

AUDITED FINANCIAL STATEMENTS

DEL PUERTO WATER DISTRICT

February 28, 2022

JWT & Associates, LLP
Certified Public Accountants

DEL PUERTO WATER DISTRICT
Patterson, California

February 28, 2022

Board of Directors

William Koster	President
Daniel Bays	Vice-President
Kyle Perez	Director
Peter Lucich	Director
Zachary Maring	Director
James Jasper	Director
Jarod Lara	Director

Administration

Anthea G. Hansen	General Manager
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DEL PUERTO WATER DISTRICT

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JWT & Associates, LLP

Certified Public Accountants

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Report of Independent Auditors

Board of Directors
Del Puerto Water District
Patterson, California

Opinion

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Del Puerto Water District (the District) which comprise the statements of net position as of February 28, 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of February 28, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

JW7 & Associates, LLP

September 26, 2022

Del Puerto Water District

Management's Discussion & Analysis

February 28, 2022

As required by Government Accounting Standards Board Statement No. 34, this section presents management's analysis of the Del Puerto Water District's (the District) financial condition and activities as of and for the year ended February 28, 2022. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements, and should be read in conjunction with the audited financial statements that follow this section. It is also intended to give an overview of the previous year's operations, and to express management's view of how currently-known factors will impact the District in the future.

ORGANIZATION AND BUSINESS

The Del Puerto Water District is a California special district formed under the provisions of Division 13 of the Water Code of the State of California. The approximately 45,000 acres of irrigable District lands are located along the west side of Stanislaus, San Joaquin and Merced Counties. Stanislaus County serves as the principal county for the District. A seven-person Board of Directors elected from among District landowners governs the District.

The District is under contract with the Bureau of Reclamation for its water supply, which is delivered from the Delta-Mendota Canal, a feature of the Central Valley Project. The District was originally organized on March 24, 1947 to contract for and administer delivery of water supplies to landowners within the geographical boundaries of the District. On March 1, 1995, the District was reorganized through a formal consolidation with ten other local, similarly contracted water districts. The water service contracts of these other districts were assigned to the District and subsequently renegotiated as a single contract providing for the delivery of up to 140,210 acre-feet of water annually. The District's water year runs from March 1 through February 28/29.

The District's contractual entitlement is its primary source of supply. Use of this contractual supply is subject to State law and California Water Code requirements, Reclamation law, place-of-use restrictions associated with the Bureau of Reclamation's State-issued permit(s), and shortages imposed under the water shortage provisions of the District's contract with the Bureau of Reclamation. All water is delivered "canal-side" from the Delta-Mendota Canal through turnouts licensed to the District by the federal government. Privately developed groundwater is available on a limited basis throughout the District.

As a result of the chronic shortages to its contractual entitlement, ongoing drought conditions, and increasing difficulty in achieving its water supply goals, the District has in recent years expanded its efforts in the area of long-term supply development programs. Currently, this includes the voluntary retirement of certain lands from service, studying the feasibility of off stream storage, local groundwater recharge, and most notably, the beneficial use of recycled water through the North Valley Regional Recycled Water Program, which was completed in early 2020. In addition, the District requests the detachment of lands annexed to a City or an otherwise responsible agency for development into non-agricultural uses. While some of these lands continue to be served under recorded Water Service Contracts, upon development of the land, the contracts terminate and any available allocation is returned to the District.

Del Puerto Water District

Management's Discussion & Analysis

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District lands have produced more than 30 different commercial crops over the years. Among the principal crops currently grown are almonds, tomatoes, apricots, dry beans, walnuts, oats, wheat, barley, grains, broccoli, melons, peaches, citrus, spices, cherries, wine grapes and olives. In 2021, over 83% of the District's irrigated lands are in permanent plantings, of which 100% are irrigated by sprinklers or drip irrigation systems. The District has supported conservation efforts by way of providing low interest loan funding for the installation of high-efficiency irrigation systems, including both micro-sprinkler and drip emission systems. Certain of these loans have funded the installment of row-crop drip systems, a technology relatively new to the Districts service area. In addition to supporting conservation, this investment in irrigation technology has further complimented the District's efforts in the area of drainage reduction, thus resulting in improvements to nearby waterways of the State.

The District's management staff was reorganized in 2021 and now consists of a General Manager, who also serves as the District's Secretary/Treasurer, a Deputy General Manager - Water Operations, a Deputy General Manager - Water Resources, and a Director of Finance and Administration. A full-time Executive Assistant and a Water Operations Technician support the management staff. The District operates at minimal staffing levels to maintain costs, and strives to develop administrative procedures which ensure efficiency and accuracy in its service to its constituents; however, this is becoming increasingly difficult with the number of activities the District must now accomplish. In consultation with the Board, the General Manager continually assesses staffing resources and needs, and it is envisioned that at least one additional full-time Staff member will be hired in the near future.

The District's stated mission is as follows: "*Dedicated to Providing its Agricultural Customers with an Adequate, Reliable and Affordable Water Supply*". Customer service standards and the clear communication and implementation of District policies and procedures are set at the highest benchmarks. Continuing to provide water to the West Side's small family farms, which produce some of the nation's most bountiful supply of fresh fruit, nuts and vegetables, remains the District's sole focus and reason for existence.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's basic financial statements are prepared on an accrual basis and in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and include certain amounts based upon reliable estimates and judgments. The annual financial report consists of a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

- The *Statement of Net Position* presents information on the District's assets and liabilities as of a specific date in time, with the difference between the two being reported as *Net Position*. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Position* presents the results of the District's operations during the fiscal year indicated showing Total Revenues versus Total Expenses and how the Net Position changed during the year. This statement can be used as an

Del Puerto Water District

Management's Discussion & Analysis

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indicator of the extent to which the District has successfully managed its budget and recovered its costs through user fees.

- The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, and reconciles the year-end cash and cash-equivalents balance.
- The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS

As illustrated by the financial analysis below, the District's Net Position increased in 2021-22:

Condensed Financial Information

The following table (Table 1) shows the District's total assets, liabilities and net position:

	<u>2/28/2022</u>	<u>2/28/2021</u>	<u>Variance</u>
Current Assets	\$ 16,398,777	\$ 11,025,401	\$ 5,373,376
Noncurrent Assets	<u>\$ 16,597,188</u>	<u>\$ 16,756,849</u>	<u>\$ (159,661)</u>
Total Assets	\$ 32,995,965	\$ 27,782,250	\$ 5,213,715
Current Liabilities	\$ 12,297,197	\$ 6,719,489	\$ 5,577,708
Noncurrent Liabilities	<u>\$ 10,972,016</u>	<u>\$ 11,856,205</u>	<u>\$ (884,189)</u>
Total Liabilities	\$ 23,269,213	\$ 18,575,694	\$ 4,693,519
Net Assets:			
Invested in Capital Assets	\$ 1,206,601	\$ 1,120,293	\$ 86,308
Reserved for Rate Stabilization	\$ 2,155,208	\$ 1,648,233	\$ 506,975
Reserved for Capital Repayment	\$ 2,206,492	\$ 2,713	\$ 2,203,779
Unreserved	<u>\$ 4,158,451</u>	<u>\$ 6,435,317</u>	<u>\$ (2,276,866)</u>
Total Net Position	<u>\$ 9,726,752</u>	<u>\$ 9,206,556</u>	<u>\$ 520,196</u>
Total Liabilities and Net Position	<u>\$ 32,995,965</u>	<u>\$ 27,782,250</u>	<u>\$ 5,213,715</u>

Highlights

- Current assets increased by \$5,373,376, which was primarily the function of an increase in Cash on Hand and Prepaid Water – Other Sources, offset by a decrease in Accounts Receivable.

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Management's Discussion & Analysis

February 28, 2022

- Non-current assets decreased by \$159,661, which was primarily the function of a decrease in investments and CVP Construction Costs, offset by increases in Property, Plant & Equipment and Board Designated Cash.
- Current liabilities increased by \$5,577,708. This was primarily due to a \$265,095 increase in Accounts Payable, a \$264,498 increase in Accrued Expenses & Liabilities, a \$4,400,075 increase in Deferred Revenues, and a \$611,644 increase in Customer Prepaid Water Tolls.
- Non-current liabilities decreased by \$884,189. This was primarily due to the first year payment and amortization of the Note Payable to CoBank and CVP Construction Cost Prepayments from Customers in the amount of \$591,241 and \$118,892, respectively, and a \$174,056 decrease in Net Pension Liability.
- Total assets of \$32,995,965 exceeded total liabilities of \$23,269,213 at the fiscal year end by \$9,726,752, a net position increase of \$520,196 or 5.65% over the prior fiscal year. This increase, or “net profit”, for the year, was primarily due to replenishment of reserves due to receipt of USBR WIIN Act Funds.

The following table (Table 2) shows changes in the District's net position for the year:

Table 2
Statement of Revenues, Expenses and Changes in Net Position
For the Years ended February 28, 2022 and February 28, 2021

	<u>2/28/2022</u>	<u>2/28/2021</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water Sales	\$ 7,637,678	\$ 15,126,328	\$ (7,488,650)	-49.51%
Water Availability Charge	\$ 1,971,675	\$ 1,930,635	\$ 41,040	2.13%
Contract Conversion				
Assessment	<u>\$ 885,825</u>	<u>\$ -</u>	<u>\$ 885,825</u>	
Total Operating Revenues	\$ 10,495,178	\$ 17,056,963	\$ (6,561,785)	-38.47%
Operating Expenses:	<u>\$ 10,870,897</u>	<u>\$ 14,937,360</u>	<u>\$ (4,066,463)</u>	-27.22%
Total Operating Expenses	\$ 10,870,897	\$ 14,937,360	\$ (4,066,463)	-27.22%
Net Operating Income	\$ (375,719)	\$ 2,119,603	\$ (2,495,322)	117.73%
Non-operating Revenues, Net:	<u>\$ 895,915</u>	<u>\$ 145,757</u>	<u>\$ 750,158</u>	514.66%
Change in Net Position	\$ 520,196	\$ 2,265,360	\$ (1,745,164)	-77.04%
Total Net Assets - Beginning	<u>\$ 9,206,556</u>	<u>\$ 6,941,196</u>	<u>\$ 2,265,360</u>	32.64%
Total Net Assets - Ending	<u>\$ 9,726,752</u>	<u>\$ 9,206,556</u>	<u>\$ 520,196</u>	5.65%

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Highlights

- Total Operating Revenues decreased by \$6,561,785, or -38.47%, to \$10,495,178. The decrease was primarily due to less water supply available for sale in 2021-22 as offset by the addition of the Contract Conversion Assessment.
- Total Operating Expenses decreased by \$4,066,463, or -27.22%, to \$10,870,897. The decrease was primarily reflective of planned expenditures for the advancement of the Del Puerto Reservoir being less than budgeted and a greatly reduced cost of purchased water.
- Non-operating revenues (net) increased by \$750,158 to \$895,915. This increase was primarily due to receipt of Water Infrastructure Improvements for the Nation Act Funding for the Del Puerto Canyon Reservoir Project in the amount of \$800,000.

Budget Comparisons

The following table (Table3) compares actual administrative expenditures to the 2021-22 budget:

Table 3
Administrative Budget to Actual Comparison
For the Year ended February 28, 2022

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Water Availability Charge	\$ 1,971,675	\$ 1,971,675	\$ -
Total Operating Revenues	\$ 1,971,675	\$ 1,971,675	\$ -
Operating Expenses:			
Wages and Related Expenses	\$ 907,661	\$ 977,899	\$ (70,238)
Conservation Services	\$ 5,511	\$ 3,888	\$ 1,623
Office Supplies, Rent & Other	\$ 215,041	\$ 207,487	\$ 7,554
Repairs & Maintenance	\$ 8,084	\$ 10,161	\$ (2,077)
Metering Program	\$ 2,367	\$ 6,975	\$ (4,608)
Association Fees	\$ 289,483	\$ 296,787	\$ (7,304)
Utilities	\$ 22,706	\$ 22,088	\$ 618
Engineering & Consulting Fees	\$ 981,158	\$ 1,952,573	\$ (971,415)
Legal and Audit Fees	\$ 217,295	\$ 273,200	\$ (55,905)
Vehicle, Travel and Conferences	\$ 23,323	\$ 23,859	\$ (536)
Insurance	\$ 20,021	\$ 19,269	\$ 752
Depreciation and Amortization	\$ 71,046	\$ 59,263	\$ 11,783
Total Operating Expenses	\$ 2,763,696	\$ 3,853,449	\$ (1,089,753)
Net Operating Income	\$ (792,021)	\$ (1,881,774)	\$ 1,089,753
Non-operating Revenues, Net:	\$ 895,915	\$ 295,652	\$ 600,263
Capital Expenditures	\$ 86,308	\$ 56,736	\$ 29,572
Net over/(under) Budget	\$ 17,586	\$ (1,642,858)	\$ 1,660,444

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For 2021-22, administrative expenses were \$1,089,753 less than budgeted, and the net of actual non-operating revenues vs. non-operating expenses was \$600,263 more than budgeted, leading to net operating income from Administrative Operations of \$1,660,444 more than budgeted.

Highlights of the variances between actual and budgeted cost centers were as follows:

- Wages and Related Expenses less than budgeted due to decreased Pension expense and OPEB expense.
- Legal Fee Expense less than budgeted due to timing of expenditures for the Del Puerto Canyon Reservoir Project
- Engineering and Consulting Fee Expense less than budgeted by \$971,415 primarily due to the timing of expenditures for the Del Puerto Canyon Reservoir Project.

CAPITAL ASSETS

Capital Assets

The District does not own or maintain any canals or delivery systems, limiting capital infrastructure requirements to the replacement and addition of meters, vehicles, and tools, and the District Office and Maintenance Facility, which was constructed new in 2003, and expanded in 2020 to add two additional offices and a storage/workroom. As of February 28, 2022, the District had \$1,206,601 (net of accumulated depreciation) invested in the following categories of Capital Assets: Meters, Tools, Office Equipment & Furnishings, Vehicles, Land, Buildings & Landscaping. This amount represents an \$86,308 net increase over the prior fiscal year, which is primarily due to the purchase of (2) vehicles.

DEBT ADMINISTRATION

CoBank Loan Payable

The District acquired a loan from CoBank to make early repayment of its outstanding Central Valley Project Construction Costs which were estimated to be \$14,124,614 as of the USBR FY '20 Ratebook Construction Obligation Schedules, as discounted per that certain Contract between the United States and Del Puerto Water District Providing for Project Water Service from Delta Division and Facilities Repayment, dated September 28, 2020 Contract No. 14-06-200-922-LTR1-P. By entering into this debt obligation, the District achieved the repayment, which would have otherwise been due and payable by year 2030, and realized other benefits for its ratepayers, including but not limited to a meaningful reduction in the Ag Water Rate. The outstanding CoBank Loan Payable amount as of February 28, 2022 was \$ 9,612,104.

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SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

The District adheres to a specific set of administrative procedures that guide the designing, planning, organizing and carrying out of its programs and service. Policies which provide guidance, delegation of authority and responsibility, reporting procedures, and accountability for resources are adopted at the Board level. Administrative procedures and accounting systems are designed to ensure specific controls, and budgets are adopted and reviewed periodically to ensure the safeguarding of District assets. All District activities are undertaken in compliance with all applicable Federal, State and local laws, and management controls and financial systems are in compliance with all regulatory statutes.

FACTORS IMPACTING FUTURE PERIODS

As discussed in Note 16 of the independent auditor's report, the District's existence relies exclusively on the continued need for water supplies by Landowners within the District, and the District's ability to procure and administer said supplies in an adequate and affordable manner.

The chronic shortages faced by the District are the result of both regulatory and hydrologic drought, the former primarily centered on issues facing the health and sustainability of the Sacramento-San Joaquin Delta and the numerous plant and animal species that exist there. Because the export of water supplies to CVP contractors and others South-of-the-Delta remains a focal point for each new regulation or order regarding California water, it is imperative that the District remain engaged in activities which advance solid science and programs that communicate factual information proving that exports are not the only stressor affecting the Delta. Also critically important to the District are the currently ongoing Water Quality Control Plan update and other activities being advanced by the State Water Resources Control Board, the related "Voluntary Agreements" process, the long overdue implementation of an update to Coordinated Operations Agreement between the State Water Project and the Central Valley Project, and Reconsultation on the Biological Opinions upon which the Central Valley Project is operated in support of the District's Water Service Contract. These subjects continue to play out heavily into 2022, and the District is engaged in these and other matters which both directly and indirectly affect the future reliability – or lack thereof – of its CVP Water Supply. The challenge, however, becomes one of balancing the need for, and efficacy of, each activity and forum against the extremely high costs of participation, which ultimately falls on the District's customers.

In addition to legal and regulatory forums, much emphasis and momentum has been placed on addressing South-of-the-Delta water supply shortages through infrastructure designed to repair what is broken about the "plumbing" in the State of California. Cooperative efforts between the Department of Water Resources, the Bureau of Reclamation, and the numerous agricultural and municipal water contractors who have contracts with those governing agencies to procure water supplies, started as the Bay-Delta Conservation Plan (BDCP) / Delta Habitat & Conveyance Conservation Plan (DHCCP), and were more currently revised as to strategy, separated, and renamed the California Eco-Restore and California Water Fix programs, the latter of which was a project which would develop "twin tunnels" under and across the Delta to move water to the South-Delta pumping facilities from a changed point of diversion on the Sacramento River. Although the District ceased funding participation and retired its initial obligation in the development of these programs due to uncertainty in the ultimate costs and benefits, Staff remains engaged through its administrative activities and reports to the Board monthly on Delta conveyance activities. Because the environmental approvals and regulatory certainty that had been goals of the

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planning effort have not materialized, management is ever-more-skeptical of these activities with respect to bringing back reliability of the District's contract allocation in an affordable manner. As of the writing of this report, the California Water Fix effort has been completely abandoned as envisioned and the State of California is regrouping its focus on a "single-tunnel" Delta conveyance project, to which the Bureau of Reclamation nor any of the Federal contractors have yet to make any formal commitments in as to participation.

Recognizing that statewide solutions may be years away, or otherwise even unachievable, the District is currently focusing effort on mid and long-term supply development programs to provide local/regional solutions to its contract water supply shortage situation. These include surface storage and alternative conveyance opportunities, local groundwater recharge, and long-term transfers between local agencies. Most notably, as a partner in the North Valley Regional Recycled Water Program (NVRWP), the District studied the feasibility of importing tertiary-treated (Title 22) recycled water from the cities of Modesto and Turlock for use as a reliable source of supply to supplement its needs. Certification of an EIR was completed in mid-2015, setting the stage for the many approvals needed to complete the project, including but not limited to water supply agreements between the District and the cities, water rights permits and discharge permits approving introduction of the recycled water directly to the Delta-Mendota Canal (DMC), project funding, easements, and multiple other steps leading to the NVRWP's completion. An EIS and Record of Decision were completed in 2016, leading to construction of the NVRWP Pipeline, Pump Station and DMC Discharge Facility. The District currently receives over 95% of the Recycled Water supply produced from both Cities. For the 2021-22 water year, the project resulted in 6 inches of reliable supply per irrigable acre in the District, which above all else is an extremely positive change for the future of the District and its ability to adequately serve the needs of its landowners.

Along with the cost of solutions aimed at solving chronic supply shortages, there are also considerations on how these shortages affect CVP Contract Water Rates. Shortages incurred since the passage of CVPIA in the early '90's and predicted to continue for the foreseeable future mean less delivery base across which to spread the costs of the CVP leading to potential increased instances of USBR Fiscal Year Deficits. While the District maintains reserves dedicated to Rate Stabilization, continued monitoring of CVP Water rates and the issues that impact them remains a key activity for District Management.

Complimentary to the monitoring of the District's CVP Cost-of-Service Water Rates is the monitoring of District's Construction Obligation for the construction of the CVP. The 2020 conversion of the District's 25-year Long-Term Water Service Contract to a "permanent" repayment contract as provided for in Section 4011 of the Water Infrastructure and Improvements for the Nation (WIIN) Act was accompanied by the payoff of its Construction Obligation as estimated in the USBR's 2020 Ratebooks. However, the actual CVP Construction Obligation of each Contractor will not be finally known until the True-up for USBR FY 2030, which will occur in mid-2032. Coincidentally, shortly after the Contract Conversion and related CVP Construction Payoff action, the USBR implemented the final CVP Cost Allocation Study, which resulted in a reduced Construction Obligation as reported in the 2021 Ratebooks. During 2021, the District was able to recover a portion of the estimated "overpayment." Although the District's conversion contract specifies the terms and condition for the payoff of any residual construction cost allocation, the District's Board determined it to be fiscally prudent to reserve a portion of the "overpaid" Construction Obligation to absorb annual fluctuations between now and year 2030, and to possibly be available for any final residual amount. As the enclosed report indicates, the District currently has reserved \$2.2 Million dedicated for construction repayment.

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In addition to the upward pressure on water rates caused by continued lack of supply, certain other USBR financial issues are predicted to impact the District and its constituents in both the near and long-term with respect to increased water costs. It is anticipated that extraordinary O&M costs will continue to escalate due to the aging CVP infrastructure. In the past, extraordinary O&M was treated as a capitalized cost within the rates, to be amortized and collected by year 2030. Under current policy, unless the costs are related to the addition of a facility as a new feature of the CVP, or otherwise specifically authorized as capital for repayment purposes, they are treated as current year O&M in the fiscal year expended, regardless of magnitude. Collaborative efforts between the Contractors and Reclamation to establish a policy for extended repayment of extra-ordinary O&M as allowed for under PL 111-11 have yet to materialize, which presents exposure to all CVP Contractors should a major repair or facilities failure occur before an extended repayment policy is finalized and approved by the Commissioner of Reclamation. Fortunately, recent progress on this issue has been made, and it is anticipated that new policy with respect to repayment of extraordinary O&M could be implemented as soon as USBR Fiscal Year 2023.

Additionally, Reclamation struggles to reach completion on several other issues which may or may not result in additional costs under the Districts repayment contract. Of primary interest to CVP Contractors is the implementation of Business Practice Guidelines for CVPIA Receipts, Program Accounting, Cost Allocation and Cost Recovery. The Central Valley Project Improvement Act (CVPIA) was signed into Law in 1992, however contributions under the Act have not been reconciled and a formal USBR position on topics of reimbursability, cost allocation or cost recovery have yet to be reached. Because CVPIA activities are intrinsically tied to activities that support project operations and the Biological Opinions that support operations, a “true-up” to Contractor contributions and expenditures is vitally important to the sustained ability of the CVP to accurately, equitably and timely reconcile the costs of operating the Project.

In addition to CVP financial issues, the District and its Landowners are facing a host of other issues that will need to be balanced to ensure a stable water supply into the future. The District is currently pursuing both Groundwater Storage (Orestimba Creek Recharge & Recovery Project – 15 TAF) and Reservoir Storage (Del Puerto Canyon Reservoir – 82 TAF) in partnership with the member units of the San Joaquin River Exchange Contractors Water Authority. Additionally, the District is a Local Agency Partner in the Los Vaqueros Reservoir Expansion Project, and pursuing the possible benefits of the BF Sisk Dam Raise and Reservoir Expansion Project, as well as other options to improve access to storage and conveyance. These projects will be necessary to confront the developing effects of climate change, as well as to achieve success while implementing the requirements of the State's Sustainable Groundwater Management Act (SGMA). Concurrently, through its membership in the SLDMWA, solutions are being sought to remediate for subsidence along the Delta-Mendota Canal and to construct the San Luis Transmission Project to ensure affordable energy supplies for the conveyance of water through South-of-Delta CVP facilities.

The topics mentioned in this discussion portray the challenges associated with the export of water to the Districts service area, and the growing need to implement a variety of management tools to ensure the Agricultural Lands we serve have access to an Adequate, Affordable and Reliable water supply.

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REQUEST FOR INFORMATION

This report is designed to provide Del Puerto Water District's elected officials, landholders, customers and creditors a general overview of the District's finances and to demonstrate its accountability of the revenues it receives. If you have any questions about this report or need additional information, please contact: Del Puerto Water District, Attn: Anthea G. Hansen, General Manager/Treasurer, P.O. Box 1596, Patterson, CA 95363-1596.

DEL PUERTO WATER DISTRICT

Statement of Net Position

February 28, 2022

Assets

Current assets

Cash and cash equivalents	\$ 3,798,145
Accounts receivable - water users and others	2,253,554
Prepaid CVP construction costs	760,102
Prepaid water - USBR and SLDMWA	1,543,839
Prepaid water - other sources	7,842,826
Prepaid expenses	200,311
Total current assets	16,398,777

Board designated assets

Cash and cash equivalents	2,056,312
Investments	2,305,389
Other post-employment benefits, net (CERBT)	282,975
Total board designated assets	4,644,676

Investments

Prepaid CVP construction costs	10,745,911
Property, plant and equipment, net of depreciation	1,206,601
Total assets	32,995,965

Deferred outflow of resources- GASB 68 Pension

Deferred outflow of resources- GASB 68 Pension	-
Deferred outflow of resources- GASB 75 OPEB	-
Total assets and deferred outflow of resources	\$ 32,995,965

Liabilities and net position

Current liabilities

Accounts payable	\$ 905,589
Accrued expenses and liabilities	1,138,878
Current portion of long-term debt	710,133
Customer prepaid water tolls	4,329,290
Compensated absences payable	113,232
Deferred revenue	5,100,075
Total current liabilities	12,297,197

CVP construction prepayment payable

CVP construction prepayment payable	1,426,708
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Long-term debt, less current portion	9,020,863
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Net pension liability	334,021
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Deferred Inflows of Resources - GASB 68	148,301
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Deferred Inflows of Resources - GASB 75 OPEB	42,123
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Total liabilities	23,269,213
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Net position

Invested in capital assets	1,206,601
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Designated for rate stabilization	2,155,208
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Designated for CVP construction repayment	2,206,492
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Unrestricted	4,158,451
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Total net position	9,726,752
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Total liabilities and net position	\$ 32,995,965
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See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended February 28, 2022

Operating revenues

Water sales	\$ 7,637,678
Water availability charge	1,971,675
Contract conversion assessment	885,825
Total operating revenues	<u>10,495,178</u>

Operating expenses

Purchased water	8,107,201
Salaries, wages and benefits	907,661
Office supplies, technology and other	220,552
Professional fees	1,198,453
Repairs and maintenance	8,084
Metering program	2,367
Association fees	289,483
Utilities	22,706
Vehicle, travel and conferences	23,323
Insurance	20,021
Depreciation	71,046
Total operating expenses	<u>10,870,897</u>
Income from operations	<u>(375,719)</u>

Non-operating revenues (expenses)

Interest income/(expense)	(207,766)
Unrealized gain/(loss) on investments	(3,453)
Agricultural drainage loan program	(23)
Drainage activities, net	102,347
SGMA activities, net	50,194
Other non-operating income/(expense)	954,616
Total non-operating revenue, net	<u>895,915</u>
Net increase in net position	520,196
Total net position, February 28, 2021	9,206,556
Adjustment- OPEB expense	-
Total net position, February 28, 2022	<u><u>9,726,752</u></u>

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Cash Flows

For the Year Ended February 28, 2022

Cash flows from operating activities	
Cash received from customers	\$ 16,359,291
Cash payments for goods and services	(14,907,270)
Cash payments to employees	(631,582)
Net cash provided by operating activities	<u>820,439</u>
Cash flows from non-capital and related financing activities:	
ADLP activities, net	(23)
Drainage activities, net	102,347
SGMA activities, net	50,194
Net cash provided by non-capital and related financing activities	<u>152,518</u>
Cash flows from capital and related financing activities	
Net investment in prepaid construction costs	(13,919)
Additions to capital assets, net	(147,854)
Net cash used in capital and related financing activities	<u>(161,773)</u>
Cash flows from investing activities	
Net change in restricted assets	(2,785,577)
Net change in investments	2,253,396
Net change in pension liabilities	(40,326)
Other non-operating income	802,075
Interest income/(expense)	(207,766)
Unrealized gains or losses on investments	3,453
Net cash provided by investing activities	<u>25,255</u>
Net increase in cash and cash equivalents	<u>836,439</u>
Cash and cash equivalents, February 28, 2021	2,809,165
Cash and cash equivalents, February 28, 2022	<u>\$ 3,645,604</u>

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Cash Flows

For the Year Ended February 28, 2022

Reconciliation of operating income to net cash provided by operating activities

Income from operations	\$	(375,719)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization		71,046
Changes in operating assets and liabilities:		
Accounts receivable - water users and other		1,464,039
Prepaid water		(5,781,817)
Prepaid expenses		(115,135)
Accounts payable		265,095
Accrued liabilities		269,427
Customer prepaid water tolls		611,646
Compensated absences payable		11,782
Deferred revenue		4,400,075
Net cash provided by operating activities	\$	<u>820,439</u>

See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Net Position - Fiduciary Fund- SWPP

February 28, 2022

Assets

Current assets

Cash and cash equivalents	\$	41,699
Program receivable		2,423
Investments		<u>102,658</u>
Total current assets		<u>146,780</u>

Total assets	\$	<u><u>146,780</u></u>
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Liabilities and net position

Current liabilities

Reserved for current program expenditures	\$	<u>146,780</u>
Total current liabilities		<u>146,780</u>

Total liabilities and net position	\$	<u><u>146,780</u></u>
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See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Net Position - Fiduciary Fund- NVRRWP-RWSP

February 28, 2022

Assets

Current assets

Cash and cash equivalents	\$ 909,105
Investments	24,083,650
Total current assets	<u>24,992,755</u>

Total assets	<u><u>\$ 24,992,755</u></u>
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Liabilities and net position

Current liabilities

Reserved for current program expenditures	\$ 24,992,755
Total current liabilities	<u>24,992,755</u>

Total liabilities and net position	<u><u>\$ 24,992,755</u></u>
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See accompanying notes to the financial statements

DEL PUERTO WATER DISTRICT

Statement of Net Position - Fiduciary Fund- CNRA/RWSP

February 28, 2022

Assets

Current assets

Cash and cash equivalents	\$ 894,609
Investments	25,307,511
Total current assets	<u>26,202,120</u>

Total assets	<u><u>\$ 26,202,120</u></u>
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Liabilities and net position

Current liabilities

Reserved for current program expenditures	\$ 26,202,120
Total current liabilities	<u>26,202,120</u>

Total liabilities and net position	<u><u>\$ 26,202,120</u></u>
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See accompanying notes to the financial statements

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District complies with *Generally Accepted Accounting Standards* (GAAP). The District's reporting entity applies all relevant *Government Accounting Standards Board* (GASB) pronouncements. The District applies *Financial Accounting Standards Board* (FASB) pronouncements and *Accounting Principles Board* (APB) opinions issued on or before November 30, 1998, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Financial Reporting Entity – GASB Statement No. 14 establishes criteria for determining which organizations should be included in a governmental reporting entity. The focal point for preparing financial statements of a financial reporting entity is the *primary government*. The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. Thus, the *financial reporting entity* consists of the *primary government* and its *component units*.

Primary government is defined as a state, general purpose local or special purpose local government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on these criteria and definitions, the district is the primary government and there are no potential component units, which should be included in the financial reporting of the District as required by GASB Statement No. 14.

Basis of Presentation – Fund Accounting – The operations of the District are accounted for in the fund types described below:

Proprietary Fund Type – Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its statement of net position. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net total position. The District has one Proprietary Fund type, namely the Enterprise Fund. The Enterprise Fund is used for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that 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.

Fiduciary Fund Type – Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District has three Fiduciary Fund types, the Supplemental Water Purchase Program (SWPP) Fund, the North Valley Regional Recycled Water Program-Refuge Water Supply Program (NVRWP-RWSP) Fund, and the California Natural Resources Agency (CNRA-RWSP) Fund. All three Funds are custodial in nature and do not involve the measurement of results of operations.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting and Measurement Focus – The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled services which are accrued. Expenses are recorded at the time liabilities are incurred.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements and the State Controller's Minimum Audit Requirements for California Special Districts. The District has elected not to apply FASB statements and interpretations issued subsequent to November 30, 1989.

Use of Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Accounts Receivable – The District's management considers all accounts receivable from water users and others to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded in these financial statements.

Property, Plant and Equipment – All property, plant and equipment assets are recorded at historical cost. Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the District's statement of net assets. Depreciation is calculated on the straight-line method over the useful lives of the assets. The useful lives for each major class of depreciable fixed assets are as follows:

Office furniture	5-7 years
Tools and equipment	5 years
Vehicles	5 years
Landscaping	15 years
Meters	40 years
Buildings	40 years

Investments – All investments are held with LPL Financial. Fair values were obtained directly from LPL Financial. In accordance with GASB Statement No. 31, the change in the fair value of investments is recorded in the statement of revenues, expenses and changes in net assets.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows and Outflows of Resources - The District has adopted the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, GASB 63 changes the previous classification of net assets to net position, and consequently, the statement of net assets to the statement of net position.

Compensated Absences – The District has a vacation policy which allows employees to accrue vacation leave up to 480 hours with specific approval by management. Upon separation from employment, employees will be paid their accrued vacation at the current rate of pay. The District has a medical leave policy which allows employees to accrue medical leave up to a maximum of 240 hours. Upon separation from employment, the District has no obligation to compensate an employee for unused medical leave, however employees may convert unused accumulated sick leave (up to one year) to additional service credit when separation occurs as the result of a CalPERS eligible retirement. At February 28, 2022, the District's compensated absences payable was \$113,232.

During the fiscal year ended February 28, 2019, the District adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement requires the Agency recognize in its financial statements the total OPEB liability for the health benefits provided to retirees, less the amounts held in an irrevocable trust account.

NOTE 2: CASH AND CASH EQUIVALENTS

Applicable state statutes authorize the District to invest in obligations of the U.S. Treasury agencies, certificates of deposit, banker's acceptances, local and municipal bonds, repurchase agreements, insured money market accounts and commercial paper.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal policy regarding interest rate risk.

Custodial Credit Risk

Custodial credit risk is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy regarding custodial credit risk. 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 or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 2: CASH AND CASH EQUIVALENTS (continued)

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 amount 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. With respect to investments, custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or investment pools such as LAIF.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a formal policy regarding credit risk. LAIF does not receive a rating from a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District has limitations on the amount that can be invested in any one issue beyond that stipulated by the California Government Code.

The FDIC insured the bank balances up to \$250,000 for each bank, except for non-interest-bearing transaction accounts at institutions participating in FDIC's Temporary Liquidity Guarantee Program, which are provided with unlimited deposit guarantee.

Cash consists of one checking account, one savings account, a money market account and primary certificates of deposit. When excess funds build up in the interest-bearing checking account, they are transferred to either the money market account or the savings account to earn a higher interest rate. Funds are transferred to and from the checking account without penalty. The District holds its checking accounts and savings account in Patterson, California with a federally insured bank. The District and the bank have contracted for insurance in excess of the FDIC limit of \$250,000. The contract insures deposits of the District to \$5,000,000. According to the contract, the bank maintains eligible securities with market values of at least 10% in excess of the actual total amount of local agency monies on deposit with the bank. The District monitors this contract as necessary.

The money market account and the certificates of deposit are held with LPL Financial and are classified as investments. LPL Financial is an investment company that is a member of the New York Stock Exchange, Inc. and the Securities Investor Protection Corporation. The certificates of deposit are insured up to an aggregate maximum amount of \$250,000 per certificate. All short-term investments with an original maturity of three months or less are considered to be cash equivalents. State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of California or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits were fully insured or collateralized as required by the state statutes at February 28, 2022.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 3: ACCOUNTS RECEIVABLE

The District invoices its ratepayers for the annual per-acre Water Availability Charge (WAC), West Side San Joaquin River Watershed Coalition Fee, and a Sustainable Groundwater Management Act GSP Activities fee on March 1 of each year. These charges become delinquent on March 31. Delinquent charges are subject to lien under water code section 36729, as well as any other remedies available to the District for collection of delinquencies, including but not limited to those enforced in accordance with Chapters 4, 5 and 6 of Part 7 of Division 13 of California Water Code.

As part of the implementation of the North Valley Regional Recycled Water Program (NVRWP), the District collects the costs of water supply made available by the Program through per-acre assessments. These assessments were billed one-half on January 1 and one-half on June 1, 2021 for the 2021-22 allocation of 6 inches per acre at an estimated rate of \$185/AF. Similar to the WAC, these charges are supported by a Proposition 218 vote of the landowners and are an obligation of all irrigable acreage in the District.

In the 2021-22 fiscal year, the District began invoicing its customers for a Contract Conversion Assessment in the amount of \$25/acre. This assessment will be issued on March 1 of each year through 2034 to collect an annual amount for the CVP Construction repayment loan payable to CoBank. This assessment is supported by a Prop 218 vote of the Landowners and is an obligation of any irrigable acreage in the District whose owner did not elect to pre-pay their fair share.

The District further requires those customers electing annual water service to deposit a Water Cost Prepayment (WCP) in an amount equal to 25% of the total cost of CVP contract water available to that customer for the given year, with said deposit being applicable to water charges after the first 75% of the supply is both used and paid for. When an account is established by virtue of the WCP, water is allocated to the account on an equal-per-share irrigable acre basis based on the current years' available CVP supply, with subsequent actual water use being billed on a monthly basis.

Unless specified differently under special program guidelines, all charges are due by the last day of the month following invoicing to avoid interruption in service. In addition to water customer accounts receivable, the District also processes invoicing for miscellaneous items/services. As of February 28, 2022, the District had \$233,536 in water accounts receivable, \$6,969 in OPEB Trust Reimbursement receivable, and \$2,013,049 in miscellaneous accounts receivable.

NOTE 4: PREPAID CVP CONSTRUCTION COSTS

CVP Facilities

On, November 25, 2020, the District made an early repayment of its outstanding Central Valley Project Construction Costs which were estimated to be \$14,124,614 as of the USBR 2020 Ratebook Construction Obligation Schedules, as discounted per that certain Contract between the United States and Del Puerto Water District Providing for Project Water Service from Delta Division and Facilities Repayment, dated September 28, 2020 Contract No. 14-06-200-922-LTR1-P. Through a combination of cash funds and CoBank Loan proceeds, the District achieved the repayment, which would have otherwise been due and payable by year 2030, and realized other benefits for its ratepayers, including but not limited to a meaningful reduction in the Ag

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 4: PREPAID CVP CONSTRUCTION COSTS (continued)

Water Rate. Immediately subsequent to the payoff, the Districts estimated CVP Construction (excluding the DMC/CA Intertie) were estimated to be \$10,831,822, as published in the 2021 Ratebook Construction Obligation schedules. During 2021, the District received a refund from the USBR on a portion of the overpaid construction (the “rate” component), which has been set aside in a reserve designated for the Final 2030 CVP Construction Obligation. The District has recognized the remaining portion of the “overpayment” on these financials as a current receivable due from Reclamation.

DMC/California Aqueduct Intertie

On July 20, 2005, the District finalized execution of a Contributed Funds Agreement with the Bureau of Reclamation, which committed its fair share of the funding necessary to construct a physical connection between the federally owned Delta-Mendota Canal and the State-owned California Aqueduct. In exchange for its contribution of funds, the District was to receive a commensurate reduction in its total capital repayment obligation once construction is completed and the facility becomes operational. It was estimated that operation of the Intertie would produce an average additional yield of 2,583 acre-feet, or a 2% increase in the District’s annual allocation over time. The District financed its portion of the Intertie construction costs by way of a tax-exempt loan offered by the Bank of the West in the amount of \$1,793,575 over a period of fifteen years at a fixed rate of 4.25%. In early 2011, the Bureau of Reclamation identified alternate potential funding sources for the Intertie, which then had the necessary approvals for proceeding with construction. In August 2011, the district received a refund of a portion of its Contributed Funds, which was used to retire the Bank of the West obligation. The small remaining portion of the District’s initial contributed funds which had already been spent by the BOR remained to be credited against the District’s capital obligation once the project was put into service, which occurred in the Bureau’s fiscal year 2014. After recognizing the WY 2021-22 portion amortized over a 50-year repayment period, prepaid intertie construction costs, as of February 28, 2022, totaled \$104,480.

As of February 28, 2022, the Current Portion of the Prepaid CVP Construction Costs, and Prepaid DMC/CA Aqueduct Construction Costs totaled \$760,102, and the Non-Current portion totaled \$10,745,911.

NOTE 5: PREPAID WATER, USBR & SAN LUIS & DELTA – MENDOTA WATER AUTHORITY

As a requirement of its long-term water service contract, the District prepays the United States Bureau of Reclamation (USBR) two months in advance for its scheduled CVP water use at the estimated rates published for the applicable water year. At the same time that this payment is made, the District also reconciles the actual CVP water use for the prior month to the prepayment previously paid for that month and adjusts the current payment accordingly.

As a requirement of its multi-year Warren Act contracts, the district prepays the USBR two months in advance for any non-project supplies scheduled to be conveyed and/or stored in the federal facilities. This prepayment is reconciled to actual deliveries as the schedule is updated throughout the water year. Prepayments are categorized as either Prepaid Water – USBR or Prepaid Water – Other, depending on the source supply being transacted.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 5: PREPAID WATER, USBR & SAN LUIS & DELTA – MENDOTA WATER AUTHORITY (continued)

The District also prepays Delta-Mendota Canal O&M costs to the San Luis & Delta- Mendota Water Authority (SLDMWA) one month in advance for its scheduled water deliveries at estimated rates set by the Water Authority Board for the applicable water year. At the same time that this payment is made, the District reconciles the actual water use for the prior month to the prepayment previously paid for that month and adjusts the current payment accordingly.

As of February 28, 2022, the District had prepaid water costs to the USBR and SLDMWA totaling \$1,543,839.

NOTE 6: PREPAID WATER, OTHER SOURCES

Due to contractually imposed shortages on its water supply, the District seeks to develop an annual Additional Supplies Pool (the “Pool”) for each water year, which is created by the pooling of other sources of water through various transfer, banking and exchange agreements. Early in the water year an estimate of the total available Pool is made, and a per-acre-foot price designed to recover all costs of development of the pool is set by the Board. The costs of this Annual Additional Supplies Pool are recorded as Prepaid Water/Other Sources. Sales from the Annual Additional Supplies Pool are recorded as Deferred Revenue.

The Pool is closed and reconciled at year-end, or as soon as possible after the Rescheduling period, if any Pool supplies are rescheduled by the District. Normally, any resultant income from the Annual Additional Supplies Pool is either rebated to customers who purchased rebate-eligible additional supplies in that year, or set aside to be used in the development of the next year’s Pool. Any resultant losses would be offset by prior or forecasted Pool profits or melded into costs of the next year’s Pool. At the close of the Fiscal Year, the District had \$5,724,155 in prepaid 2021-22 pool costs and \$1,110,915 in costs associated with the future return of 5,490 AF of stored supply, for a total invested in Additional Supplies Pool sources of \$6,835,070.

In addition to the Annual Additional Supplies Pool, the District incurs costs for the development of the NVRWP Supply. These costs are then recorded along with the revenue when these supplies are delivered to customers. As of February 28, 2022, the District had \$1,007,756 in prepaid costs associated with the NVRWP.

NOTE 7: PREPAID EXPENSES

The District prepays certain expenses for future operations, including such items as property & liability insurance, maintenance contracts on office equipment and the facility, certain association dues and subscriptions, as well as its annual obligation to the USBR for the Trinity Public Utility District Assessment and for Replacement Power Cost estimates for supply moved under Warren Act Contracts. Expenses are then recorded in the appropriate month of service. As of February 28, 2022, the District had \$200,311 in other prepaid expenses.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 8: RESTRICTED ASSETS

Restricted assets consisted of the following at February 28, 2022:

	Total Designated
Cash	\$ 2,056,312
Investments	<u>2,305,389</u>
Total	<u>\$ 4,361,700</u>

Designated

Rate Stabilization – United States Bureau of Reclamation and San Luis & Delta-Mendota Water Authority (SLDMWA) rates fluctuate due to the fact that initial rates are set based on estimated budget expenditures and system-wide water deliveries. Final rates are not reconciled by agencies until 12 to 18 months after the water year, has ended. The District attempts to stabilize its rates through use of rate contingency collections in some water years and rate subsidies in others, based on initial estimates provided by the agencies. As of February 28, 2022, contingency collections and agency final accounting refunds in the amount of \$2,155,208 have been designated for use in maintaining stable District water rates.

Capital Repayment – Under current Bureau rate setting policy, each CVP contractors’ obligation for repaying the capital costs of constructing the CVP is collected as a component of that contractor’s published annual estimated water rates based on historical plus projected future deliveries through year 2030. Shortages incurred since the passage of CVPIA in the early ‘90’s and predicted to continue for the foreseeable future mean less delivery base across which to spread the capital obligation, leading to predicted higher rates as year 2030 nears. In Fiscal Year 2012-13, the Board authorized the collection of a rate component on all water deliveries which would set based on the forecasted deliveries during each water year and designed to collect the “shortfall” inherent in the USBR’s capital collections. As part of the Contract Conversion process and the related transaction which accomplished the payoff of the Districts estimated CVP Construction Obligation, \$2,203,779 in funds previously collected and for the Capital (Construction) Rate Component of the 2020 Ag water Rate were refunded to the District, resulting in \$2,206,492 in cash and investments designated for CVP Construction Repayment as of February 28, 2022.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consisted of the following at February 28, 2022:

	Balance 2/28/2021	Additions	Deletions	Balance 2/28/2022
Land	\$ 35,409	\$ -	\$ -	\$ 35,409
Buildings and improvements	1,275,850	-	-	1,275,850
Meters	255,591	-	-	255,591
Office equipment	142,670	26,733	-	169,403
Equipment	83,899	13,133	-	97,032
Vehicles	109,438	117,488	(30,222)	196,704
Total historical cost	<u>1,902,857</u>	<u>157,354</u>	<u>(30,222)</u>	<u>2,029,989</u>
Accumulated depreciation	<u>(782,564)</u>	<u>(71,046)</u>	<u>30,222</u>	<u>(823,388)</u>
Property, plant, & equipment, net	<u>\$ 1,120,293</u>	<u>\$ 86,308</u>	<u>\$ -</u>	<u>\$ 1,206,601</u>

Depreciation expense for the year ended February 28, 2022 was \$71,046.

NOTE 10: ACCOUNTS PAYABLE

The District records its accounts payable and processes timely payments to its vendors on the 15th and last day of each month. As of February 28, 2022, Accounts Payable totaled \$905,589.

NOTE 11: ACCRUED EXPENSES AND LIABILITIES

The District records accrued liabilities for Auditing, Workers Compensation and various expenditures, as applicable, in the month the expense was incurred. As of February 28, 2022, Accrued Liabilities related to these expenditures totaled \$1,129,458.

The District also records accrued interest on investments, as applicable, as part of its accrued liabilities. As of February 28, 2022, Accrued Liabilities related to unearned investment interest totaled \$9,420.

NOTE 12: CUSTOMER PREPAID WATER TOLLS AND DEFERRED REVENUE

The District receives advance payment from customers who have elected to receive their current year water allotment, equivalent to 25% of the cost of their water allotment at the beginning of the year, which is applied toward the last 25% of their water use once the first 75% is both used and paid for. Customer Prepaid Water Tolls represent instances where, at the end of the water year, a customer has not utilized their full allocated water supply. As of February 28, 2022, customer prepaid water tolls totaled \$626,046.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 12: CUSTOMER PREPAID WATER TOLLS AND DEFERRED REVENUE (continued)

In January of 2022, the District also collected advance payment for one half of the estimated cost of NVRRWP supplies to be acquired for the 2022-23 water year. As of February 28, 2022, prepaid NVRRWP tolls totaled \$3,703,244.

Because the 2021-22 Additional Supplies Pool was not able to be closed due to one remaining transaction, the district held prepayments for undelivered Annual Additional Supplies to be recorded as revenue in 2023. As of February 28, 2022, this deferred revenue totaled \$5,100,075.

NOTE 13: LONG TERM DEBT AND CVP CONSTRUCTION PREPAYMENT PAYABLE

The District acquired a loan from CoBank to fund a portion of the early repayment of its outstanding Central Valley Project Construction Costs, which were estimated to be \$14,124,614 as of the USBR FY 2020 Ratebook Construction Schedules, as discounted per that certain Contract between the United States and Del Puerto Water District Providing for Project Water Service from Delta Division and Facilities Repayment dated September 28, 2020 Contract No. 14-06-200-922-LTR1-P. By entering into this Debt Obligation, the District achieved the repayment, which would have otherwise been due and payable by year 2030, and realized other benefits for its ratepayers, including but not limited to a meaningful reduction in the Ag Water Rate. The outstanding CoBank Loan Payable amount as of February 28, 2022 was \$9,612,104. The Current Portion of the CoBank Loan Payable totaled \$591,241 and the Non-Current portion totaled \$9,020,863.

In addition to the loan from CoBank, a portion of the repayment of the Districts estimated outstanding CVP Construction Obligation was accomplished with funds collected in advance from certain customers who did not wish to participate in the assessment which would be used to repay the CoBank Loan. As of February 28, 2022, the current portion of the prepayment to be amortized over 15 years was \$110,400 and the Long-Term portion \$1,426,708, for a total obligation of \$1,537,108.

NOTE 14: PENSION PLAN

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities with the State of California. Benefit provisions and all other requirements are established by state statute and District Policies.

Funding Policy

Benefits from the plan are for both salaried and hourly-rated employees who meet certain eligibility requirements, and calls for these benefits to be paid to eligible employees at retirement based on age, years of service and compensation rates for the highest earnings year during employment. CalPERS retirement laws changed effective January 1, 2013 creating two classes of benefit groups: classic members and PEPRA members. The District contributes its share of the pension costs as determined annually by the plan's actuary, which as of July 1, 2020 was 11.031% of gross earnings plus \$4,226.09 per month for classic members, and

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 14: PENSION PLAN (continued)

7.732% plus \$149 per month for PEPRA members. These percentages decreased to 10.88% and 7.59%, respectively, on 7/1/2021. Employees contribute an additional 7% and 6.75% of gross earnings, respectively, for classic and PEPRA members.

Employees covered by benefit terms: There are currently 6 active participants in the plan, and 2 participants receiving benefits.

Contributions: The contribution for the period ending February 28, 2022 was \$120,218.

At February 28, 2022, the District reported a liability of \$334,021 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, which was actuarially determined. For the fiscal year ended February 28, 2022, the District recognized pension expense of \$25,566 to reflect the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

Actuarial assumptions

Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions:

- Discount Rate/Rate of Return – 7%, net of investment expense
- Inflation Rate – 2.5%
- Salary increases – Varies by Entry Age and Service Years - up to 3%
- Payroll Growth – 2.75%%
- Post-Retirement Mortality – Derived using Dec 2017 CalPERS Experience Study

The long-term expected rate of return on pension plan investments (7.15%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 14: PENSION PLAN (continued)

Asset Class	Assumed Asset Allocation	Real Return Years 10 – 2,4	Real Return Years 11+3,4
Public Equity	50.0%	4.8%	6.0%
Fixed Income	28.00	1.00	2.62
Inflation Assets	0.00	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Assets	13.00	3.75	4.93
Liquidity	1.00	0.00	-0.92

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, as actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District's proportionate share of the net pension plan liability	\$ 777,650	\$ 334,021	\$ -32,721

Detailed information about the pension fund’s fiduciary net position is available in the separately issued CALPERS comprehensive annual financial report, which may be obtained by contacting PERS.

Deferred Outflow/Inflows of Resources Related to Pensions

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds will therefore include deferred inflows of resources for amounts that have been earned but are not available to finance expenditures in the current period.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 14: PENSION PLAN (continued)

Pursuant to GASB Statement No. 63, the District recognized deferred outflows and inflows of resources in the Government-Wide and Proprietary Fund Statements. These items are a consumption of net position by the District that is applicable to a future reporting period.

The first item is related to pensions, that being the PERS premiums for the PERS 2022 fiscal year. These were the employer contributions subsequent to the measurement date of June 30, 2021, totaling \$82,444, which will be recognized in a subsequent reporting period, February 28, 2023.

The District is also reporting deferred outflows of resources relating to differences between projected and actual investment earnings, change in employer proportions, and differences between the employer's contributions and their proportionate share of contributions. The total of these amounts at year-end were \$77,418 and they will be amortized over a 3.8 year period.

The District also recognized deferred inflows of resources in the Government-Wide Financial Statements. These are related to differences between expected and actual experience, changes of assumptions, and differences between employer's contributions and the District's proportionate share of contributions. This amount totals \$308,163 and will be amortized over a 3.8 year period.

The following graph represents the deferred inflows and outflows by category:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ -	\$ -
Differences in expected and actual experience	37,456	-
Differences in projected and actual earnings on investments	-	291,584
Differences in Proportions	39,962	-
Differences in actual and proportionate share of contributions	-	16,579
Deferred contributions	82,444	-
Totals	<u>\$ 159,862</u>	<u>\$ 308,163</u>

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 14: PENSION PLAN (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (net, excepting deferred contributions) all will be recognized as pension expense as follows:

Year Ending February 28/29,	
2023	\$ (43,218)
2024	(47,951)
2025	(58,996)
2026	(80,580)
2027	-
Total	<u>\$ (230,745)</u>

NOTE 15: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to pension benefits, the District also provides post-employment health care insurance(s) (medical/dental/vision) to eligible retirees.

Access to Coverage

Medical coverage is currently provided through CalPERS as permitted under the Public Employee's Medical and Hospital Care Act (PEMHCA). This coverage requires the employee to satisfy the requirements for retirement under CalPERS: either (a) attainment of age 50 (age 52, if a miscellaneous employee under new to PERS on or after January 1, 2013) with 5 years of State or public agency service or (b) an approved disability retirement. The employee must begin his or her pension benefit within 120 days of terminating employment with the District to be eligible to continue medical coverage through the District and be entitled to the employer subsidy described below, excepting employees covered by the PEMHCA Vesting Resolution who work at least 20 years for the District, who are not subject to this requirement.

Once eligible, a retiree or survivor may enroll within 60 days of retirement or during any future open enrollment period. Coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage.

Benefits provided

Under the CalPERS medical program, the District must contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The District currently maintains two PEMHCA resolutions defining the District's contribution toward retiree medical plan premiums. The resolutions apply based on an employee's hire date as follows:

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 15: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (continued)

- *Employees hired before February 1, 2015:* The District contributes 100% of the medical premium for employees and retirees and 75% of the premium for any covered dependents. The surviving spouse of a deceased retiree will receive 100% of the medical premium.
- *Employees hired after February 1, 2015:* Those who retire from the District meeting the eligibility requirements described above under “Access to Coverage”, but with less than 5 years of District service and less than 10 years of PERS service may continue the medical coverage at their own expense.

<u>Subsidy for the 100/90 Formula</u>		
<u>Retiree</u>	<u>Retiree + 1</u>	<u>Retiree + 2</u>
\$767.00	\$1,461.00	\$1,868.00

Note: The “100/90 formula” provides that the District pay up to a maximum of 100% of the weighted average of the health benefits plan premium for retirees and 90% of the weighted average of additional premiums required for the enrollment of eligible dependents.

The Vesting percentage applied to the “100/90 formula” caps for service retirements are shown in the chart below:

<u>Years of Qualifying Service</u>	<u>Vested Percent</u>	<u>Years of Qualifying Service</u>	<u>Vested Percent</u>
<u>Less than 10</u>	<u>0%</u>	<u>15</u>	<u>75%</u>
<u>10</u>	<u>50%</u>	<u>16</u>	<u>80%</u>
<u>11</u>	<u>55%</u>	<u>17</u>	<u>85%</u>
<u>12</u>	<u>60%</u>	<u>18</u>	<u>90%</u>
<u>13</u>	<u>65%</u>	<u>19</u>	<u>95%</u>
<u>14</u>	<u>70%</u>	<u>20 or more</u>	<u>100%</u>

Note that for employees who qualify for a disability retirement, the vesting percentage does not apply in determining the amount of the benefit payable and that CalPERS applies the vesting percent to the 100/90 formula caps and not the retiree’s actual premium, if less. Thus, for example, a retiree with 15 years of CalPERS membership (including 5 with the District) could receive more than 75% of his or her premium paid; after the retiree is covered by Medicare, this could increase to 100% of the premium, depending on the medical plan selected.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 15: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (continued)

Dental and vision insurance is also provided for qualifying retirees, as follows:

- *Employees hired before February 1, 2015:* The District contributes 100% of the dental and vision premium for the retiree and 75% of the premium for any covered dependents.
- *Employees hired on or after February 1, 2015:* Those who retire from the with at least 10 year of service are eligible for (a) 100% of the dental and vision premium for the retiree and 75% of the premium for any covered dependents, multiplied by (b) the vested percent, determined from the table shown above.

Dental and vision coverage ends upon the retiree's death.

Funding Policy

While the District's Board of Directors may amend its OPEB Funding Policy, it has thus far opted to contribute 100% or more of the Actuarial Determined Contributions (ADC) each year. The ADC represents a level of funding that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over an open 30-year period. Contributions made to California Employees Retirement Benefit Trust (CERBT) for the fiscal year ended February 28, 2022 totaled \$34,493.

Total OPEB liability

The District's total OPEB liability was measured as of February 29, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

Actuarial valuations of an ongoing employee benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events over the plan lifetime. Examples include assumptions about future employment, mortality and the health cost trend. Amounts determined regarding the funded results are compared with past expectations and new estimates are made in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The February 29, 2021 actuarial valuation used the Entry Age Normal Cost Method. Under this method, the projected benefits of each individual included in the valuation is allocated on a level percent-of-pay over the earning or service of the individual between entry age and assumed exit age(s). The portion of the Actuarial Percent Value allocated to a valuation year is called the Normal Cost; the portion allocated to all prior years is the Actuarial Accrued Liability. The Entry Age Normal Cost Method is the only method permitted for financial reporting purposes under GASB 75.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 15: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (continued)

The total OPEB liability in the February 29, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.00%
Medical cost trend	4.-5.4% increases
Discount rate	6.55%

Demographic actuarial assumptions were those in the June 30, 2021 valuation of the retirement plans covering the District's employees (classic & PEPRAs) which are based on the CalPERS 2017 experience study using data from 1997 to 2015, with the exception of Mortality Improvement, which were those published by the 2017 study as adjusted to back out 15 years of Scale MP 2020 to Central Year 2015 (results in shorter retiree life expectancy).

Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
	<u>5.55%</u>	<u>6.55%</u>	<u>7.55%</u>
District's Net OPEB liability	\$ (187,619)	\$ (282,975)	\$ (360,616)

Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare trend rates that is 1 percentage point lower or 1 percentage point higher than the current healthcare trend rate:

	1% Decrease	Current Trend Rate	1% Increase
District's Net OPEB liability	\$ (375,188)	\$ (282,975)	\$ (165,273)

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 15: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (continued)

OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended February 28, 2022, the District recognized OPEB expense of \$13,682. OPEB expense represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss and actuarial assumptions.

At February 28, 2022, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ 29,450	\$ 6,118
Differences in expected and actual experience	-	40,833
Differences in projected and actual earning on investments	-	59,293
Deferred contributions	34,671	-
Totals	<u>\$ 64,121</u>	<u>\$ 106,244</u>

The deferred contributions will be recognized in the subsequent measurement period (February 28, 2023). The remainder of the amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
February 28/29,	
2023	\$ (14,796)
2024	(12,982)
2025	(24,447)
2026	(12,216)
2027	(1,749)
Therafter	<u>(10,604)</u>
Total	<u>\$ (76,794)</u>

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 16: ECONOMIC DEPENDENCIES

The District was organized to contract for and administer delivery of water supplies to landowners within the geographical boundaries of the District. Therefore, the District's existence relies exclusively on the continuing need for water supplies by landowners within the District, and the District's ability to procure and provide such supplies. Because various regulatory and judicial proceedings may impact the guarantees of water available to the District in the future, management believes that the impact of severe or chronic water shortages could have a material, financial or operating effect on the District.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Insurance Coverage and Risk Management – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is covered under commercial insurance policies for workers' compensation, automobile, general liability and other business-related coverage. Expenditures and claims in excess of the District's deductible for related insurance coverage are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District is unaware of any actual or potential claims that would materially affect its financial condition. Therefore, no provision has been recorded.

NOTE 18: SUPPLEMENTAL WATER PURCHASE PROGRAM

During 2003, the District completed the Supplemental Water Purchase Program ("SWPP" or the "Program"). The cost of this \$2,192,080 Program was financed through the issuance of 25-year Certificates of Participation generating \$2,535,000, including costs of issuance and a reserve fund deposit requirement for the one-time purchase of 4,136 acre-feet of annual water entitlement from certain property owners within the District who agreed to permanently remove their land from service. This entitlement was used to increase the allocation to certain parcels of land within the District in exchange for participant landowners annually paying the costs of the Program. The District, which offered all landowners in the District the opportunity to participate in the Program, eventually entered into Water Supply Contracts with 21 interested property owners.

Pursuant to these Water Supply Contracts, Program participants agreed to pay capital charges calculated to repay the principal and associated interest costs of the Program along with any other charges allocated to them pro-rata to their share of Program participation. The District, pursuant to the terms of an installment purchase contract, pledged these capital charges as security for the installment payments of principal and interest on bond certificates, which were payable October 1 and April 1 of each year, beginning October 1, 2003.

To provide funds for the installment payments in the event of a delinquent payment of capital charges, the District established a reserve fund from the proceeds of the certificates of participation and a pledged fund from a one-time deposit from the participants. The reserve fund is maintained at the lesser of (1) 10% of the original principal amount of principal payments due under the installment purchase contract, (2) an amount equal to the maximum annual installment payment payable in a certificate year by the District between such dates of calculation and the expiration of the installment purchase contract, or (3) 125% of the average annual installment payment, including interest thereon, payable in a certificate year by the District.

Further, California Water Code provides that the recorded water supply contracts constitute a priority lien against the benefiting parcels.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 18: SUPPLEMENTAL WATER PURCHASE PROGRAM (continued)

In early 2012, favorable market conditions led district staff to explore refunding of the SWPP bonds in favor of a better financing option, and on October 1, 2012, the District completed an issuance of 2012 Certificates of Participation in the amount of \$1,655,000 at 4.25% interest. All Certificates were purchased by a single beneficiary, Rabobank, N.A. Similar to the original series 2003A bonds, the District pledged capital charges to be paid by program participants as security for the installment payments, and elected to retain the balance of the original pledged fund, less refunds to program participants electing payoff of their obligation as part of the transaction, as security for the installment payments in the event of a participant delinquency. The 2012 transaction resulted in an opportunity for participants to prepay their original obligations, of which three elected to do, reducing the total required funding by \$124,457. In addition, the transaction resulted in a one-year reduction in the repayment period, and interest rate savings estimated to be approximately \$245,000 over the remaining life of the issue. The obligation on the refunded bonds will be fully repaid by April 2028.

The District accounts for this program as a fiduciary fund type, specifically as an agency fund. As of February 28, 2022, the District had \$146,780 included in cash, receivables and investments, and an accrued liability of \$146,780 relating to the Program.

NOTE 19: NVERRWP-RWSP FUND

On August 12, 2016, the District executed a long-term agreement with the United States Bureau of Reclamation for the exchange and purchase of North Valley Regional Recycled Water Program Water, which expires on February 28, 2060. Per the agreement, Program Water made available annually by the District at the NVERRWP discharge structure on the Delta-Mendota Canal will be provided to the Refuge Water Supplemental Program ("RWSP") in the form of either direct purchase (20% of the total) or exchange (80% of the total exchanged at a 1:10 to 1 ratio), under specified terms and conditions. Pursuant to Article 4e of the agreement, \$10,000,000 dollars was received in September 2016 by the District from the RWSP for the purchase of program water supplies, an additional \$12,300,000 dollars was received in June 2017, and a final \$2,700,000 in October 2017, for a total prepayment of \$25,000,000. During the 2021-22 Fiscal Year, the USBR contributed an additional \$1,000,000 under an amendment to the agreement. The District accounts for this transaction as a fiduciary fund type, specifically as a second agency fund. As of February 28, 2022, the District held \$24,992,755 included in cash, investment interest receivable, and investments, and reports a corresponding liability for the same amount relating to the Fund.

NOTE 20: CNRA-RWSP FUND

On December 20, 2018, the District executed a grant agreement with the California Natural Resources Agency (CNRA) for the acquisition of North Valley Regional Recycled Water Program Water. Per the grant agreement, funding was made available for supplies to be offered annually by the District to the Refuge Water Supply Program ("RWSP") per the specified terms of the Agreement for The Exchange and Purchase of North Valley Regional Recycled Water Program Water. Pursuant to the CNRA grant agreement, a total prepayment of \$26,695,480 dollars was received in June 2019 by the District expressly to fund \$23,095,480 in future Program Water acquisition and \$3,600,000 for O&M costs related to the RWSP's current acquisition of Program Water paid for by the NVERRWP-RWSP funds. The District accounts for this transaction as a fiduciary fund type, specifically as a third agency fund. As of February 28, 2022, the District held \$26,202,120 included in cash, investment interest receivable, and investments, and reports a corresponding liability for the same amount relating to the Fund.

Del Puerto Water District

Notes to the Financial Statements

February 28, 2022

NOTE 21: FAIR VALUE OF ASSETS AND LIABILITIES

The District complies with Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements*. ASC 820 fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, Level 1 is defined below as:

Level 1: Quoted prices in active markets for identical assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the District's balance sheets, as well as the classification pursuant to the valuation hierarchy.

Financial Instruments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 instruments include a variety of financial instruments as listed below. There are no Level 2 or Level 3 types within the balance sheet of the District. The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with ASC 820 as of February 28, 2022:

	<u>Fair Value</u>	<u>Level 1</u>
Money market securities	\$ 5,637,068	\$ 5,637,068
Certificates of deposit	19,970,547	19,970,547
Municipal Bonds	27,807,469	27,807,469
Government securities	<u>2,918,448</u>	<u>2,918,448</u>
Totals of financial instruments	<u>\$ 56,333,532</u>	<u>\$ 56,333,532</u>

NOTE 22: SUBSEQUENT EVENTS

Events have been reviewed through September 26, 2022, the date the financial statements were available for issuance.

Required Supplementary Information
Schedule of Contributions to the OPEB Plan
February 28, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Service cost	\$ 40,848	\$ 30,913	\$ 28,664	\$ 32,526
Interest	36,868	35,286	32,616	29,671
Differences between expected and actual experience	-	(30,428)	-	(30,959)
Changes of assumptions	-	(7,648)	12,464	40,082
Net investment income	(104,546)	(103,132)	14,065	(48,504)
Employer contributions	(33,423)	(31,062)	(38,465)	(26,428)
Administrative expenses	659	601	540	527
Net change in total OPEB liability	59,594			
Total OPEB liability - beginning	<u>(223,381)</u>			
Total OPEB liability - ending	<u>\$ (282,975)</u>	<u>\$ (223,381)</u>	<u>\$ (117,911)</u>	<u>\$ (167,795)</u>
Covered-employee payroll	\$ 618,148	\$ 498,958	\$ 459,586	\$ 437,670
Total OPEB liability as a percentage of covered payroll	-45.78%	-41.27%	-25.66%	-38.34%

- The first year of implementation was February 28, 2019. A ten-year history will be presented as the years accumulate.

Required Supplementary Information
Schedule of Pension Information
February 28, 2022

Last 10 Fiscal Years*:

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
District's proportion of the net pension liability	0.0148900%	0.0161600%	0.0154990%	0.1603500%	0.0165600%	0.0175910%
District's proportionate share of the net pension liability	\$ 517,245	\$ 603,400	\$ 584,119	\$ 642,133	\$ 698,501	\$ 334,021
District's covered employee payroll during measurement period	395,740	435,546	431,861	466,277	545,388	627,630
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	130.70%	138.54%	135.26%	137.71%	128.07%	53.22%
Plan Fiduciary net position as a percentage of the total pension liability	77.22%	76.38%	78.78%	77.88%	77.61%	90.06%

CALPERS - Schedule of District Contributions

Last 10 Fiscal Years*:

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Actuarially determined contribution	\$ 30,360	\$ 42,158	\$ 37,258	\$ 86,724	\$ 105,631	\$ 120,218
Total actual contribution	<u>30,360</u>	<u>42,158</u>	<u>37,258</u>	<u>86,724</u>	<u>105,631</u>	<u>120,218</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 395,740	\$435,546	\$431,861	\$498,958	\$618,161	\$692,037
Contributions as a percentage of covered employee payroll	7.67%	9.67%	8.63%	17.38%	17.09%	17.37%

* The first year of implementation was June 30, 2016. A ten-year history will be presented as the years accumulate.