Semitropic Water Storage District

Combined Financial Statements

December 31, 2021 and 2020

CONTENTS

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditor's Report

Board of Directors
Semitropic Water Storage District
Wasco, California

Report on the Audit of the Combined Financial Statements

Opinions

We have audited the accompanying combined financial statements of Semitropic Water Storage District (the District) as of and for the years ended December 31, 2021 and 2020, and the related notes to the combined financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Semitropic Water Storage District as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United Stated of America and the standards applicable to financial audits contained in the *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Semitropic Water Storage District and to meet our 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 opinions.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined 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 for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditors' Responsibility for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 opinions. 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 and *Government 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 override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing* Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 combined financial statements.
- Consider 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated June 8, 2022, on our consideration of Semitropic Water Storage District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 8, 2022

Management's Discussion and Analysis

The following discussion and analysis of Semitropic Water Storage District financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2021 and 2020. This information is presented in conjunction with the basic audited combined financial statements and accompanying notes, which follow this section.

Financial Highlights

The District's total net position increased \$18.5 million or 8% over the course of the year's operations.

The District's total revenues experienced a net increase of \$42.9 million or 77% during the year ended December 31, 2021. The primary reason for the net increase in total revenues was an increase in groundwater banking revenue, other charges, and change in fair market value of the interest rate swap. During 2021, the State allocation was 5%, down from 20% in 2020. Because of this lower allocation, there was less water available for purchase, thus an increase in groundwater pumped and returned to our groundwater banking partners.

The District's total expenses increased \$21.7 million, or 37%.

The District's gross capital assets increased \$9.0 million, or 2%, during the year ended December 31, 2021 due to the initiating/completion of some construction projects.

Overview of the Combined Financial Statements

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

Required Financial Statements

The combined financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. The combined financial statements conform to accounting principles which are generally accepted in the United States of America and utilize the accrual basis of accounting.

The combined statements of net position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities), with the difference between the two reported as net position. This statement will indicate which assets are restricted due to contractual, Board action, or other commitments. This statement also provides the basis for assessing the liquidity, capital structure and financial flexibility of the District.

Revenues and expenses for each of the last two fiscal years are accounted for in the combined statements of revenues and expenses and changes in net position. These statements measure the success of the District's operations and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through user fees and other charges.

The combined statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. From this statement, information related to sources and uses of cash, and the change in cash balances can be compared for each of the last two fiscal years.

Financial Analysis of the District

The required combined financial statements, discussed above, assist the reader in making an assessment of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, hydrology, population growth, and new or changed government legislation.

To begin our analysis, a summary of the District's combined statements of net position is presented in Table A.

Table A
Condensed Combined Statements of Net Position
December 31, 2021 and 2020
(in millions)

	2021	*2020*	*Dollar Change*	*Percentage Change*
Current assets	$ 49.7	$ 37.1	$ 12.6	34%
Capital assets	302.5	301.1	1.4	0.5%
Noncurrent other assets	72.6	75.5	(2.9)	-4%
Total assets	424.8	413.7	11.1	3%
Deferred outflows of resources	19.0	21.7	(2.7)	-12%
	$ 443.8	$ 435.4	$ 8.4	2%
Current liabilities	$ 29.5	$ 24.4	$ 5.1	21%
Long-term liabilities	172.6	187.8	(15.2)	-8%
Total liabilities	202.1	212.2	(10.1)	-5%
Invested in capital assets, net of related debt	149.7	129.6	20.1	16%
Restricted	1.9	1.9	-	0%
Unrestricted	90.1	91.7	(1.6)	-2%
Total net position	241.7	223.2	18.5	8%
	$ 443.8	$ 435.4	$ 8.4	2%

As the statement of net position table above indicates, total assets increased by $8.4 million to $443.8 million at December 31, 2021, from $435.4 million at December 31, 2020. The increase in the total assets of the District was primarily due to an increase in accounts receivable of $13.1 million due to increase in revenues.

Total liabilities decreased by $10.1 million to $202.1 million at December 31, 2021, from $212.2 million at December 31, 2020. The decrease is mostly due to the reduction in long-term debt.

Table B
Condensed Combined Statements of Revenues and Expenses and Changes in Net Position
For the Years Ended December 31, 2021 and 2020
(in millions)

	2021	2020	Dollar Change	Percentage Change
Operating revenues:				
Contract water	$ 10.1	$ 9.0	$ 1.1	12%
Noncontract water	2.5	2.4	0.1	4%
Groundwater banking	40.1	14.4	25.7	178%
Electrical transfer & hookup	5.6	3.8	1.8	47%
Other charges	8.1	3.7	4.4	119%
	66.4	33.3	33.1	99%
Nonoperating income:				
Interest income	0.7	1.0	(0.3)	-30%
GA & GP service charges	19.4	19.3	0.1	1%
Prior year income, net	3.6	2.7	0.9	33%
Other income, net	5.7	1.3	4.4	100%
Change in FMV of interest rate swap	3.1	(1.6)	4.7	-294%
	32.5	22.7	9.8	43%
Total revenues	98.9	56.0	42.9	77%
Operating expenses:				
Transmission & distribution	41.1	20.1	21.0	104%
Source of supply	17.5	17.0	0.5	3%
General and administrative	4.2	3.9	0.3	8%
Depreciation and amortization	7.6	7.5	0.1	1%
	70.4	48.5	21.9	45%
Nonoperating expenses:				
Interest expense	10.0	10.2	(0.2)	-2%
	10.0	10.2	(0.2)	-2%
Total expenses	80.4	58.7	21.7	37%
Change in net position	18.5	(2.7)	21.2	-785%
Net position, beginning of year	223.2	225.9	(2.7)	-1%
Net position, end of year	$ 241.7	$ 223.2	$ 18.5	8%

While the Combined Statements of Net Position shows the change in financial position of the District, the Combined Statements of Revenues and Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

The District's total revenues increased by $42.9 million to $98.9 million during the year ended December 31, 2021, from $56.0 million during the year ended December 31, 2020. During 2021, the District allocation from the State Water Project (SWP) was 5%. This meant that our groundwater banking partners had more water returned by the District. In 2020, the allocation from the State Water Project was 20%. Due to the decrease in allocation from 2020, the District's groundwater banking revenue increased by $25.7 million and other charges increased by $4.4 million in 2021. The District's banking partners requested a net recovery of their stored water accounts of 150,445 acre-feet, an increase from the 45,097 net acre-feet that was recovered in 2020. Water banking revenues (which increased $25.7 million in 2021) includes the recovery/recharge fee charged per acre-foot of water recovered/recharged, the energy cost for returning the water requested and water treatment costs, if necessary. Other charges include dry year pool water purchased and sold to landowners at a much higher price per acre-feet and sale of banked groundwater in 2021.

Total expenses increased $21.7 million to $80.4 million during the year ended December 31, 2021 from $58.7 million during the year ended December 31, 2020. This increase was primarily due to the increase in electricity and water treatment costs resulting from the increase in water returned to our groundwater banking partners.

As of December 31, 2021, the District had invested $442.9 million in capital assets as shown in Table C.

Table C
Capital Assets
December 31, 2021 and 2020
(in millions)

	2021	2020	Dollar Change	Percentage Change
Land	$ 94.5	$ 94.5	$ -	0%
Transmission and distribution	286.0	282.5	3.5	1%
Communication equipment	0.01	0.01	-	0%
Autos and trucks	1.9	1.9	-	0%
Office equipment	0.7	0.6	0.1	17%
Field and miscellaneous equipment	1.3	1.3	-	0%
Well drilling equipment	2.9	2.9	-	0%
Wells	15.5	15.5	-	0%
General plant and equipment	4.4	4.4	-	0%
Capacity rights	6.2	4.5	1.7	38%
Construction in progress	29.5	25.8	3.7	14%
Total capital assets	442.9	433.9	9.0	2%
Less accumulated depreciation	140.4	132.8	7.6	6%
Total net capital assets	$ 302.5	$ 301.1	$ 1.4	0%

As can be seen from the table above, total capital assets increased $9.0 million to $442.9 million at December 31, 2021, from $433.9 million at December 31, 2020. The increase is mainly due to the initiating/completion of construction projects and acquisition of capacity rights during the year.

Table D
Debt
December 31, 2021 and 2020
(in millions)

	2021	2020	Dollar Change	Percentage Change
Revenue bonds	153.4	162.2	$ (8.8)	-5%
Warrants	-	10.0	(10.0)	-100%
Swap	11.9	15.0	(3.1)	-21%
State loans	3.4	4.3	(0.9)	-21%
Note payable	6.3	7.0	(0.7)	-10%
Total debt	$ 175.0	$ 198.5	$ (23.5)	-12%

Revenue bonds are legally secured by a portion of the District's water banking revenues and/or the District's general administrative and general project service charges.

Other debt represents District obligations paid out of its general operating revenues. The District has no general obligation bonds at this time.

Total debt decreased $23.5 million to $175 million during the year ended December 31, 2021 from $198.5 million during the year ended December 31, 2020. The decrease is due to the retirement of Warrants, current year debt principal payments made, and decrease in the fair value of the swap.

The District received an affirmed AA- rating by Fitch Ratings for both the 2012A and 2012B water banking revenue refunding bonds issued to replace variable debt.

The District received an affirmed A+/Stable rating by S&P Global Ratings for both the 2012A and 2012B water banking revenue refunding bonds issued to replace variable debt.

The District received an affirmed A+/Stable rating by S&P Global Ratings for the 2014A revenue bonds issued for land acquisitions and capital projects.

The District received an affirmed A+/Stable rating by S&P Global Ratings for the 2015A revenue bonds issued for capital projects and a partial refunding of prior bonds.

The District received an affirmed A+/Stable rating by S&P Global Ratings for the 2017A revenue bonds issued for refunding of prior bonds and warrants.

The District received an affirmed AA- rating by Fitch Ratings and A+/Stable rating by S&P Global Ratings for the 2019A revenue bonds issued for refunding of prior bonds.

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2021 against actual.

Table E
Budget vs. Actual Comparison
For the Year Ended December 31, 2021
(in millions)

	Actual	*Budget*	*Change*	*Percentage Change*
Operating revenues:				
Contract water	$ 10.1	$ 10.2	$ (0.1)	-1%
Noncontract water	2.5	2.9	(0.4)	-14%
Groundwater banking	40.1	41.4	(1.3)	-3%
Electrical transfer & hookup	5.6	5.3	0.3	6%
Other charges	8.1	9.1	(1.0)	-11%
	66.4	68.9	(2.5)	-4%
Nonoperating income:				
Interest income	0.7	0.8	(0.1)	-13%
GA & GP service charges	19.4	18.8	0.6	3%
Prior year income, net	3.6	0.3	3.3	1100%
Other income, net	5.7	(0.4)	6.1	100%
Change in FMV of interest rate swap	3.1	-	3.1	100%
	32.5	19.5	13.0	67%
Total revenues	98.9	88.4	10.5	12%
Operating expenses:				
Transmission & distribution	41.1	25.5	15.6	61%
Source of supply	17.5	18.4	(0.9)	-5%
General and administrative	4.2	11.8	(7.6)	-64%
Depreciation and amortization	7.6	7.8	(0.2)	-3%
	70.4	63.5	6.9	11%
Nonoperating expenses:				
Interest expense	10.0	8.3	1.7	20%
	10.0	8.3	1.7	20%
Total expenses	80.4	71.8	8.6	12%
Change in net position	$ 18.5	$ 16.6	$ 1.9	11%

Total revenue was above budgeted revenues for 2021 mainly due to the increased amount of prior year revenues, which was more than the District budgeted for.

Total expenses came out over budgeted expenses by $8.6 million. This was mainly due the higher amount of transmission and distribution expenses, offset by lower amount of general and administrative expenses and higher amount of other income. Transmission and distribution was higher due to higher amount of water pumped and returned to the groundwater banking partners. Lower general and administrative expenses was primarily due to salaries, payroll taxes and benefits that came in under budget by $3.6 million.

The annual budget is presented and approved by the District's Board of Directors each October for the following year. An updated budget is presented and approved in June, if necessary.

Contacting the District Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at P.O. Box 8043, Wasco, CA 93280.

Semitropic Water Storage District

Combined Statements of Net Position
December 31, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***2021***	***2020***
Current Assets		
Cash and cash equivalents	$ 11,728,319	$ 19,301,021
Receivables:		
Accounts receivable	16,838,927	3,695,067
General administrative and general project service charges receivable	9,302,779	9,712,301
Current portion of notes receivable	2,709,736	2,209,287
Other prepaid expenses and deposits	9,129,479	2,205,411
Total current assets	49,709,240	37,123,087
Noncurrent Assets		
Restricted assets:		
Cash and cash equivalents	1,011,223	1,250,793
Investments	889,518	664,659
Total restricted assets	1,900,741	1,915,452
Capital assets, net of accumulated depreciation	302,462,282	301,146,494
Other noncurrent assets:		
Notes receivable, less current portion	5,202,603	7,912,339
Banked water inventory	47,681,315	47,154,336
Investment in Southern California Water Bank Authority	13,661,224	14,895,015
Investment in Kern Water Bank Authority	4,177,354	3,594,092
Total other noncurrent assets	70,722,496	73,555,782
Total noncurrent assets	375,085,519	376,617,728
Total Assets	424,794,759	413,740,815
Deferred Outflows of Resources		
Deferred outflow of advance refunding of bonds	18,966,158	21,702,064
	$ 443,760,917	$ 435,442,879

See Notes to Combined Financial Statements.

LIABILITIES AND NET POSITION	2021	2020
Current Liabilities		
Current maturities of long-term debt	$ 11,020,880	$ 20,452,831
Trade accounts payable	8,611,676	1,854,729
Customer deposits	5,267,045	1,079,082
Accrued liabilities	951,236	964,730
Deferred revenue	3,686,209	70,120
Total current liabilities	29,537,046	24,421,492
Long-Term Liabilities		
Long-term debt, less current maturities	160,739,580	172,792,175
Obligations under interest rate swap	11,863,551	14,986,069
	172,603,131	187,778,244
Total Liabilities	202,140,177	212,199,736
Net Position		
Invested in capital assets, net of related debt	149,667,980	129,603,552
Restricted for:		
Debt service	1,874,949	1,873,422
Cafeteria plan	25,792	42,030
Unrestricted	90,052,019	91,724,139
	241,620,740	223,243,143
	$ 443,760,917	$ 435,442,879

Semitropic Water Storage District

Combined Statements of Revenues and Expenses
For the Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Contract water	$ 10,136,092	$ 8,981,041
Noncontract water	2,432,351	2,348,204
Groundwater banking	40,062,793	14,408,623
Electrical transfer and hookup charges	5,611,114	3,814,739
Other charges	8,097,571	3,748,856
	66,339,921	33,301,463
Operating expenses:		
Transmission and distribution	41,123,501	20,149,492
Source of supply	17,496,573	17,045,691
General and administrative	4,138,407	3,872,364
Depreciation and amortization expense	7,632,950	7,529,502
	70,391,431	48,597,049
Operating loss	(4,051,510)	(15,295,586)
Nonoperating income (expense):		
Interest income	657,575	1,020,723
General administrative service charges	252,465	252,468
General project service charges	19,103,902	19,091,843
Interest expense	(10,034,617)	(10,152,709)
Equity in loss from investments	(318,803)	(1,015,618)
Other income, net	6,025,375	2,362,165
Prior year income, net	3,620,692	2,688,720
Gain on disposal of assets	-	1,850
Change in fair value of interest rate swap	3,122,518	(1,626,545)
	22,429,107	12,622,897
Change in net position	$ 18,377,597	$ (2,672,689)

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Changes in Net Position
For the Years Ended December 31, 2021 and 2020

Balance, December 31, 2019	$ 225,915,832
Change in net position	(2,672,689)
Balance, December 31, 2020	223,243,143
Change in net position	18,377,597
Balance, December 31, 2021	$ 241,620,740

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from customers	$ 90,018,532	$ 54,299,515
Payments to suppliers for goods and services	(60,395,775)	(45,513,138)
Payments to employees for services	(3,033,543)	(3,728,741)
Net cash provided by operating activities	26,589,214	5,057,636
Cash flows from capital and related financing activities:		
Payment for acquisition and construction of capital assets	(8,948,738)	(9,302,996)
Receipts from grants	393,537	2,114,590
Proceeds from disposal of capital assets	-	1,850
Payments for interest on bonds and construction loans	(8,366,999)	(8,491,476)
Proceeds from issuance of long-term debt	-	10,000,000
Payments on long-term debt	(20,453,015)	(9,955,319)
Net cash used in capital and related financing activities	(37,375,215)	(15,633,351)
Cash flows from investing activities:		
Net sales (purchase) of investments	(224,859)	6,733
Proceeds from receipts on notes receivable	2,209,287	1,818,268
Distributions received from investments	331,726	173,137
Interest income	657,575	1,020,723
Net cash provided by investing activities	2,973,729	3,018,861
Net decrease in cash and cash equivalents	(7,812,272)	(7,556,854)
Cash and cash equivalents at beginning of the year	20,551,814	28,108,668
Cash and cash equivalents at the end of the year	$ 12,739,542	$ 20,551,814
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 11,728,319	$ 19,301,021
Restricted cash and cash equivalents	1,011,223	1,250,793
	$ 12,739,542	$ 20,551,814

See Notes to Combined Financial Statements.

	2021	2020
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (4,051,510)	$ (15,295,586)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	7,632,950	7,529,500
General administrative and general project service charges	19,356,367	19,344,311
Prior year income, net	3,620,692	2,688,720
Other income, net	5,631,838	247,575
Changes in operating assets and liabilities:		
Receivables and general administrative and general project service charges receivable	(12,734,338)	(966,561)
Other prepaid expenses and deposits	(6,924,068)	(1,978,988)
Banked water inventory	(526,979)	(7,473,686)
Accounts payable and accrued liabilities	10,968,173	962,351
Deferred revenue	3,616,089	-
Net cash provided by operating activities	$ 26,589,214	$ 5,057,636
Noncash investing and financing activities:		
Change in fair value of interest rate swap obligation	$ (3,122,518)	$ 1,626,545
Equity in loss from investments	$ (318,803)	$ (1,015,618)
Amortization of deferred outflow of advanced refundings included in interest expense	$ 2,735,906	$ 2,735,908

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

Principles of combination:

The combined financial statements include the accounts of Semitropic Water Storage District, Buttonwillow Improvement District of the Semitropic Water Storage District, Pond-Poso Improvement District of the Semitropic Water Storage District, Semitropic Wildlife Improvement District of the Semitropic Water Storage District and Semitropic Improvement District of the Semitropic Water Storage District. Inter-district accounts have been eliminated.

Nature of District's activities:

Semitropic Water Storage District (the District) was formed on August 27, 1958. It began as an irrigation district for the purpose of securing State Water Project supplies to reduce groundwater overdraft. The District, a special district of the State of California, is one of eight water storage districts in California and is the largest in Kern County. The District is governed by a Board of Directors consisting of seven members who are elected by rate payers to serve four-year terms. Semitropic Improvement District has been appointed as agent to administer contracts on behalf of Buttonwillow Improvement District, Pond-Poso Improvement District, Semitropic Wildlife Improvement District and Semitropic Water Storage District.

The District’s service area is comprised of approximately 221,000 acres or 345 square miles in the northwestern portion of Kern County. Since its inception, Buttonwillow Improvement District, Pond-Poso Improvement District, Semitropic Improvement District and Semitropic Wildlife Improvement District were created to help administer and manage the course of action and policies of Semitropic Water Storage District.

Although Buttonwillow Improvement District, Pond-Poso Improvement District, Semitropic Improvement District and Semitropic Wildlife Improvement District are a part of the Semitropic Water Storage District, they are operated and reported on as Semitropic Improvement District. As such, Semitropic Water Storage District is generally not liable for any contracts entered into or commitments made by them.

Significant accounting policies are as follows:

Basis of accounting and financial reporting:

The accompanying combined financial statements have been prepared on the accrual basis of accounting, in conformity with the uniform system of accounts prescribed for water districts by the Controller of the State of California. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of cash payments or receipts.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

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

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

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

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

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

Deferred outflows of resources:

The District reports increases in net assets that relate to future periods as deferred outflows of resources in a separate section of the combined statements of net position. Deferred outflows of resources reported in the combined financial statements are due to the deferred amount arising from the refunding of bonds in previous years. The deferred refunding amounts are being amortized over the remaining life of the refunding bonds as part of interest expense.

Fund accounting:

The District utilizes accounting for enterprise entities that account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or, (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Use of estimates:

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

Revenue recognition:

The District has three primary sources of revenue. From its inception, the District has recognized revenue from the sale of surface irrigation water to water users located within the District for the purpose of halting the groundwater overdraft. Effective February 10, 2016, after certifying the results of a Proposition 218 majority protest hearing, the District established a State Water Project ("SWP") water charge and additional water use charge for Contract water users. The SWP water charge will be set each year based on a percentage of the fixed portion of costs to the District to import supplies through the District's contract with the Kern County Water Agency. The Additional Water Use charge will be charged based on the acre-feet delivered to each Contract water user. The amount of SWP and Additional Water Use charges for December 31, 2021 were $9,741,868 and $394,224, respectively, and $7,750,516 and $1,230,525, respectively, for the year ended December 31, 2020. The District's water rates are supported by an annual applied water cost analysis and are approved by the District's board on an annual basis. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. Revenue from these sales are recognized on the accrual basis as water is delivered.

Beginning in 1995, the District entered into several groundwater banking agreements with its Banking Partners, some of which are other water districts in California. Under these agreements, the Banking Partners use available space within the District's groundwater basin to store water during wet years (years when there is abundant rainfall and surplus water available) and recover water during dry years (years with little rainfall and no surplus water). The District primarily stores Banking Partners' water using in-lieu recharge, which stores water by utilizing surface water "in-lieu" of pumping groundwater, thereby storing an equal amount in the groundwater basin. The District is paid an annual fee for operating and maintaining the groundwater banking program and earns revenue on a per acre-foot basis at the time water is stored and when water is returned to the respective Banking Partner. The District also receives revenue toward energy and water treatment reimbursements when water is returned. Revenue for groundwater banking is recognized in the period when annual fees are billed and when water is stored or returned for each respective Banking Partner. At December 31, 2021 and 2020, the District held 901,258 and 1,052,589 acre-feet (AF), respectively, of water in storage for future delivery to banking partners.

Lastly, the District receives revenue from general administrative and general project service charges for landowners receiving benefit from District services. These charges are established by the Board of Directors for the period January through December of each year and are levied to landowners within the District on their county property tax statements based on uniform rates per acre. For the years ended December 31, 2021 and 2020, $19,356,367 and $19,344,311, respectively, was earned by the District for general administrative and general project service charges. If available from District funds, the Board may authorize an end of the year discretionary payment in proportion to the general project service charge to the same District landowners. For the years ended December 31, 2021 and 2020, there was no end of the year discretionary payment authorized by the District.

Other sources of revenue include interest income and miscellaneous revenue which is comprised of water wheeling income, other water charges and electrical services.

Allowance for delinquency provision:

In prior years, the allowance for delinquency provision for general administrative and general project service charges has been based on a percentage of assessments levied. The percentage is determined by collections from previous years. As of December 31, 2021 and 2020, the District's management decided an allowance for delinquency provision for general administrative and general project service charges was not necessary.

Accounts receivable, trade:

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year end will be immaterial; accordingly, no allowance for doubtful accounts is required.

Concentration of credit risk:

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

Capital assets:

The District's capital assets are recorded at cost. Assets are capitalized when the cost is greater than $5,000 and the asset has a useful life greater than two years. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Transmission and distribution	15-60
Communication equipment	5-10
Autos and trucks	5-10
Office equipment	3-10
Field and miscellaneous equipment	5-10
Well drilling equipment	5-20
Wells	15-25
General plant and equipment	15-60
Capacity rights	25

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and the gain or loss is included in operations.

Cash and cash equivalents:

The District considers cash equivalents to be all highly liquid debt instruments purchased with a maturity of three months or less. At December 31, 2021 and 2020, cash and cash equivalents include cash on hand and amounts deposited with banks, the County of Kern Treasurer and the State Treasurer's office.

The District invests any excess funds not needed for immediate needs into State of California managed Local Agency Investment Fund (LAIF), which is a permitted investment by both State law and the District's investment policy. Created by state statute, the LAIF is a component of a pooled money program that is administered by the State Treasurer's Office. The fund has regulatory oversight from the Local Investment Advisory Board, which is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. As the LAIF does not make share-value adjustments due to immaterial differences between fair value and cost, the District's cost basis in the fund is reflected in cash and cash equivalents on the combined statements of net position as of December 31, 2021 and 2020.

Custodial credit risk:

Custodial credit risk of deposits is the risk that in the event of a bank failure, the District's deposits may not be returned. 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 and investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% 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. At December 31, 2021, the District had no risk associated with custodial assets.

Deposits with financial institutions:

Cash funds deposited with the State Treasurer's office are in a pooled money fund. Funds are pooled with other agencies throughout California. Investments are made in accordance with Government Code Sections 16430 and 16480. Cash funds are also deposited with the County of Kern and are appropriately collateralized by cash, investments and securities.

Pooled funds may be invested in: (1) direct obligations of the United States government, the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit at savings and loan associations and federally insured banks when secured by acceptable collateral and, (3) savings accounts at savings and loan associations and banks, to the extent fully insured.

As a government agency, the California Government Code dictates guidelines toward the District's investments in addition to the District's investment policy, which has been approved by the Board of Directors. This policy provides the District's treasurer with investment authority, summarizes authorized investments, and describes the District's procedures and other limitations. The objective of the District's investment policy is to maximize the yield of invested funds while assuring that investments are safe from loss, utilizing the "prudent person" policy of safety, legality and yield.

Below is a summary of the District's cash and investment policies, credit risk and description of the District's cash and investments. Separate internal accounts or funds have been created by the District to provide for specific events in accordance with bond covenants, trust agreements or certain regulations. These "restricted" accounts may have minimum balance requirements. The primary restrictions for these accounts are due to construction of capital assets and reserves for principal and interest on outstanding debt. All remaining cash and investments are unrestricted.

Cash and investments as of December 31, 2021 and 2020 are classified in the accompanying combined statements of net position as follows:

	2021	***2020***
Current assets - cash and cash equivalents	$ 11,728,319	$ 19,301,021
Noncurrent assets - restricted cash	1,011,223	1,250,793
Noncurrent assets - restricted investments	889,518	664,659
	$ 13,629,060	$ 21,216,473

Cash and investments as of December 31, 2021 and 2020 consisted of the following:

	2021	***2020***
Cash deposits with financial institutions	$ 9,331,114	$ 19,940,865
Deposits with Kern County	2,865,791	609,811
Deposits with LAIF	542,637	1,138
Investments with financial institutions	889,518	664,659
	$ 13,629,060	$ 21,216,473

Investments:

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

Disclosures relating to interest rate risk and credit risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the actual rating as of year end for each investment type.

	Total	*Minimum legal rating*	*AA*	*A*	*BBB*
Corporate & Municipal Bonds	$ 889,518	A	$ -	$ -	$ 889,518

There is no minimum legal rating for U.S. Government Agency Securities and certificates of deposit.

As of December 31, 2021, the District had the following investments and maturities:

		Investment maturities	
	Fair Value	*Less Than 1 Year*	*1 Year to 5 Years*
Corporate & Municipal Bonds	$ 889,518	$ 889,518	$ -

As of December 31, 2020, the District had the following investments and maturities:

		Investment maturities	
	Fair Value	*Less Than 1 Year*	*1 Year to 5 Years*
Corporate & Municipal Bonds	$ 165,619	$ 165,619	$ -
Commercial Paper	499,040	499,040	-
	$ 664,659	$ 664,659	$ -

Banked water inventory:

Banked water inventory includes both water spread in-district and water banked with both Kern Water Bank Authority and Kern County Water Agency. The direct costs associated with the water percolated are the basis for the banked water inventory value. The District does not pump District wells to meet the demands of District Landowners. The District operates District wells for the recovery of Banked Water on behalf of our bankers. This recovered water may be delivered to a District Landowner in exchange for a like amount of State Water that would have otherwise been delivered to the District landowner such that the State Water can be delivered to a District banking partner to effectuate the delivery of the recovered banked water.

Water accounting for financial statement purposes may not be appropriate for other groundwater accounting purposes.

In-district banked water includes both water purchased and 10% water holdbacks from water banking partners water deliveries. Banked water does not consider underground water within Districts boundaries resulting from return flows from District irrigation deliveries or native ground water. The District accounts for the water using the average cost method, which is adjusted annually for water transactions.

Water banked with other water agencies includes purchased water imported into water banks to be utilized in the future. Banked water is tracked on an annual layer basis and is accounted for on the first-in, first-out (FIFO) cost flow method.

Cash flows:

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

Note 2. Water Received and Delivered

Detailed below is the water received and delivered by the District. This information does not include water that is solely pumped and utilized by farmers. Rather, water information provided below represents water that is utilized by the District.

Water Received	***2021 (acre-feet)***	***2020 (acre-feet)***
Purchased from Kern County Water Agency		
Entitlement		
Current year allocation (5% and 20%)	7,750	31,000
Carryover to next year	(6,415)	(13,583)
Carryover from prior year	13,583	7,264
Amount exchanged with banking partners	-	(10,032)
Subtotal	14,918	14,649
Other	-	13,155
Total water received - Kern County Water Agency	14,918	27,804
Total water received from banking partners	2,607	2,493
Total water received from other water agencies	7,770	16,727
In-District Ground Water Extraction		
District wells pumped	85,838	43,488
Pumping agreement with landowners	69,100	3,464
	154,938	46,952
Out of District Ground Water		
Kern Water Bank	14,195	22,067
Pioneer Project	6,468	10,000
	20,663	32,067
Total Water Received	200,896	126,043

	2021 (acre-feet)	2020 (acre-feet)
Water Delivered		
Delivered In-District		
Contract	6,916	27,975
Noncontract	20,927	21,041
In-District spreading and overdraft correction	44	275
Supplemental Ag water	10,779	9,157
Other	2,265	4,440
Total Water Delivered - In-District	40,931	62,888
Banked with other agencies	-	3,937
Returned to other water agencies	3,885	4,247
Returned to landowners	1,626	3,438
Returned to banking partners	117,329	8,453
Returned to banking partners exchange	34,723	38,888
	153,678	50,779
Losses	2,402	4,192
Total Water Delivered	200,896	126,043

Note 3. Restricted Assets

Reserve funds:

The District maintains several reserve funds under provisions of loan contracts and bond issuances and other restrictions. The amounts required for each fund are as follows:

	2021		2020	
	Amount Required	Amount on Deposit	Amount Required	Amount on Deposit
Bond and loan reserve fund	$ 1,874,949	$ 1,874,949	$ 1,873,422	$ 1,873,422
Cafeteria plan	25,792	25,792	42,030	42,030
	$ 1,900,741	$ 1,900,741	$ 1,915,452	$ 1,915,452

The provisions of the various loan contracts and reserve funds are as follows:

Bond and loan reserve fund:

The provisions of the District's various bond issuances and loans from the State of California, Department of Water Resources require the District to maintain reserves until the bonds have been redeemed, certain loan requirements are satisfied or until bond proceeds are exhausted.

Cafeteria plan:

The District has a cafeteria plan whereby employees may elect to defer a portion of their current salary to be reimbursed for future medical expenses.

Note 4. Investments

Investment in Kern Water Bank Authority:

Upon adoption of the Monterey Agreement in 1997, the District obtained a 6.67% interest in Kern Water Bank Authority (KWBA) by reducing the District's annual entitlement water from 158,000 acre-feet to 155,000 acre-feet. The District is able to store water at the KWBA in wet years and draw water in dry years. The District's investment in Kern Water Bank Authority is accounted for using the equity method. Under this method, the District recognizes its share of KWBA's accrual basis income or loss. The District's equity in earnings (loss) from this investment for the years ended December 31, 2021 and 2020 was $583,262 and ($114,477), respectively. The earnings from this investment is included in equity in loss from investments on the combined statements of revenues and expenses.

Investment in Southern California Water Bank Authority:

On July 28, 2008, the District entered into a Joint Powers Agreement with Valley Mutual Water Company, LLC and Rosamond Community Service District to create Semitropic-Rosamond Water Bank Authority. During 2017, the name of the Authority was changed to Southern California Water Bank Authority ("SCWBA").

Initially, SCWBA was to consist of a "First Priority Right" to the following interests in the District's Stored Water Recovery Unit (SWRU) banking project that will provide: (1) 33,333 AF/year of SWRU Delivery Capacity, (2) 300,000 AF of SWRU Storage Capacity, and (3) 100,000 AF/year of SWRU Recovery and Return Capacity, together with rights to certain unused capacities in the SWRU and other elements of the Semitropic Water Bank, and the following rights in the Antelope Valley Water Bank (AVWB): (1) 100,000 AF/year of AVWB Delivery Capacity, (2) 500,000 AF of AVWB Storage Capacity, and (3) 100,000 AF/year of AVWB Recovery and Return Capacity. As part of the agreement, the District recorded an investment in the amount of $20,000,000, which represented the District's equity ownership in SCWBA.

In 2012, the SCWBA joint powers agreement was amended which essentially bifurcated the two water bank operations and defined which assets and liabilities of SCWBA were owned and to be maintained by each member. In addition, beginning in 2013, all revenues and expenses would be allocated to each member on an agreed upon methodology in lieu of allocating the change in net position based on the membership interest.

The District's investment in SCWBA is accounted for using the equity method. Under this method, the District recognizes its share of SCWBA's accrual basis income or loss. The District's equity in loss from this investment for the years ended December 31, 2021 and 2020 was ($902,065) and ($901,141) respectively. The loss from this investment is included in equity in loss from investments on the combined statements of revenue and expenses.

Note 5. Notes Receivable

Notes receivable consists of the following at December 31, 2021 and 2020:

	2021	2020
Note receivable, Poso Creek Water Company, LLC, 5.19%, secured by letter of credit in favor of the District for 30% of outstanding balance, semi-annual principal and interest payments of $728,523, due December 2026	$ 6,345,023	$ 7,430,391
Note receivable, Homer, LLC, 5.5%, secured by letter of credit in favor of the District for 30% of outstanding balance and 18,968 AF of water in storage, $2,000,000 due in 2013 with graduated principal and interest payments due annually beginning January 1, 2014, due January 2023	1,567,316	2,691,235
	7,912,339	10,121,626
Less current portion	(2,709,736)	(2,209,287)
	$ 5,202,603	$ 7,912,339

Note 6. Banked Water Inventory

The estimated banked surface and ground water storage at December 31, 2021 and 2020 consists of the following:

	2021		2020	
	Acre-feet	Costs	Acre-feet	Costs
In District	760,252	$ 37,032,722	780,762	$ 35,163,586
Kern Water Bank	182,158	8,944,718	196,467	9,936,045
Kern County Water Agency*	16,817	475,936	24,509	826,766
Other Agencies	31,803	1,227,939	31,803	1,227,939
	991,030	$ 47,681,315	1,033,541	$ 47,154,336

*Pioneer Project, City of Bakersfield 2800 Acres Project and Kern River Channel.

Note 7. Capital Assets

The following is a summary of changes in the District's capital assets for the years ended December 31, 2021 and 2020:

	Assets-At Cost				
	Balance 12/31/20	***Acquisitions***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/21***
Capital Assets not being depreciated:					
Land	$ 94,537,084	$ -	$ -	$ -	$ 94,537,084
Construction in progress	25,742,954	7,235,849	-	(3,506,171)	29,472,632
Capital Assets being depreciated:					
Transmission and distribution	282,473,885	-	-	3,506,171	285,980,056
Communication equipment	14,749	-	-	-	14,749
Autos and trucks	1,903,526	-	-	-	1,903,526
Office equipment	627,506	41,212	-	-	668,718
Field and misc. equip.	1,290,641	-	-	-	1,290,641
Well drilling equip.	2,872,962	-		-	2,872,962
Wells	15,516,915	10,515	-	-	15,527,430
General plant and equipment	4,421,568	-	-	-	4,421,568
Capacity rights	4,503,542	1,661,162	-	-	6,164,705
	$ 433,905,332	$ 8,948,738	$ -	$ -	$ 442,854,071

	Accumulated Depreciation				
	Balance 12/31/20	***Depreciation Expense***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/21***
Transmission and distribution	$ 121,530,154	$ 6,360,322	$ -	$ -	$ 127,890,476
Communication equipment	11,877	1,326	-	-	13,203
Autos and trucks	1,483,424	134,165	-	-	1,617,589
Office equipment	552,424	28,239	-	-	580,663
Field and misc. equip.	843,080	47,899	-	-	890,979
Well drilling equip.	2,099,956	115,001		-	2,214,957
Wells	2,797,831	621,761	-	-	3,419,592
General plant and equipment	1,680,932	123,721	-	-	1,804,653
Capacity rights	1,759,160	200,516	-	-	1,959,677
	$ 132,758,838	$ 7,632,950	$ -	$ -	$ 140,391,789

	Assets-At Cost				
	Balance 12/31/19	***Acquisitions***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/20***
Capital Assets not being depreciated:					
Land	$ 94,537,084	$ -	$ -	$ -	$ 94,537,084
Construction in progress	20,834,519	7,986,602	-	(3,078,167)	25,742,954
Capital Assets being depreciated:					
Transmission and distribution	279,215,460	1,242,200	-	2,016,225	282,473,885
Communication equipment	14,749	-	-	-	14,749
Autos and trucks	1,879,345	55,228	(31,047)	-	1,903,526
Office equipment	640,530	5,945	(18,969)	-	627,506
Field and misc. equip.	1,284,315	6,326	-	-	1,290,641
Well drilling equip.	2,872,962	-	-	-	2,872,962
Wells	14,982,302	-	-	534,613	15,516,915
General plant and equipment	3,887,544	6,695	-	527,329	4,421,568
Capacity rights	4,503,542	-	-	-	4,503,542
	$ 424,652,352	$ 9,302,996	$ (50,016)	$ -	$ 433,905,332

	Accumulated Depreciation				
	Balance 12/31/19	***Depreciation Expense***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/20***
Transmission and distribution	$ 115,241,851	$ 6,288,303	$ -	$ -	$ 121,530,154
Communication equipment	10,552	1,325	-	-	11,877
Autos and trucks	1,373,095	141,376	(31,047)	-	1,483,424
Office equipment	539,480	31,913	(18,969)	-	552,424
Field and misc. equip.	794,164	48,916	-	-	843,080
Well drilling equip.	1,984,677	115,279	-	-	2,099,956
Wells	2,197,454	600,377	-	-	2,797,831
General plant and equipment	1,574,873	106,059	-	-	1,680,932
Capacity rights	1,563,208	195,952	-	-	1,759,160
	$ 125,279,354	$ 7,529,500	$ (50,016)	$ -	$ 132,758,838

Note 8. Long-Term Debt

Long-term debt at December 31, 2021 and 2020 was as follows:

	2021	***2020***
Contract payable, State of California, 2.4%, unsecured, payable $135,321 semiannually including interest, due May 2023 (proceeds were used for construction of groundwater recharge project)	$ 525,502	$ 779,011
Contract payable, State of California, 2.6%, unsecured, payable $55,052 semiannually including interest, due August 15, 2023 (proceeds were used for construction of groundwater recharge project)	213,263	315,839
Contract payable, State of California, 2.6%, unsecured, payable $161,076 semiannually including interest, due December 31, 2025 (proceeds were used for construction of a water distribution system)	1,078,473	1,369,144
Contract payable, State of California, 2.4%, unsecured, payable $159,792 semiannually including interest, due April 1, 2025 (proceeds were used for construction of a water distribution system)	1,599,087	1,875,346
2012B Revenue Bonds, 2.8%, collateralized by future groundwater banking revenue, principal payable annually, interest payable semi-annually, due December 1, 2022 (proceeds were used to refund 2004 and 2006 bonds, refund 2011 warrants, fund a reserve for the bonds, and pay for cost of issuance of bonds)	1,690,000	3,365,000
2013A Revenue Bonds, interest rates vary over life of bonds between 4% - 5%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2023 (proceeds used to finance miscellaneous construction projects)	2,245,001	3,290,001

2014A Revenue Bonds, interest rates vary over life of bonds between 3% - 5%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2024 (proceeds used to purchase land and finance certain construction projects)	6,935,000	9,030,000
2015A Revenue Bonds, interest rates vary over life of bonds between 3.25% - 5%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2045 (proceeds used to refund a portion of the 2009 bonds and to purchase land)	29,745,000	30,190,000
2017A Revenue Bonds, interest rates vary over life of bonds between 3% - 5%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2038 (proceeds used to refund a portion of the 2009 bonds and 2016 warrants)	44,465,000	46,590,000
Note payable, 2.25%, collateralized by investment in capital project, principal due annually, interest payable semi-annually, due August 2028 (proceeds used to fund a capital project)	6,255,000	7,030,000
2020 Warrants, 2.65%, interest payable monthly, paid in full	-	10,000,000
2019A Revenue Bonds, interest rates vary over life of bonds between 1.99% - 3.29%, collateralized by the District's banking partner contracts, principal payable annually, interest payable semi-annually, due December 1, 2035 (proceeds used to refund 2012A bonds)	68,360,000	69,730,000
	163,111,326	183,564,341
2005 Interest Rate Swap, at cost (See Note 10)	887,200	1,219,900

	2021	2020
Plus premiums, net of accumulated amortization 2021, $4,239,183; 2020, $3,540,352	7,761,934	8,460,765
Less current maturities	(11,020,880)	(20,452,831)
Long term debt, plus premiums and less current maturities	$ 160,739,580	$ 172,792,175

The following is a summary of the long-term debt transactions for the years ended December 31, 2021 and 2020:

	Payable 12/31/20	***Additions***	***Deletions***	***Payable 12/31/21***	***Due within One Year***
Bond principal	$ 162,195,001	$ -	$ (8,755,000)	$ 153,440,001	$ 9,270,000
Warrants	10,000,000	-	(10,000,000)	-	-
Note payable	7,030,000	-	(775,000)	6,255,000	805,000
Loans, State of California	4,339,340	-	(923,015)	3,416,325	945,880
	183,564,341	-	(20,453,015)	163,111,326	$ 11,020,880
Fair value of interest rate swap	14,986,069	-	(3,122,518)	11,863,551	
	$ 198,550,410	$ -	$ (23,575,533)	$ 174,974,877	

	Payable 12/31/19	***Additions***	***Deletions***	***Payable 12/31/20***	***Due within One Year***
Bond principal	$ 170,500,001	$ -	$ (8,305,000)	$ 162,195,001	$ 8,755,000
Warrants	-	10,000,000	-	10,000,000	10,000,000
Note payable	7,780,000	-	(750,000)	7,030,000	775,000
Loans, State of California	5,239,659	-	(900,319)	4,339,340	922,831
	183,519,660	10,000,000	(9,955,319)	183,564,341	$ 20,452,831
Fair value of interest rate swap	13,359,524	1,626,545	-	14,986,069	
	$ 196,879,184	$ 11,626,545	$ (9,955,319)	$ 198,550,410	

The annual requirements to amortize all debt outstanding as of December 31, 2021 are as follows:

Years Ending December 31,	*Principal*	*Interest*	*Interest Rate Swaps, net*	*Total Debt Service*
2022	$ 11,020,880	$ 5,874,285	$ 1,783,011	$ 18,678,176
2023	11,589,555	5,461,985	1,703,542	18,755,082
2024	10,630,662	5,027,604	1,618,331	17,276,597
2025	8,499,368	4,633,742	1,526,876	14,659,986
2026	8,751,224	4,347,269	1,428,922	14,527,415
2027-2031	46,239,637	16,967,404	5,421,628	68,628,669
2032-2036	49,275,000	8,514,726	1,764,884	59,554,610
2037-2041	12,100,000	2,399,162	-	14,499,162
2042-2045	5,005,000	641,000	-	5,646,000
	$ 163,111,326	$ 53,867,177	$ 15,247,194	$ 232,225,697

Note 9. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are quoted market prices for similar assets or liabilities, quoted market prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities; Level 3 inputs are significant unobservable inputs for assets or liabilities.

The District's recurring fair value measurements as of December 31, 2021 and 2020 are as follows:

		December 31, 2021 Fair Value Measurements Using:		
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Investments:				
Corporate & Municipal Bonds	$ 889,518	$ 889,518	$ -	$ -
Obligations under interest rate swap:				
Sun Trust Swap	$ (11,863,551)	$ -	$ (11,863,551)	$ -

		December 31, 2020 Fair Value Measurements Using:		
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Investments:				
Corporate Bonds & Commercial Paper	$ 664,659	$ 664,659	$ -	$ -
Obligations under interest rate swap:				
Sun Trust Swap	$ (14,986,069)	$ -	$ (14,986,069)	$ -

Note 10. Derivatives

The District accounts for derivatives under GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The objectives and terms of the District's hedging derivative instruments outstanding at December 31, 2021 are listed below:

	Type	***Objective***	***Effective Date***	***Maturity Date***	***Terms***
Sun Trust Swap	Pay-fixed interest rate swap	Hedge of changes in interest rates of future bond issuances	9/1/2014	12/1/2035	Pay 5.12%, receive 69% of LIBOR

	Fair Value	***Notional Amount***	***Change in Fair Value***	***Change in Fair Value***
Sun Trust Swap	$ (11,863,551)	$35,318,017	Nonoperating income (expense)	$ 3,122,518

The terms of the District's hedging derivatives instruments at December 31, 2020 are listed below:

	Fair Value	***Notional Amount***	***Change in Fair Value***	***Change in Fair Value***
Sun Trust Swap	$ (14,986,069)	$36,783,702	Nonoperating income (expense)	$ (1,626,545)

On October 27, 2005, the District entered into an off-market forward starting swap (2005 swap). The swap commenced September 1, 2014, and is based on an initial notional amount of $53,895,000. The pay-fixed, receive-variable swap generated debt service savings in the form of an upfront payment in the amount of $3,927,850, from the counterparty, SunTrust Bank (SunTrust). This amount is recorded in the combined statements of net position as long-term debt and is not adjusted to the fair value at each reporting date. During the year ended December 31, 2006, $600,850 of the swap upfront payment was paid back as part of the advance refunding of the 2003 Revenue Bonds of the District, leaving $3,327,000 to be amortized when the swap agreement commenced. The unamortized portion at December 31, 2021 and 2020 was $887,200 and $1,219,900, respectively. During the year ended December 31, 2012, the District issued the 2012 bonds which advanced refunded the 2004 bonds. In accordance with GASB No. 53, the District elected to include the Sun Trust swap as part of the defeasance of the 2004 bonds. The fair value of the Sun Trust swap of $17,251,826 at December 31, 2012 was included in the deferred loss of the defeasance of the 2004 and 2006 bonds and is included in the deferred outflow of advance refunding of bonds on the combined statements of net position. This amount will be amortized over the term of the 2012 bonds. Beginning in 2013, changes in fair value of the Sun Trust interest rate swap are recognized in nonoperating income (expense) on the combined statements of revenues and expenses.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Risks

Credit Risk - Credit risk is the risk that Sun Trust Bank cannot fulfill the terms and obligations specified in the swap agreement. Because the swap had a negative fair value as of December 31, 2021, the District did not have exposure related to credit risk on its swap. However, the District would have exposure related to credit risk in the amount of the swap's positive fair value if interest rates increased to cause the fair value of the swap to become positive. The credit rating of SunTrust is A- by Standard & Poors.

Basis Risk - The District is exposed to basis risk because the variable rate payments received are equal to 69% of LIBOR, which is currently not hedging any outstanding variable interest debt. Based on the significance and extent of any basis risk exposure, the purpose of the swap to generate debt service savings is not being realized.

Termination Risk - Under certain terms of the respective contracts, either the District or SunTrust may terminate the swap for nonperformance from the other party. If the swap is terminated, the projected future issuance of variable rate bonds would no longer be hedged to a fixed rate. If the swap is terminated and the swap has a negative fair value, the District would be liable to SunTrust for a payment equal to the fair value of the swap. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of SunTrust and the District.

Market Access Risk – At this time, the District will most likely not issue variable rate debt to coincide with the Sun Trust Swap.

Rollover Risk – At this time, the District is not exposed to rollover risk.

Foreign Currency Risk - All derivatives are denominated in U.S. dollars and therefore, the District is not exposed to foreign currency risk.

Note 11. Commitments and Contingencies

Self-Insurance:

The District is a member of the Association of California Water Agencies, Joint Powers Insurance Authority (JPIA). JPIA is a group of California Water Districts who have pooled funds to provide self-insurance coverage. The JPIA bills the District a deposit premium at the beginning of each policy year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are charged against the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the District is billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the District. During the current year, there were no significant reductions in coverage.

Water Supply Contract with Kern County Water Agency:

The District obtained its surface water supply in accordance with certain contracts signed between 1969 and 1974 with the Kern County Water Agency (Agency), amended to its current annual amount of 155,000 acre feet of entitlement surface water, through the year 2039. The Agency, in turn, obtained its surface water supply in 1963 when it signed a contract with the State of California, Department of Water Resources (DWR), to purchase annual surface water, currently contracted at 998,731 acre feet, through the State Water Project (SWP) through the year 2035.

The District's contract with the Agency provides for various separate charges, all of which are included in "source of supply" in operating expenses of the District's combined statements of revenues and expenses. The "fixed charge" component of the contract is not necessarily reduced by annual water supply deficiencies as the District is obligated to pay 100% of the annual fixed costs billed by the Agency. Under certain circumstances, fixed charges could be reduced by the DWR when the District receives less than its full entitlement in years of low water supply. Source of supply costs attributable to this contract were $14,398,289 and $15,809,678 for the years ended December 31, 2021 and 2020, respectively.

On March 13, 2008, Judge Wanger of the Fresno Federal Court, ordered DWR to reduce the amount of SWP water exported by the Delta pumps.

On May 25, 2010, Judge Wanger of the Fresno Federal Court eased pumping restrictions that were set in place on March 13, 2008. The federal court granted a preliminary injunction on the biological opinion for salmon, stating that the federal agencies responsible for drafting the biological opinion must take in account human impacts and also demonstrate why certain water exports restriction were called for in the opinion.

Because of the continuing possibility of state water allocations being maintained at reduced levels for water users due to the 2008 and 2010 decisions, the District has developed several programs to augment the District's available water supply among which are, the utilization of wells, banking programs and the transfer of water from sources outside the District. Additionally, the District continues to work on the financial aspect of the problems in an attempt to reduce charges and increase the reliability of the water supply to water users, wherever possible.

During the years ended December 31, 2021 and 2020, the DWR allocated 5% and 20%, respectively, of entitlement to state water contractors. Due to the continued pumping restrictions and extremely dry winter of 2021-2022, the DWR has issued a 5% allocation for the 2022 water year as of the date of this report.

Uncalled assessments:

The Improvement Districts have levied assessments in prior years, which have not been called. The uncalled assessments in the Improvement Districts serve as security on construction financing for Project Unit One in the Pond-Poso Improvement District and the Project Units One and Two in the Buttonwillow Improvement District. Uncalled assessments at December 31, 2021 and 2020 were $4,059,411.

As part of the Energy Development Element project approval vote on November 26, 1991, an assessment was authorized in the amount of $119 per acre on approximately 125,947 acres, for a total adjusted assessment of $14,987,729. These assessments will collateralize the bonds until paid. It is anticipated these assessments, which were levied in February 1992, will remain uncalled and that bond obligations will be paid from operations.

Although the assessments have been levied, they are uncalled and are not reflected as an asset and related liability in the combined financial statements. These assessments will not be recognized until such time as they are called by the District.

Legal:

The District is currently a party to various legal proceedings, some of which are covered by insurance. The amount or range of possible loss, if any, is not reasonably subject to estimation. Notwithstanding the uncertainties associated with litigation, management, including general counsel, currently believe that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the District's financial position or cash flows.

Note 12. Retirement Plan

The District contributes to the Semitropic Water Storage District 401(k) Plan, a defined contribution pension plan. The District administers the Plan, which covers all eligible employees, and can amend the Plan or its contributions at any time. The Plan consists of investments in mutual funds with John Hancock and Invesco. The District contributes an amount equal to 10% of the employees' base salary each month to the employees' pension plan. Employees are required to contribute 4% of base salary each month to receive District contributions, but can contribute up to the statutory IRS limits. To determine the base salary for the plan year, the rates applicable on January 1 are used throughout the plan year and adjusted during the year if a pay increase is given. An employee is eligible for participation in the retirement plan after six months of service. The District's contributions for each employee are 20% vested after two years of employment with vesting increasing 20% for each additional year of employment up to six years. The District's contributions are 100% vested after six years of employment. Unvested contributions and interest forfeited by employees who leave before six years of service are used to reduce the District's current-period contribution requirement or offset plan expenses.

The District's payroll and contributions for the years ended December 31, 2021 and 2020 were as follows:

	2021	***2020***
Total payroll	$ 3,487,512	$ 3,404,026
Base salary for computing contributions	$ 3,174,867	$ 3,082,287
District contributions	$ 303,508	$ 295,305
Employee contributions	$ 170,623	$ 165,005

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Semitropic Water Storage District
Wasco, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Semitropic Water Storage District as of and for the years ended December 31, 2021 and 2020, and the related notes to the combined financial statements, which collectively comprise Semitropic Water Storage District's basic combined financial statements, and have issued our report thereon dated June 8, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the combined financial statements, we considered Semitropic Water Storage District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Semitropic Water Storage District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Semitropic Water Storage District's internal control.

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Semitropic Water Storage District's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 8, 2022

Semitropic Water Storage District

Combined Schedules of Operating Expenses
For the Years Ended December 31, 2021 and 2020

	2021	2020	Increase (Decrease)
Transmission and distribution:			
Power	$ 27,846,490	$ 10,765,504	$ 17,080,986
Water banking expenses	3,639,812	4,399,121	(759,309)
Salaries and wages	1,563,331	1,560,524	2,807
Repairs and maintenance	6,556,304	2,007,017	4,549,287
Employee benefits	875,278	864,843	10,435
Equipment rent	104,189	121,170	(16,981)
Fuel and oil	289,511	174,635	114,876
Payroll taxes	145,789	144,705	1,084
Operating supplies	69,396	76,506	(7,110)
Utilities	26,374	28,886	(2,512)
Licenses and fees	6,327	5,711	616
Miscellaneous	700	870	(170)
	$ 41,123,501	$ 20,149,492	$ 20,974,009
Source of supply:			
State Water Project table 1 entitlement	$ 14,398,289	$ 15,809,678	$ (1,411,389)
Other	3,098,284	1,236,013	1,862,271
	$ 17,496,573	$ 17,045,691	$ 450,882

	2021	2020	Increase (Decrease)
General and administrative:			
Salaries and wages	$ 1,510,015	$ 1,457,374	$ 52,641
Consulting	360,152	454,728	(94,576)
Employee benefits	517,482	540,180	(22,698)
Engineering	395,225	314,227	80,998
Dues	266,367	212,050	54,317
Repairs and maintenance	128,287	169,300	(41,013)
Legal	239,188	192,866	46,322
Public relations	165,000	-	165,000
Insurance	174,682	159,179	15,503
Payroll taxes	98,752	91,530	7,222
Accounting and auditing	72,853	65,130	7,723
Office	35,792	29,138	6,654
Utilities	52,044	41,613	10,431
Equipment rent	30,477	21,829	8,648
Travel	11,114	9,489	1,625
Financing and administration	38,841	86,504	(47,663)
Building services	20,555	19,329	1,226
Bank fees	12,185	11,518	667
Directors' fees and expense	4,690	5,460	(770)
Marketing	4,094	4,392	(298)
Property taxes	612	279	333
Allocation of G&A costs to capital assets	-	(13,751)	13,751
	$ 4,138,407	$ 3,872,364	$ 266,043
Depreciation and amortization expense	$ 7,632,950	$ 7,529,502	$ 103,448