance 2/28/2017</i>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 8,567,078	\$ -	\$ -	\$ -	\$ 8,567,078
Water rights-USBR	14,471,483	-	-	-	14,471,483
Construction in progress	9,522,745	3,024,356	-	(11,327,459)	1,219,642
	<u>32,561,306</u>	<u>3,024,356</u>	<u>-</u>	<u>(11,327,459)</u>	<u>24,258,203</u>

<i>Capital assets, being depreciated:</i>					
Organization costs	375,168	-	-	-	375,168
Water rights-CVC capacity	133,794	-	-	-	133,794
Source of supply	42,721,453	-	-	3,727,672	46,449,125
Pumping plant	10,756,126	-	-	7,295,644	18,051,770
Transmission and distribution	56,272,472	-	-	-	56,272,472
General plant	4,107,274	454,873	(248,092)	-	4,314,055
	<u>114,366,287</u>	<u>454,873</u>	<u>(248,092)</u>	<u>11,023,316</u>	<u>125,596,384</u>
	<u>\$ 146,927,593</u>	<u>\$ 3,479,229</u>	<u>\$ (248,092)</u>	<u>\$ (304,143)</u>	<u>\$ 149,854,587</u>

*Accumulated Depreciation*

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

*Notes to Financial Statements*

**Note 5. Investment in Power and Water Resources Pooling Authority**

During 2004, the District joined the Power and Water Resources Pooling Authority (PWRPA) under the Joint Powers Agreement. PWRPA is a public agency, comprised of 14 public agencies, which has the authority to purchase power on behalf of these agencies. The District records the investment in PWRPA on the equity basis. The District, along with the other 13 member agencies, assigned their Western Area Power Administration (WAPA) power contracts to PWRPA. The District is a 19.5155% and 20.3141% voting share in PWRPA as of December 31, 2017 and 2016, respectively. The District's membership share in PWRPA as of February 28, 2018 and 2017 is \$3,341,724 and \$3,234,490, 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, 2017 and 2016 for PWRPA is as follows:

	<i>2017</i>	<i>2016</i>
Total assets	\$ 21,630,322	\$ 21,346,182
Total liabilities	8,322,470	9,160,398
Net position	\$ 13,307,852	\$ 12,185,784
Total revenues	\$ 25,762,220	\$ 39,609,311
Total expenses	24,640,152	41,194,067
Change in net position	\$ 1,122,068	\$ (1,584,756)

**Note 6. Public Purpose Program Fund**

The Public Purpose Program Fund ("P3") establishes that each participant in PWRPA shall contribute an amount equal to 2.85% times the amount invoiced for energy delivered, based upon the current pro-forma rates in effect for the period. The Public Utilities Code requires that PWRPA collect these fees which may be used to fund investments in certain designated projects including energy efficiency, energy conservation, and renewable energy, by the designated participant. Any PWRPA participant may propose a P3 project and request disbursement from that participant's designated P3 funds. Every conforming P3 project, as determined and approved by PWRPA's Board, receives funding from that requesting participant's available designated P3 funds. At February 28, 2018 and 2017 the District's balance in the Public Purpose Program Fund was \$59,623 and \$65,059, 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

## *Notes to Financial Statements*

Act of Congress authorizing implementation of the Settlement Agreement, the District was provided an option to convert its existing water service contract to a permanent Repayment Contract (sometimes referred to as a 9(d) contract), provided that it accelerate payment of certain capital obligations. Effective November 1, 2010, the District entered into such a contract with the USBR, and thereafter under terms of the Repayment Contract, the District paid its capital obligation of \$19,792,064 in full through financing. Under the terms of the Repayment Contract, the District was granted permanent right to a stated quantity of Project water, relieved its landowners of the acreage limitation, reporting and full cost pricing provisions of Reclamation Law, and relieved the District of tiered pricing provisions, among other things. Under the terms of the new Repayment Contract, water will be diverted through the same USBR facilities and distributed through the same District facilities as water made available under the previous 25 year water service contract.

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

- Consistent with the authorization legislation, included in the Repayment Contract, the District was granted a reduction in the Friant surcharge paid per acre-foot of water delivered to the District via the Friant-Kern Canal, whereby the Friant surcharge will be reduced from \$7 per acre-foot to \$4 per acre-foot of water delivered beginning in the year 2020 through 2039. As calculated by the USBR, the total credit for the Friant surcharge reduction is \$4,658,100 based on a forecasted annual delivery of 77,635 acre-feet (for that purpose only) of water from 2020-2039. At February 28, 2011, the District has recognized this benefit as a prepaid asset and will amortize it based on water deliveries received beginning in the 2020 water year. Also, as a result of the Repayment Contract, in 2020 the District will recognize a one-time credit of \$662,481 that has been recorded during the year ended February 28, 2011 by the District as a note receivable from the USBR. The balance at February 28, 2018 and 2017 was \$662,481.
- The remaining balance of \$14,471,483 was recognized by the District as water rights, an intangible capital asset as defined by GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District's 9(d) Repayment Contract with the USBR, does not place an expiration date on the District's rights to receive water from the Project, so long as the District is not in material breach of the Contract, therefore these water rights are considered to have an indefinite useful life. The water rights will not be amortized by the District and will be evaluated for any changes in circumstances that limit the life of the rights and any impairment annually. The District performed the impairment test as of February 28, 2018 and 2017 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.

*Notes to Financial Statements*

**Note 8. Water Inventory**

The estimated ground water storage and banked water of the District at February 28, 2018 and 2017 consisted of the following:

	<i>February 28, 2018</i>		<i>February 28, 2017</i>	
	<u><i>Acre-feet</i></u>	<u><i>Value</i></u>	<u><i>Acre-feet</i></u>	<u><i>Value</i></u>
<b><i>Water in storage:</i></b>				
District water in storage	208,102	\$ 6,626,185	110,339	\$ 831,572
Temporary water	15,924	318,480	-	-
	<u>224,026</u>	<u>\$ 6,944,665</u>	<u>110,339</u>	<u>\$ 831,572</u>
<b><i>Banked water:</i></b>				
Rosedale-Rio Bravo Water Storage District *	63,097	\$ 4,005,864	62,806	\$ 3,838,867
Metropolitan Water District**	-	-	12,238	367,997
Westside Mutual Water	12,500	709,976	-	-
	<u>75,597</u>	<u>\$ 4,715,840</u>	<u>75,044</u>	<u>\$ 4,206,864</u>
<b><i>Total water inventory</i></b>	<u><u>299,623</u></u>	<u><u>\$ 11,660,505</u></u>	<u><u>185,383</u></u>	<u><u>\$ 5,038,436</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, 2018 and 2017, 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, 2018 and 2017, the District delivered -0- acre-feet and 29,999 acre-feet, respectively, to MWD. The District received -0- acre-feet and 12,238 acre-feet, respectively, from MWD that was previously delivered in the same year.

For further explanation, see Note 1, Water in Storage, page 18.

*Notes to Financial Statements*

**Note 9. Long-Term Debt**

Long-term debt at February 28, 2018 and 2017 consisted of the following:

	<u><i>Current Maturities</i></u>	<u><i>2018</i></u>	<u><i>2017</i></u>
Note payable, Bank of America, N.A., 3.89%, secured by the water storage and distribution system, \$716,325 payable semi-annually including interest, due November 1, 2030	\$ 876,656	\$ 14,509,972	\$ 15,353,495
Note payable, State of California, 2.4%, unsecured, \$158,769 payable semi-annually including interest, due April 1, 2021	293,949	1,060,239	1,347,281
Note payable, Bank of America, N.A., 3.65%, secured by the water storage and distribution system and net revenues, \$361,116 payable semi-annually including interest, due November 1, 2025	545,696	4,971,782	5,498,092
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	396,764	4,570,245	4,955,066
	<u>\$ 2,113,065</u>	<u>25,112,238</u>	<u>27,153,934</u>
Less current maturities		<u>2,113,065</u>	<u>2,041,696</u>
		<u>\$ 22,999,173</u>	<u>\$ 25,112,238</u>

**Notes to Financial Statements**

The following is a summary of the long-term debt transactions for the years ended February 28, 2018 and 2017:

	<i>Payable</i> <i>2/28/2017</i>	<i>Debt</i> <i>Issued</i> <i>(Retired)</i>	<i>Payable</i> <i>2/28/2018</i>
State of California	\$ 1,347,281	\$ (287,042)	\$ 1,060,239
Bank of America, N.A.	5,498,092	(526,310)	4,971,782
Bank of America, N.A.	15,353,495	(843,523)	14,509,972
Bank of America, N.A.	4,955,066	(384,821)	4,570,245
	<u>\$ 27,153,934</u>	<u>\$ (2,041,696)</u>	<u>\$ 25,112,238</u>

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

The annual requirements to amortize all debt outstanding as of February 28, 2018 are as follows:

<i>Years ending February 28,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2019	\$ 2,113,065	\$ 893,950	\$ 3,007,015
2020	2,187,010	820,005	3,007,015
2021	2,263,588	743,427	3,007,015
2022	2,184,120	664,077	2,848,197
2023	2,101,730	587,648	2,689,378
2024-2028	10,242,822	1,759,608	12,002,430
2029-2031	4,019,903	278,047	4,297,950
	<u>\$ 25,112,238</u>	<u>\$ 5,746,762</u>	<u>\$ 30,859,000</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, 2018 and 2017 are as follows:



**Notes to Financial Statements**

		<b>February 28, 2018</b>		
		<b>Fair Value Measurements Using:</b>		
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments:</b>				
U.S. Treasury notes	\$ 26,854	\$ 26,854	\$ -	\$ -
<b>Deferred Compensation:</b>				
Mutual funds	\$ 1,670,836	\$ 1,670,836	\$ -	\$ -
		<b>February 28, 2017</b>		
		<b>Fair Value Measurements Using:</b>		
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments:</b>				
U.S. Treasury notes	\$ 35,303	\$ 35,303	\$ -	\$ -
<b>Deferred Compensation:</b>				
Mutual funds	\$ 1,457,840	\$ 1,457,840	\$ -	\$ -

**Note 11. Water Supply Conditions**

The 2018/2019 United States Bureau of Reclamation May 25, 2018 updated Friant Division Declaration indicates water contractors will receive 85% of their Class 1 and Class 2 water entitlement during the uncontrolled season through May 10, 2018 due to a need to reduce water levels at Millerton Lake. This updated declaration gives the District 34,000 acre-feet of Class 1 water and approximately 29,100 acre-feet of Class 2. In addition to the contract declarations, the District will be entitled to approximately 20,000 acre-feet of Unreleased Restoration flows by May 10, 2018 and approximately 6,000 acre-feet from the San Joaquin River Restoration Program. With this updated declaration, other water supplies available and along with extractions from water inventory, the District will be able to make full deliveries for the entire 2018/2019 water year to all Long Term and Temporary Contract lands under contract and recharge in the District's spreading facilities through May 10, 2018.

**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.

*Notes to Financial Statements*

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

During the years ended February 28, 2018 and 2017, the District returned -0- acre-feet to MWD, and banked 45,107 and -0- acre-feet, respectively, which left 153,232 and 108,125 acre-feet, banked at the District as of February 28, 2018 and 2017, respectively. Net water regulation fees and operations, power costs, maintenance and replacement fees from MWD for the years ended February 28, 2018 and 2017 were \$4,220,811 and \$-0-, respectively.

At February 28, 2018 and 2017, MWD owed the District \$1,255,043 and \$-0-, respectively, for water banking fees. At February 28, 2018 and February 28, 2017, the District owed MWD \$555,600 and \$3,000,000, respectively to be paid back under the terms of the water management program.

**Note 13. Prior Year Water and Power Adjustments**

Prior year water and power adjustments for the years ended February 28, 2018 and 2017 consisted of the following:

	<i>2018</i>	<i>2017</i>
USBR contract water costs	-	(250,000)
KWCA - CVC expenses	-	(161,563)
MWD prior year adjustments	(434,156)	-
Friant Water Authority refund	(242,146)	(170,154)
Bureau of Reclamation - prior year water costs	181,527	43,953
Other adjustments	(653,045)	459,087
	\$ (1,147,820)	\$ (78,677)

**Note 14. Related Party Transactions**

During the years ended February 28, 2018 and 2017, the District incurred power costs paid to PWRPA, a related party, of \$7,628,178 and \$8,731,425, respectively. The District provided accounting services to PWRPA and received \$72,960 and \$60,596 in income for the years ended February 28, 2018 and 2017, respectively.

*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	11,189,877
	14,189,877
<b><i>Undesignated</i></b>	23,378,248
	\$ 37,568,125

***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 as follows:

<i>Type of Coverage</i>	<i>Limits Per Occurrence</i>	
	<i>JPIA Self Insurance</i>	<i>Excess Insurance</i>
General liability, automobile liability, public officials liability	\$ 5,000,000	\$ 55,000,000
Property insurance	\$ 100,000	\$ 150,000,000
Fidelity Insurance	\$ 100,000	\$ -

## *Notes to Financial Statements*

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

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

### *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, 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.

## *Notes to Financial Statements*

### *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 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 Friant Parties brief is due August 31, 2018 and Defendant’s Response is due September 21, 2018. The Friant Parties Reply is due on October 5, 2018 and the Court has scheduled the Order to Show Cause hearing (telephonically in Chambers) for October 10, 2018.

***Supplementary Information***

*Arvin-Edison Water Storage District*

*Schedule of Cash, Invested Cash, Investments  
and Temporarily Restricted Assets  
February 28, 2018*

**Cash:**

*Bank of America, Arvin, California:*

General checking, noninterest bearing	\$ 624,194
Payroll checking account, noninterest bearing	73,925
Petty cash checking account	1,500
Cash on hand	600
	<u>\$ 700,219</u>

**Invested Cash:**

Kern County Treasurer's Office, varying money market interest rate, 1.4% at February 28, 2018	\$ 7,214,666
State of California, Treasurer's Office Local Agency Investment Fund, varying money market accounts average effective yield, 0.5% at February 28, 2018	8,371,423
UBS Financial Services, Inc., money market, 0.84% at February 28, 2018	91,556
UBS Financial Services, Inc., business account, 0.01% average interest rate at February 28, 2018	82,139
	<u>\$ 15,759,784</u>

**Investments:**

UBS Financial Services, Inc., government bond,  
5.5% at February 28, 2018 \$ 26,854

**Temporarily Restricted Asset:**

**Loan Reserve Fund**

State of California, Treasurer's Office Local Agency  
Investment Fund, varying money market accounts,  
average effective yield, 0.093% at February 28, 2018 \$ 312,676

**Reserve Fund:**

State of California, Treasurer's Office Local Agency  
Investment Fund, varying money market accounts,  
average effective yield, 1.21% at February 28, 2018 2,224,103

**Deferred Compensation Plan Fund:**

Lincoln National Life Insurance Company 1,670,836  
\$ 4,207,615

Total cash, invested cash, investments  
and temporary restricted assets \$ 20,694,472



*Arvin-Edison Water Storage District  
District Water in Storage  
February 28, 2018*

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, 2018 are as follows:

<i>Year ended February 28:</i>	<i>Acre-feet Added (Pumped)</i>	<i>Cost</i>
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)
Balance, February 29, 2017	110,339	831,572
Percolation	97,813	5,794,613
Current year activity	(50)	-
Balance, February 28, 2018	<u>208,102</u>	<u>\$ 6,626,185</u>

**Arvin-Edison Water Storage District**

**Schedules of Operating Expenses  
For the Years Ended February 28, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Source of supply:</b>		
Salaries and wages	\$ 395,351	\$ 839,583
Employee benefits	335,780	350,192
Equipment repair and maintenance	143,778	172,088
Facilities maintenance	83,007	1,302,774
Purchased water	5,795,248	6,309,108
Utilities	498	2,391
Power	(2,224)	2,545,204
Contract labor	269,943	26,511
	<u>\$ 7,021,381</u>	<u>\$ 11,547,851</u>
<b>Pumping plant:</b>		
Salaries and wages	\$ 354,647	\$ 357,226
Employee benefits	144,467	151,230
Operating supplies	2,986	8,487
Equipment repair and maintenance	295,244	269,969
Utilities	304	1,578
Power	544,551	1,975,443
Contract labor	17,519	-
	<u>\$ 1,359,718</u>	<u>\$ 2,763,933</u>
<b>Transmission and distribution:</b>		
Salaries and wages	\$ 1,205,258	\$ 1,234,116
Employee benefits	490,191	512,056
Equipment repair and maintenance	462,656	448,018
Facilities maintenance	1,154,874	1,132,218
Power	3,927,959	4,223,565
	<u>\$ 7,240,938</u>	<u>\$ 7,549,973</u>
<b>Customer accounts:</b>		
Salaries and wages	\$ 262,517	\$ 237,727
Employee benefits	103,687	95,716
Operating supplies	3,959	3,762
	<u>\$ 370,163</u>	<u>\$ 337,205</u>

	<u>2018</u>	<u>2017</u>
<b><i>General and administrative:</i></b>		
Salaries and wages	\$ 707,473	\$ 683,352
Employee benefits	221,774	198,613
Contributions	1,412	2,296
Supplies	49,601	58,806
Legal and court costs	270,312	145,388
Legal publications	939	1,273
Accounting and other consulting	86,236	90,423
Fees, publicity and promotion	34,516	30,134
Membership fees and dues	624,238	698,717
Utilities	64,181	68,335
Insurance, property	170,659	154,455
Insurance, workers comp and other	147,049	165,199
Directors fees	24,065	23,486
Licenses and fees	367,614	350,186
Education	1,875	11,037
Rents and leases	4,564	4,415
Engineering	573,043	335,551
Contract labor	1,105	23,233
	<u>\$ 3,350,656</u>	<u>\$ 3,044,899</u>
<b><i>Maintenance of general plant:</i></b>		
Salaries and wages	\$ 165,727	\$ 198,110
Employee benefits	67,960	80,637
Operating supplies	258,451	235,214
Equipment, repairs and maintenance	280,872	413,606
Facilities maintenance	73,195	136,033
	<u>\$ 846,205</u>	<u>\$ 1,063,600</u>
<b><i>Depreciation</i></b>	<u>\$ 1,945,337</u>	<u>\$ 2,475,837</u>
<b><i>Prior year water and power adjustments</i></b>	<u>\$ (1,147,820)</u>	<u>\$ (78,677)</u>

*Arvin-Edison Water Storage District*

*Schedules of Revenues and Expenses  
For the Years Ended February 28, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
<b><i>Operating Revenue:</i></b>		
Water sales - irrigation	\$ 20,344,687	\$ 16,586,663
Water management - regulation	3,363,181	-
Water management - OM&R	857,630	-
Temporary water revenue	2,445,170	2,398
Miscellaneous revenue	634,822	1,464,471
	<u>27,645,490</u>	<u>18,053,532</u>
<b><i>Operating Expenses:</i></b>		
Employee costs	4,454,832	4,938,558
Water costs	5,795,248	6,309,108
Power	4,470,286	8,744,212
Repairs and maintenance	2,755,063	4,118,407
Utilities	64,983	72,304
Legal/engineering/accounting	930,530	572,635
Insurance	317,708	319,654
Travel/mileage and directors fees	58,581	53,620
General and administrative	1,341,830	1,178,963
Depreciation	1,945,337	2,475,837
Prior year water and power adjustments	(1,147,820)	(78,677)
	<u>20,986,578</u>	<u>28,704,621</u>
Operating income (loss)	<u>6,658,912</u>	<u>(10,651,089)</u>
<b><i>Nonoperating Revenue (Expenses):</i></b>		
Interest income	164,006	113,970
Gain on sale of assets	136,993	91,293
General administrative and general project service charges	10,694,961	10,680,038
Prior year income	94,649	221,584
Other income	681,695	812,207
Interest expense	(929,069)	(998,782)
	<u>10,843,235</u>	<u>10,920,310</u>
Change in net position	<u>\$ 17,502,147</u>	<u>\$ 269,221</u>