Semitropic Water Storage District

Combined Financial Statements

December 31, 2020 and 2019

C O N T E N T S

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report

Board of Directors
Semitropic Water Storage District
Wasco, California

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Semitropic Water Storage District as of and for the years ended December 31, 2020 and 2019, 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.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Semitropic Water Storage District as of December 31, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the District's basic financial statements. The combined schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combined schedules of operating expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 and the schedule of expenditures of federal awards 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 9, 2021, 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 Semitropic Water Storage 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 Semitropic Water Storage District's internal control over financial reporting and compliance.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

BARBICH HOOPER KING

Bakersfield, California
June 9, 2021

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, 2020 and 2019. 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 decreased $2.7 million or 1% over the course of the year's operations.

The District's total revenues experienced a net decrease of $14.2 million or 21% during the year ended December 31, 2020. The primary reason for the net decrease in total revenues was a decrease in contract and noncontract water revenues. During 2020, the State allocation was 20%, down from 75% in 2019. Because of this lower allocation, there was much less water available for purchase, as well as less water delivered into the District from our groundwater banking partners, which meant the District had less to sell as noncontract water.

The District's total expenses increased $7.8 million, or 16%.

The District's gross capital assets increased $9.2 million, or 2%, during the year ended December 31, 2020 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, 2020 and 2019
(in millions)

	2020	2019	Dollar Change	Percentage Change
Current assets	$ 37.1	$ 41.3	$ (4.2)	-10%
Capital assets	301.1	299.4	1.7	1%
Noncurrent other assets	75.5	71.4	4.1	6%
Total assets	413.7	412.1	1.6	0%
Deferred outflows of resources	21.7	24.4	(2.7)	-11%
	$ 435.4	$ 436.5	$ (1.1)	0%
Current liabilities	$ 24.4	$ 13.0	$ 11.4	88%
Long-term liabilities	187.8	197.6	(9.8)	-5%
Total liabilities	212.2	210.6	1.6	1%
Invested in capital assets, net of related debt	129.6	129.6	-	0%
Restricted	1.9	1.9	-	0%
Unrestricted	91.7	94.4	(2.7)	-3%
Total net position	223.2	225.9	(2.7)	-1%
	$ 435.4	$ 436.5	$ (1.1)	0%

As the statement of net position table above indicates, total assets decreased by $1.1 million to $435.4 million at December 31, 2020, from $436.5 million at December 31, 2019. The decrease in the total assets of the District was primarily due to a decrease in deferred outflows of resources of $2.7 million.

Total liabilities increased by $1.6 million to $212.2 million at December 31, 2020, from $210.6 million at December 31, 2019. The increase is mostly due to the net increase in current and long-term liabilities.

Table B
Condensed Combined Statements of Revenues and Expenses and Changes in Net Position
For the Years Ended December 31, 2020 and 2019
(in millions)

	2020	2019	Dollar Change	Percentage Change
Operating revenues:				
Contract water	$ 9.0	$ 13.3	$ (4.3)	-32%
Noncontract water	2.4	18.2	(15.8)	-87%
Groundwater banking	14.4	10.0	4.4	44%
Electrical transfer & hookup	3.8	1.3	2.5	192%
Other charges	3.7	1.3	2.4	185%
	33.3	44.1	(10.8)	-24%
Nonoperating income:				
Interest income	1.0	1.4	(0.4)	-29%
GA & GP service charges	19.3	19.4	(0.1)	-1%
Prior year income, net	2.7	5.4	(2.7)	-50%
Change in FMV of interest rate swap	(1.6)	(1.4)	(0.2)	14%
	21.4	24.8	(3.4)	-14%
Total revenues	54.7	68.9	(14.2)	-21%
Operating expenses:				
Transmission & distribution	20.1	14.1	6.0	43%
Source of supply	17.0	11.8	5.2	44%
General and administrative	3.9	4.0	(0.1)	-3%
Depreciation and amortization	7.5	6.9	0.6	9%
	48.5	36.8	11.7	32%
Nonoperating expenses:				
Interest expense	10.2	9.7	0.5	5%
Other (income) expense	(1.3)	3.1	(4.4)	100%
	8.9	12.8	(3.9)	-30%
Total expenses	57.4	49.6	7.8	16%
Change in net position	(2.7)	19.3	(22.0)	-114%
Net position, beginning of year	225.9	206.6	19.3	9%
Net position, end of year	$ 223.2	$ 225.9	$ (2.7)	-1%

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 decreased by $14.2 million to $54.7 million during the year ended December 31, 2020, from $68.9 million during the year ended December 31, 2019. During 2020, the District allocation from the State Water Project (SWP) was 20%. This meant that our groundwater banking partners had less water to be stored, or banked within the District. In 2019, the allocation from the State Water Project was 75%. Due to the decrease in allocation from 2019, the District's contract water revenue decreased by $4.3 million and noncontract water revenue decreased by $15.8 million in 2020. The District's banking partners requested a net recovery of their stored water accounts of 45,097 acre-feet, a reversal from the 136,243 acre-feet that was stored in the District in 2019, of which a majority was sold as noncontract water. Water banking revenues (which increased $4.4 million in 2020) 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.

Total expenses increased $7.8 million to $57.4 million during the year ended December 31, 2020 from $49.6 million during the year ended December 31, 2019. This increase was primarily due to a variety of factors, including the increase in water cost and the increased costs to recover water from the District's bank accounts with the Kern Water Bank Authority and Pioneer Project.

As of December 31, 2020, the District had invested $433.9 million in capital assets as shown in Table C.

Table C
Capital Assets
December 31, 2020 and 2019
(in millions)

	2020	*2019*	*Dollar Change*	*Percentage Change*
Land	$ 94.5	$ 94.5	$ -	0%
Transmission and distribution	282.5	279.2	3.3	1%
Communication equipment	0.01	0.01	-	0%
Autos and trucks	1.9	1.9	-	0%
Office equipment	0.6	0.6	-	0%
Field and miscellaneous equipment	1.3	1.3	-	0%
Well drilling equipment	2.9	2.9	-	0%
Wells	15.5	15.0	0.5	3%
General plant and equipment	4.4	3.9	0.5	13%
Capacity rights	4.5	4.5	-	0%
Construction in progress	25.8	20.9	4.9	23%
Total capital assets	433.9	424.7	9.2	2%
Less accumulated depreciation	132.8	125.3	7.5	6%
Total net capital assets	$ 301.1	$ 299.4	$ 1.7	1%

As can be seen from the table above, total capital assets increased $9.2 million to $433.9 million at December 31, 2020, from $424.7 million at December 31, 2019. The increase is mainly due to the initiating/completion of construction projects during the year.

Table D
Debt
December 31, 2020 and 2019
(in millions)

	2020	2019	Dollar Change	Percentage Change
Revenue bonds	162.2	170.5	$ (8.3)	-5%
Warrants	10.0	-	10.0	100%
Swap	15.0	13.4	1.6	12%
State loans	4.3	5.2	(0.9)	-17%
Note payable	7.0	7.8	(0.8)	-10%
Total debt	$ 198.5	$ 196.9	$ 1.6	1%

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 increased $1.6 million to $198.5 million during the year ended December 31, 2020 from $196.9 million during the year ended December 31, 2019. The net increase is due to the issuance of Warrants offset by current year debt principal payments made.

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 2020 against actual.

Table E
Budget vs. Actual Comparison
For the Year Ended December 31, 2020
(in millions)

	Actual	Budget	Change	Percentage Change
Operating revenues:				
Contract water	$ 9.0	$ 9.0	$ -	0%
Noncontract water	2.4	2.4	-	0%
Groundwater banking	14.4	26.3	(11.9)	-45%
Electrical transfer & hookup	3.8	2.8	1.0	36%
Other charges	3.7	6.1	(2.4)	-39%
	33.3	46.6	(13.3)	-29%
Nonoperating income:				
Interest income	1.0	1.0	-	0%
GA & GP service charges	19.3	18.8	0.5	3%
Prior year income, net	2.7	0.4	2.3	575%
Change in FMV of interest rate swap	(1.6)	-	(1.6)	100%
	21.4	20.2	1.2	6%
Total revenues	54.7	66.8	(12.1)	-18%
Operating expenses:				
Transmission & distribution	20.1	19.9	0.2	1%
Source of supply	17.0	23.8	(6.8)	-29%
General and administrative	3.9	11.9	(8.0)	-67%
Depreciation and amortization	7.5	7.0	0.5	7%
	48.5	62.6	(14.1)	-23%
Nonoperating expenses:				
Other (income) expense	(1.3)	0.4	(1.7)	100%
Interest expense	10.2	8.3	1.9	23%
	8.9	8.7	0.2	2%
Total expenses	57.4	71.3	(13.9)	-19%
Change in net position	$ (2.7)	$ (4.5)	$ 1.8	-40%

Total revenue was below budgeted revenues for 2020 mainly due to the decreased amount of groundwater banking revenues, due to the decreased amount of activity from the District's groundwater banking partners, which was less than the District budgeted for.

Total expenses came out under budgeted expenses by $13.9 million. This was mainly due to the lower amount of source of supply and general and administrative expenses. Source of supply was lower due to the amount of water that was recovered from the Kern Water Bank, Pioneer Project and in District during 2020, thereby lowering the amount of expense for the year. General and administrative expenses should be combined with transmission and distribution expenses to see the net change.

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, 2020 and 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***2020***	***2019***
Current Assets		
Cash and cash equivalents	$ 19,301,021	$ 26,847,208
Receivables:		
Accounts receivable	3,695,067	2,814,830
General administrative and general project service charges receivable	9,712,301	9,625,977
Current portion of notes receivable	2,209,287	1,818,269
Other prepaid expenses and deposits	2,205,411	226,423
Total current assets	37,123,087	41,332,707
Noncurrent Assets		
Restricted assets:		
Cash and cash equivalents	1,250,793	1,261,460
Investments	664,659	671,392
Total restricted assets	1,915,452	1,932,852
Capital assets, net of accumulated depreciation	301,146,494	299,372,998
Other noncurrent assets:		
Notes receivable, less current portion	7,912,339	10,121,625
Banked water inventory	47,154,336	39,680,650
Investment in Southern California Water Bank Authority	14,895,015	15,969,293
Investment in Kern Water Bank Authority	3,594,092	3,708,569
Total other noncurrent assets	73,555,782	69,480,137
Total noncurrent assets	376,617,728	370,785,987
Total Assets	413,740,815	412,118,694
Deferred Outflows of Resources		
Deferred outflow of advance refunding of bonds	21,702,064	24,437,972
	$ 435,442,879	$ 436,556,666

See Notes to Combined Financial Statements.

LIABILITIES AND NET POSITION	***2020***	***2019***
Current Liabilities		
Current maturities of long-term debt	$ 20,452,831	$ 9,955,179
Trade accounts payable	1,854,729	622,211
Customer deposits	1,079,082	1,395,073
Accrued liabilities	964,730	962,049
Deferred revenue	70,120	70,120
Total current liabilities	24,421,492	13,004,632
Long-Term Liabilities		
Long-term debt, less current maturities	172,792,175	184,276,678
Obligations under interest rate swap	14,986,069	13,359,524
	187,778,244	197,636,202
Total Liabilities	212,199,736	210,640,834
Net Position		
Invested in capital assets, net of related debt	129,603,552	129,579,113
Restricted for:		
Debt service	1,873,422	1,852,362
Cafeteria plan	42,030	80,490
Unrestricted	91,724,139	94,403,867
	223,243,143	225,915,832
	$ 435,442,879	$ 436,556,666

Semitropic Water Storage District

Combined Statements of Revenues and Expenses
For the Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenues:		
Contract water	$ 8,981,041	$ 13,329,640
Noncontract water	2,348,204	18,141,776
Groundwater banking	14,408,623	10,032,850
Electrical transfer and hookup charges	3,814,739	1,313,047
Other charges	3,748,856	1,324,921
	33,301,463	44,142,234
Operating expenses:		
Transmission and distribution	20,149,492	14,100,632
Source of supply	17,045,691	11,763,661
General and administrative	3,872,364	4,037,576
Depreciation and amortization expense	7,529,502	6,899,150
	48,597,049	36,801,019
Operating income (loss)	(15,295,586)	7,341,215
Nonoperating income (expense):		
Interest income	1,020,723	1,421,016
General administrative service charges	252,468	252,482
General project service charges	19,091,843	19,132,510
Interest expense	(10,152,709)	(9,664,784)
Equity in loss from investments	(1,015,618)	(949,039)
Other income (expense), net	2,362,165	(338,116)
Prior year income, net	2,688,720	5,389,096
Gain (loss) on disposal of assets	1,850	(1,859,959)
Change in fair value of interest rate swap	(1,626,545)	(1,431,158)
	12,622,897	11,952,048
Change in net position	$ (2,672,689)	$ 19,293,263

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Changes in Net Position
For the Years Ended December 31, 2020 and 2019

Balance, December 31, 2018	$ 206,622,569
Change in net position	19,293,263
Balance, December 31, 2019	225,915,832
Change in net position	(2,672,689)
Balance, December 31, 2020	$ 223,243,143

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from customers	$ 54,299,515	$ 69,341,618
Payments to suppliers for goods and services	(45,513,138)	(40,135,370)
Payments to employees for services	(3,728,741)	(3,728,741)
Net cash provided by operating activities	5,057,636	25,477,507
Cash flows from capital and related financing activities:		
Payment for acquisition and construction of capital assets	(9,302,996)	(9,691,825)
Receipts from grants	2,114,590	440,886
Proceeds from disposal of capital assets	1,850	111,951
Payments for interest on bonds and construction loans	(8,491,476)	(9,559,526)
Proceeds from issuance of long term debt	10,000,000	-
Payments for advance refunding of 2012A bonds	-	(8,006,054)
Payments on long-term debt	(9,955,319)	(7,648,462)
Net cash used in capital and related financing activities	(15,633,351)	(34,353,030)
Cash flows from investing activities:		
Net sales of investments	6,733	6,580,821
Proceeds from receipts on notes receivable	1,818,268	1,511,722
Distributions received from investment	173,137	192,885
Interest income	1,020,723	1,421,016
Net cash provided by investing activities	3,018,861	9,706,444
Net increase (decrease) in cash and cash equivalents	(7,556,854)	830,921
Cash and cash equivalents at beginning of the year	28,108,668	27,277,747
Cash and cash equivalents at the end of the year	$ 20,551,814	$ 28,108,668
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 19,301,021	$ 26,847,208
Restricted cash and cash equivalents	1,250,793	1,261,460
	$ 20,551,814	$ 28,108,668

See Notes to Combined Financial Statements.

	2020	2019
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (15,295,586)	$ 7,341,215
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,529,500	6,899,150
General administrative and general project service charges	19,344,311	19,384,992
Prior year income, net	2,688,720	5,389,096
Other income (expense), net	247,575	(779,002)
Changes in operating assets and liabilities:		
Receivables and general administrative and general project service charges receivable	(966,561)	1,101,537
Other prepaid expenses and deposits	(1,978,988)	85,999
Banked water inventory	(7,473,686)	(12,080,875)
Accounts payable and accrued liabilities	962,351	(1,477,387)
Deferred revenue	-	(387,218)
Net cash provided by operating activities	$ 5,057,636	$ 25,477,507
Noncash investing and financing activities:		
Change in fair value of interest rate swap obligation	$ (1,626,545)	$ (1,431,158)
Equity in loss from investments	$ (1,015,618)	$ (949,039)
Amortization of deferred outflow of advanced refundings included in interest expense	$ 2,735,908	$ 1,419,956
Advanced refunding of 2012A Bonds through 2019 Bond issuance	$ -	$ 70,960,000

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 or 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 KCWA. 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, 2020 were $7,750,516 and $1,230,525, respectively, and $8,309,241 and $5,020,399, respectively, for the year ended December 31, 2019. 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, 2020 and 2019, the District held 1,052,589 and 1,111,156 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, 2020 and 2019, $19,344,311 and $19,384,992, 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, 2020 and 2019, there was no end of the year discretionary payment authorized by the District. The net of these items is reported as nonoperating revenue to the District for the same January through December period.

Other sources of revenue include interest income and miscellaneous revenue which is comprised of water wheeling income, materials sales 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019.

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, 2020, 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, 2020 and 2019 are classified in the accompanying combined statements of net position as follows:

	2020	***2019***
Current assets - cash and cash equivalents	$ 19,301,021	$ 26,847,208
Noncurrent assets - restricted cash	1,250,793	1,261,460
Noncurrent assets - restricted investments	664,659	671,392
	$ 21,216,473	$ 28,780,060

Cash and investments as of December 31, 2020 and 2019 consisted of the following:

	2020	***2019***
Cash deposits with financial institutions	$ 19,940,865	$ 13,045,363
Deposits with Kern County	609,811	598,855
Deposits with LAIF	1,138	14,464,450
Investments with financial institutions	664,659	671,392
	$ 21,216,473	$ 28,780,060

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	$ 165,619	A	$ -	$ -	$ 165,619
Commercial Paper	499,040	A	-	499,040	-
	$ 664,659		$ -	$ 499,040	$ 165,619

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

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	$ -

As of December 31, 2019, the District had the following investments and maturities:

		Investment maturities	
	Fair Value	***Less Than 1 Year***	***1 Year to 5 Years***
Corporate & Municipal Bonds	$ 671,392	$ 671,392	$ -

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	***2020 (acre-feet)***	***2019 (acre-feet)***
Purchased from Kern County Water Agency		
Entitlement		
Current year allocation (20% and 75%)	31,000	116,250
Add borrowing (carryover) to next year	(13,583)	(7,263)
Add (borrowing) carryover from prior year	7,264	9,229
Amount exchanged with banking partners	(10,032)	(4,470)
Subtotal	14,649	113,746
Other	13,155	21,519
Total water received - Kern County Water Agency	27,804	135,265
Total water received from banking partners	2,493	191,267
Total water received from other water agencies	16,727	113,605
In-District Ground Water Extraction		
District wells pumped	43,488	174
Pumping agreement with landowners	3,464	-
	46,952	174
Out of District Ground Water		
Kern Water Bank	22,067	-
Pioneer Project	10,000	10,000
	32,067	10,000
Total Water Received	126,043	450,311

	2020 (acre-feet)	2019 (acre-feet)
Water Delivered		
Delivered In-District		
Contract	27,975	102,413
Noncontract	21,041	171,848
In-District spreading and overdraft correction	275	31,475
Supplemental Ag water	9,157	-
Other	4,440	1,352
Total Water Delivered - In-District	62,888	307,088
Banked with other agencies	3,937	120,333
Returned to other water agencies	4,247	13,000
Returned to landowners	3,438	-
Returned to banking partners	8,453	-
Returned to banking partners exchange	38,888	-
	50,779	-
Losses	4,192	9,890
Total Water Delivered	126,043	450,311

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:

	2020		2019	
	Amount Required	***Amount on Deposit***	***Amount Required***	***Amount on Deposit***
Bond and loan reserve fund	$ 1,873,422	$ 1,873,422	$ 1,852,362	$ 1,852,362
Cafeteria plan	42,030	42,030	80,490	80,490
	$ 1,915,452	$ 1,915,452	$ 1,932,852	$ 1,932,852

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 loss from this investment for the years ended December 31, 2020 and 2019 was ($114,477) and ($62,487), 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, 2020 and 2019 was ($901,141) and ($886,552), 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, 2020 and 2019:

	2020	*2019*
Note receivable, Poso Creek Water Company, LLC, 5.19%, secured by letter of credit in favor of the District for 18% of outstanding balance and 20,000 AF of water in storage, semi-annual principal and interest payments of $728,523, due December 2026	$ 7,430,391	$ 8,461,555
Note receivable, Homer, LLC, 5.5%, secured by letter of credit in favor of the District for 30% of outstanding balance and 24,175 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	2,691,235	3,478,339
	10,121,626	11,939,894
Less current portion	(2,209,287)	(1,818,269)
	$ 7,912,339	$ 10,121,625

Note 6. Banked Water Inventory

The estimated banked surface and ground water storage at December 31, 2020 and 2019 consists of the following:

	2020		*2019*	
	Acre-feet	*Costs*	*Acre-feet*	*Costs*
Carryover water**	-	$ -	7,263	$ 163,635
In District	780,762	35,163,586	756,604	25,393,892
Kern Water Bank	196,467	9,936,045	243,646	11,345,037
Kern County Water Agency*	24,509	826,766	34,206	1,550,147
Other Agencies	31,803	1,227,939	31,803	1,227,939
	1,033,541	47,154,336	1,066,259	39,517,015
	1,033,541	$ 47,154,336	1,073,522	$ 39,680,650

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

**Stored water was located at the San Luis Reservoir

Note 7. Capital Assets

The following is a summary of changes in the District's capital assets for the years ended December 31, 2020 and 2019:

	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

	Balance 12/31/18	Acquisitions	Retirements	Reclass/ Transfers	Balance 12/31/19
	Assets-At Cost				
Capital Assets not being depreciated:					
Land	$ 94,092,629	$ 444,455	$ -	$ -	$ 94,537,084
Construction in progress	32,505,694	8,169,179	(1,914,643)	(17,925,711)	20,834,519
Capital Assets being depreciated:					
Transmission and distribution	262,171,917	686,261	-	16,357,282	279,215,460
Communication equipment	14,749	-	-	-	14,749
Autos and trucks	1,797,339	139,862	(57,856)	-	1,879,345
Office equipment	575,684	64,846	-	-	640,530
Field and misc. equip.	1,099,093	185,222	-	-	1,284,315
Well drilling equip.	2,997,907	-	(124,945)	-	2,872,962
Wells	13,413,873	-	-	1,568,429	14,982,302
General plant and equipment	3,885,544	2,000	-	-	3,887,544
Capacity rights	4,503,542	-	-	-	4,503,542
	$ 417,057,971	$ 9,691,825	$ (2,097,444)	$ -	$ 424,652,352

	Balance 12/31/18	Depreciation Expense	Retirements	Reclass/ Transfers	Balance 12/31/19
	Accumulated Depreciation				
Transmission and distribution	$ 109,489,744	$ 5,752,107	$ -	$ -	$ 115,241,851
Communication equipment	9,227	1,325	-	-	10,552
Autos and trucks	1,313,336	117,615	(57,856)	-	1,373,095
Office equipment	510,774	28,706	-	-	539,480
Field and misc. equip.	755,254	38,910	-	-	794,164
Well drilling equip.	1,931,197	121,158	(67,678)	-	1,984,677
Wells	1,659,815	537,639	-	-	2,197,454
General plant and equipment	1,469,136	105,737	-	-	1,574,873
Capacity rights	1,367,255	195,953	-	-	1,563,208
	$ 118,505,738	$ 6,899,150	$ (125,534)	$ -	$ 125,279,354

Note 8. Long-Term Debt

Long-term debt at December 31, 2020 and 2019 was as follows:

	2020	***2019***
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)	$ 779,011	$ 1,026,509
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)	315,839	415,784
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)	1,369,144	1,652,344
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)	1,875,346	2,145,022
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)	3,365,000	4,990,000
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)	3,290,001	4,295,001

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)	9,030,000	11,025,000
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)	30,190,000	30,615,000
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)	46,590,000	48,615,000
Note payable, 3.59%, collateralized by investment in capital project, principal due annually, interest payable semi-annually, due August 2028 (proceeds used to fund a capital project)	7,030,000	7,780,000
2020 Warrants, 2.65%, interest payable monthly, due December 2021	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)	69,730,000	70,960,000
	183,564,341	183,519,660
2005 Interest Rate Swap, at cost (See Note 10)	1,219,900	1,552,600

	2020	2019
Plus premiums, net of accumulated amortization 2020, $3,540,352; 2019, $2,841,521	8,460,765	9,159,597
Less current maturities	(20,452,831)	(9,955,179)
Long term debt, plus premiums and less current maturities	$ 172,792,175	$ 184,276,678

The following is a summary of the long-term debt transactions for the years ended December 31, 2020 and 2019:

	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	

	Payable 12/31/18	***Additions***	***Deletions***	***Payable 12/31/19***	***Due within One Year***
Bond principal	$ 178,360,001	$ 70,960,000	$ (78,820,000)	$ 170,500,001	$ 8,305,000
Note payable	8,500,000	-	(720,000)	7,780,000	750,000
Loans, State of California	6,118,122	-	(878,463)	5,239,659	900,179
	192,978,123	70,960,000	(80,418,463)	183,519,660	$ 9,955,179
Fair value of interest rate swap	11,928,366	1,431,158	-	13,359,524	
	$ 204,906,489	$ 72,391,158	$ (80,418,463)	$ 196,879,184	

The annual requirements to amortize all debt outstanding as of December 31, 2020 are as follows:

Years Ending December 31,	*Principal*	*Interest*	*Interest Rate Swaps, net*	*Total Debt Service*
2021	$ 20,452,831	$ 6,534,986	$ 1,844,397	$ 28,832,214
2022	11,020,880	5,874,285	1,770,905	18,666,070
2023	11,589,555	5,461,985	1,691,975	18,743,515
2024	10,630,662	5,027,604	1,607,343	17,265,609
2025	8,499,552	4,633,742	1,516,508	14,649,802
2026-2030	45,190,861	18,588,259	5,980,974	69,760,094
2031-2035	54,110,000	10,306,828	2,575,960	66,992,788
2036-2040	15,960,000	3,027,974	-	18,987,974
2041-2045	6,110,000	946,500	-	7,056,500
	$ 183,564,341	$ 60,402,163	$ 16,988,062	$ 260,954,566

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, 2020 and 2019 are as follows:

		December 31, 2020 Fair Value Measurements Using:		
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Investments:				
Corporate Bonds & Commercial Paper	$ 165,619	$ 165,619	$ -	$ -
Obligations under interest rate swap:				
Sun Trust Swap	$ (14,986,069)	$ -	$ (14,986,069)	$ -

		December 31, 2019 Fair Value Measurements Using:		
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Investments:				
Corporate & Municipal Bonds	$ 671,392	$ 671,392	$ -	$ -
Obligations under interest rate swap:				
Sun Trust Swap	$ (13,359,524)	$ -	$ (13,359,524)	$ -

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, 2020 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	$ (14,986,069)	$36,783,702	Nonoperating income (expense)	$ (1,626,545)

The terms of the District's hedging derivatives instruments at December 31, 2019 are listed below:

	Fair Value	***Notional Amount***	***Change in Fair Value***	***Change in Fair Value***
Sun Trust Swap	$ (13,359,524)	$38,150,417	Nonoperating income (expense)	$ (1,431,158)

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. 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, 2020, 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 $15,080,826 and $12,700,805 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the DWR allocated 20% and 75%, respectively, of entitlement to state water contractors. Due to the continued pumping restrictions and extremely dry winter of 2020-2021, the DWR has issued a 5% allocation for the 2021 water year as of the date of this report.

Future water purchase agreement:

During the year ended December 31, 2018, the District entered into a water purchase agreement with North of the River Municipal Water District. The terms of the agreement call for the District to purchase 195,000 acre feet of water at a purchase price of $10,000,000. One installment of $5,000,000 was due upon the execution of the agreement, with four installments of $1,250,000 due and payable on December 31st of each year beginning in 2018. Transfer and title of the water vest in proportion to the amount paid. As of December 31, 2020 and 2019, the District has paid $8,750,000 and $7,500,000 and received 170,625 and 146,250 AF of water, respectively, in relation to this agreement.

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, 2020 and 2019 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, 2020 and 2019 were as follows:

	2020	***2019***
Total payroll	$ 3,404,026	$ 3,583,649
Base salary for computing contributions	$ 3,082,287	$ 3,264,310
District contributions	$ 295,305	$ 302,388
Employee contributions	$ 165,005	$ 174,571

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, 2020 and 2019, 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 9, 2021.

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 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 may exist that have not been identified.

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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 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 9, 2021

Semitropic Water Storage District

Combined Schedules of Operating Expenses
For the Years Ended December 31, 2020 and 2019

	2020	2019	Increase (Decrease)
Transmission and distribution:			
Power	$ 10,765,504	$ 7,599,768	$ 3,165,736
Water banking expenses	4,399,121	1,924,827	2,474,294
Salaries and wages	1,560,524	1,669,470	(108,946)
Repairs and maintenance	2,007,017	975,187	1,031,830
Employee benefits	864,843	943,140	(78,297)
Equipment rent	121,170	446,217	(325,047)
Fuel and oil	174,635	277,613	(102,978)
Payroll taxes	144,705	155,151	(10,446)
Operating supplies	76,506	72,722	3,784
Utilities	28,886	27,642	1,244
Licenses and fees	5,711	5,396	315
Miscellaneous	870	3,499	(2,629)
	$ 20,149,492	$ 14,100,632	$ 6,048,860
Source of supply:			
State Water Project table 1 entitlement	$ 15,809,678	$ 11,456,473	$ 4,353,205
Other	1,236,013	307,188	928,825
	$ 17,045,691	$ 11,763,661	$ 5,282,030

	2020	2019	Increase (Decrease)
General and administrative:			
Salaries and wages	$ 1,457,374	$ 1,450,881	$ 6,493
Consulting	454,728	685,513	(230,785)
Employee benefits	540,180	514,794	25,386
Engineering	314,227	364,215	(49,988)
Dues	212,050	214,454	(2,404)
Repairs and maintenance	169,300	203,023	(33,723)
Legal	192,866	200,865	(7,999)
Public relations	-	167,500	(167,500)
Insurance	159,179	127,070	32,109
Payroll taxes	91,530	92,146	(616)
Accounting and auditing	65,130	48,775	16,355
Office	29,138	43,002	(13,864)
Utilities	41,613	35,529	6,084
Equipment rent	21,829	22,929	(1,100)
Travel	9,489	21,983	(12,494)
Financing and administration	86,504	21,020	65,484
Building services	19,329	19,464	(135)
Bank fees	11,518	11,638	(120)
Directors' fees and expense	5,460	6,090	(630)
Advertising	-	2,140	(2,140)
Marketing	4,392	1,707	2,685
Property taxes	279	410	(131)
Allocation of G&A costs to capital assets	(13,751)	(217,572)	203,821
	$ 3,872,364	$ 4,037,576	$ (165,212)
Depreciation and amortization expense	$ 7,529,502	$ 6,899,150	$ 630,352

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report –
Schedule of Expenditures of Federal Awards

Board of Directors
Semitropic Water Storage District
Wasco, California

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal awards of Semitropic Water Storage District for the year ended December 31, 2020, and the related notes (financial statement).

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards of Semitropic Water Storage District for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 9, 2021

Semitropic Water Storage District

Schedule of Expenditures of Federal Awards
December 31, 2020

Federal Grantor	***Federal CFDA Number***	***Program Identification Number***	***Federal Expenditures***
United States Department of Interior; Bureau of Reclamation -			
WaterSMART (Sustain and Manage America's Resources for Tomorrow)			
	15.507	R15AP00203	$ 250,154
	15.507	R16AP00171	847,746
	15.507	R17AP00226	656,770
			1,754,670
Reclamation States Emergency Drought Relief	15.514	R18AP00089	359,920
			$ 2,114,590

See Notes to Schedule of Expenditures of Federal Awards.

Semitropic Water Storage District

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Semitropic Water Storage District under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Semitropic Water Storage District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Semitropic Water Storage District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient

Note 3. Indirect Cost Rate

Semitropic Water Storage District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Semitropic Water Storage District
Wasco, California

Report on the Compliance for Each Major Federal Program

We have audited Semitropic Water Storage District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended December 31, 2020. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Semitropic Water Storage District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

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Report on Internal Control over Compliance

Management of Semitropic Water Storage District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 9, 2021

Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

A. Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on whether the financial statements of Semitropic Water Storage District were prepared in accordance with GAAP.

2. No significant deficiencies or material weaknesses relating to the audit of the financial statements were reported.

3. No instances of noncompliance material to the financial statements of Semitropic Water Storage District, which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed during the audit.

5. The independent auditors' report on compliance for the major federal award programs for Semitropic Water Storage District expresses an unmodified opinion on all major federal programs.

6. There were no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.

7. The program tested as a major program was: WaterSMART (Sustain and Manage America's Resources for Tomorrow), CFDA number 15.507.

8. The dollar threshold used to distinguish Type A and Type B programs was $750,000.

9. Semitropic Water Storage District was not determined to be a low-risk auditee.

B. Findings Related to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards

There are no findings required to be reported in accordance with Government Auditing Standards.

C. Findings and Questioned Costs for Federal Awards

There are no findings to be reported under 2 CFR 200, paragraph .516 of the Uniform Guidance and no costs questioned as of December 31, 2020.