

ORANGE COVE IRRIGATION DISTRICT

FINANCIAL STATEMENTS

Years Ended February 28, 2023 and 2022

ORANGE COVE IRRIGATION DISTRICT

FEBRUARY 28, 2023 AND 2022

BOARD OF DIRECTORS/ADMINISTRATION

David Brown	President
Arlen Miller	Vice-President
Kevin Orlopp	Director
Andrew Brown	Director
Brian Hixson	Director
Fergus Morrissey	Engineer Manager

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Independent Auditors' Report

Board of Directors
Orange Cove Irrigation District

Opinion

We have audited the financial statements of Orange Cove Irrigation District (the District), as of and for the years ended February 28, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Orange Cove Irrigation District, as of February 28, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management's discussion and analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

M Green and Company LLP

Tulare, California
August 14, 2023

ORANGE COVE IRRIGATION DISTRICT

**STATEMENTS OF NET POSITION
FEBRUARY 28, 2023 AND 2022**

ORANGE COVE IRRIGATION DISTRICT

STATEMENTS OF NET POSITION FEBRUARY 28, 2023 AND 2022

ASSETS

CURRENT ASSETS:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 9,013,772	\$ 6,765,317
Investments	3,310,952	1,388,400
Standby charges receivable	799,400	773,531
Water users' accounts receivable	-	18,616
Water transfers/exchanges receivable	564,146	389,586
Interest receivable	57,739	5,974
Other receivables	117,825	186,397
Materials and supplies inventory	15,796	20,475
Prepaid water	37,244	209,623
Prepaid expenses	154,267	75,422
	<u>14,071,141</u>	<u>9,833,341</u>

CAPITAL ASSETS:

Capital assets not being depreciated	25,549	25,549
Other capital assets, net of depreciation	10,403,037	10,864,600
	<u>10,428,586</u>	<u>10,890,149</u>

OTHER ASSETS:

USBR O&M surplus receivable	2,241	158,005
Investment in Friant Power Authority	3,801,295	3,931,247
Investment in Anadromous Fish Restoration Project	783,420	778,492
Water rights	7,477,616	7,477,616
	<u>12,064,572</u>	<u>12,345,360</u>
Total other assets	<u>12,064,572</u>	<u>12,345,360</u>
Total assets	<u>\$ 36,564,299</u>	<u>\$ 33,068,850</u>

LIABILITIES AND NET POSITION

<u>CURRENT LIABILITIES:</u>	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 90,395	\$ 525,257
Accrued expenses	232,598	219,073
Water usage rebate payable	3,076,071	-
Excess and advance water payments received	2,460,616	2,240,910
Water transfers/exchanges payable	225,044	-
Deferred standby fees	1,992,840	1,993,817
Other deferred revenue	-	14,789
	<u>8,077,564</u>	<u>4,993,846</u>
<u>NET POSITION:</u>		
Net investment in capital assets	10,428,586	10,890,149
Unrestricted	<u>18,058,149</u>	<u>17,184,855</u>
Total net position	<u>28,486,735</u>	<u>28,075,004</u>
Total liabilities and net position	<u>\$ 36,564,299</u>	<u>\$ 33,068,850</u>

See notes to financial statements.

ORANGE COVE IRRIGATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION YEARS ENDED FEBRUARY 28, 2023 AND 2022

<u>OPERATING REVENUES:</u>	<u>2023</u>	<u>2022</u>
Irrigation water sales	\$ 4,977,829	\$ 5,282,977
Other water sales	2,000,000	1,101,686
Standby charges	2,392,621	2,393,053
Pumping charges	-	300,660
Unused nonrefundable water deposits	-	2,501
Recaptured water sales	52,100	-
Penalties and costs	14,896	4,996
Other revenue	129,166	147,285
	<hr/>	<hr/>
Total operating revenues	9,566,612	9,233,158
	<hr/>	<hr/>
<u>OPERATING EXPENSES:</u>		
Water purchases and conveyance	3,260,734	6,677,983
Water delivery expenses	1,622,067	1,249,835
Landowner rebate/credit	3,076,071	-
Friant Water Authority capacity correction	649,522	1,093,042
Administrative and general	1,141,417	1,056,786
	<hr/>	<hr/>
Total operating expenses	9,749,811	10,077,646
	<hr/>	<hr/>
Operating loss	(183,199)	(844,488)
	<hr/>	<hr/>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Investment income (loss)	34,088	(2,344)
Income from property tax distributions	31,513	27,781
Net income (loss) on power project operations	160,517	(102,435)
Income from investment in Friant Power Authority	353,812	33,682
Gain (loss) on sale of assets	15,000	(2,836)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	594,930	(46,152)
	<hr/>	<hr/>
Increase (decrease) in net position	411,731	(890,640)
	<hr/>	<hr/>
Total net position, beginning of year	28,075,004	28,965,644
	<hr/>	<hr/>
Total net position, end of year	<u>\$ 28,486,735</u>	<u>\$ 28,075,004</u>

See notes to financial statements.

ORANGE COVE IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS YEARS ENDED FEBRUARY 28, 2023 AND 2022

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	<u>2023</u>	<u>2022</u>
Cash received from water users	\$ 9,860,103	\$ 9,389,601
Cash payments for water and operations	(5,043,093)	(7,850,461)
Cash payments to employees for services	(1,278,459)	(1,243,298)
Net cash provided by operating activities	<u>3,538,551</u>	<u>295,842</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Cash paid for power plant project	(168,752)	(199,418)
Cash received for power plant project	329,269	96,983
Cash received from taxes and assessments	53,765	14,789
Net cash provided (used) by noncapital financing activities	<u>214,282</u>	<u>(87,646)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Proceeds from sale of capital assets	15,000	-
Cash payments for acquisition of capital assets	(57,985)	(47,185)
Net cash used by capital and related financing activities	<u>(42,985)</u>	<u>(47,185)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Cash received from investment in Friant Power Authority	483,764	208,815
Additional investment in Anadromous Fish Restoration Project	(4,928)	(3,880)
Cash invested into investment account	(2,062,632)	(1,029,919)
Cash received from interest income	122,403	32,723
Net cash used by investing activities	<u>(1,461,393)</u>	<u>(792,261)</u>
Net increase (decrease) in cash and cash equivalents	2,248,455	(631,250)
Cash and cash equivalents, beginning of year	<u>6,765,317</u>	<u>7,396,567</u>
Cash and cash equivalents, end of year	<u>\$ 9,013,772</u>	<u>\$ 6,765,317</u>

(continued)

ORANGE COVE IRRIGATION DISTRICT

**STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2023 AND 2022**

RECONCILIATION OF OPERATING LOSS

**TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

	2023	2022
Operating loss	\$ (183,199)	\$ (844,488)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	519,548	529,893
(Increase) decrease in:		
Standby charges receivable	(25,869)	2,980
Water users' accounts receivable	18,616	(16,135)
Water transfers/exchanges receivable	(174,560)	(322,936)
Other receivables	46,320	213,919
Materials and supplies inventory	4,679	(4,668)
Prepaid water	172,379	(27,846)
Prepaid expenses	(78,845)	25,454
USBR O&M surplus receivable	155,764	337,964
Increase (decrease) in:		
Accounts payable	(434,862)	145,901
Accrued expenses	13,525	(22,811)
Water usage rebate payable	3,076,071	-
Excess and advance water payments received	219,706	294,409
Water transfers/exchanges payable	225,044	(14,500)
Deferred standby charges	(977)	(1,294)
Other deferred revenue	(14,789)	-
	(14,789)	-
Net cash provided by operating activities	\$ 3,538,551	\$ 295,842

See notes to financial statements.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies

Organization

Orange Cove Irrigation District (the District) is located along the Fresno and Tulare County, California borders near the communities of Orosi, Orange Cove and Navelencia, and covers an area of approximately 28,000 acres. The primary function of the District is to divert and distribute irrigation water to agricultural lands.

Reporting Entity

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- exclusion of the organization would render the financial statements incomplete or misleading

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statements.

Fund Accounting

The operations of the District are accounted for in an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed through user charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts of the District and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accrual basis of accounting is required for enterprise funds and is utilized by the District. Under this method, revenues are recorded when earned and expenditures or expenses are recorded when incurred.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Revenues

Operating revenues, such as irrigation water sales and services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property tax distributions, and investment income result from nonexchange transactions or ancillary activities.

Budgetary Procedures

The District operates under a budget prepared by management and approved annually by the Board of Directors. The budget is prepared on a detailed line item basis. Revenues are budgeted by source, and expenses are budgeted by use (source of water supplies, system operating and maintenance, equipment and shop, general operating, payroll, administrative and capital outlay) Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenues and expenditures or expenses.

Cash and Cash Equivalents

The District maintains its cash accounts as authorized by the California Government Code (the Code) and is further defined by the District's Investment Policy which is reviewed annually by the Board of Directors.

For purposes of these financial statements, the District considers cash in checking, cash in savings, investments in the State Treasurer's Local Agency Investment Fund and all other highly liquid investments with original maturities of three months or less at date of purchase to be cash and cash equivalents.

Allowance for Doubtful Accounts

The District considers all accounts receivable to be fully collectible. Therefore, an allowance for doubtful accounts is not reflected in these financial statements.

Water Transfers/Exchanges Accounts

The District engages in water transfers and exchanges with several entities. Unless a specific price is stated in the agreement the water receivable or payable is valued at the per acre foot price the District is paying for Friant Class 1 water at the reporting date.

Prepaid Water

Prepaid water represents costs paid the Bureau of Reclamation for water, which the District expects to receive in a future year.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical costs or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is recorded using the straight-line method over the following estimated useful lives:

Pipeline and system improvements	5-50 years
Equipment	5-40 years
Buildings and Improvements	10-50 years
Hydropower plants and improvements	20-50 years

Investments in Power Authorities

For investments in power authorities classified as joint ventures, where the District participates in the profit and losses of the joint venture, the initial investment is recorded at cost and adjusted to reflect the District's share of the joint venture's profit or losses. If the District is involved in joint control of the power authority but there is no ongoing financial interest or ongoing financial responsibility, the entity is a jointly governed organization and not a joint venture.

Water Rights

Water rights are recorded at cost and are not being amortized or depreciated as these rights are perpetually held by the District.

Deferred Standby Charges

In accordance with provisions of Division II of the Water Code of the State of California, annual standby charges for the period of January through December are levied upon the land within the District to provide the funds necessary for the District to meet its financial obligations. To properly match revenues with expenses, the revenue from the standby charges levied in November of each year are deferred and recorded to revenue monthly.

Net Position Classifications

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The District reports three categories of net position as follows:

Net investment in capital assets – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (continued)

Net Position Classifications (continued)

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets. The District did not have any restricted net position as of February 28, 2023.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The District's policy concerning which to apply first varies with the intended use and legal requirements.

Income Taxes

The District is a governmental agency and is not subject to income taxes.

Use of Estimates

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

NOTE 2 – Cash and Cash Equivalents

Statutes authorize districts to invest cash in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, banker's acceptances, repurchase agreements, insured money market accounts, commercial paper, county investment pools and the State Treasurer's Local Agency Investment Fund.

Cash and cash equivalents at February 28, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Cash on hand	\$ 500	\$ 500
Cantella & Company, Inc.	-	7,110
Cambridge Investment Research	7,826	-
Cash in banks	3,929,248	1,738,767
Cash in Local Agency Investment Fund	5,076,198	5,018,940
	<u> </u>	<u> </u>
Total cash and cash equivalents	<u>\$ 9,013,772</u>	<u>\$ 6,765,317</u>

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 2 – Cash and Cash Equivalents (continued)

The California Government Code requires California banks and savings and loan associations to collateralize a district's deposits by pledging government securities. The market value of the pledged securities must equal at least 110 percent of a district's deposits. California law also allows financial institutions to collateralize a district's deposits by pledging first trust deed mortgage notes having a value of 150 percent of a district's total deposits. The District may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

At February 28, 2023 and 2022, the carrying amount of the District's cash deposits (including amounts in checking accounts and money market accounts) were \$3,937,074 and \$1,745,877, respectively, and the bank balances were \$4,279,290 and \$1,879,270, respectively. The difference between the bank balances and the carrying amounts represent outstanding checks and deposits in transit. The District places its cash and cash equivalents with high quality financial institutions, but at times has exceeded federally insured amounts. Cash deposits in excess of federally insured limits at February 28, 2023 and 2022, were \$3,771,464 and \$1,622,160.

The District's cash and cash equivalents held in the Local Agency Investment Fund is not subject to credit risk categorization and is carried at cost which approximates fair value. All pooled funds are regulated by the California Government Code.

NOTE 3 – Investments

Investments at February 28, 2023 and 2022, were as follows:

Investment Type	Totals	Remaining Maturity - as of February 28, 2023			
		12 months or less	13 to 24 months	25 to 60 months	More than 60 months
Corporate Bonds	\$ 854,212	\$ 492,025	\$ -	\$ 362,187	\$ -
U.S. Treasury/Agency Securities	2,456,740	481,760	1,974,980	-	-
Totals	\$ 3,310,952	\$ 973,785	\$ 1,974,980	\$ 362,187	\$ -

Investment Type	Total	Remaining Maturity - as of February 28, 2022			
		12 months or less	13 to 24 months	25 to 60 months	More than 60 months
Corporate Bonds	\$ 1,388,400	\$ -	\$ 990,925	\$ 397,475	\$ -

Interest Rate Risk

Interest rate risk is the risk in market rate changes that could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The policy of the District is to limit the maturity of the District's investments to five years except for security types approved by the Board for a maximum ten year maturity.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 3 – Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The policy of the District is to invest in only very safe institutions.

Issuer	Investment Type	February 28, 2023		
		S&P Quality Rating	Reported Amount	Percentage of Total Investments
Bank Nova Scotia B C Note	Corporate Bond	A-	\$ 492,025	15%
JP Morgan Chase & Co MTN	Corporate Bond	A-	\$ 362,187	11%
Federal Home Loan BA SER 1W-9023	U.S. Treasury	AA+	\$ 481,760	14%
Federal Home Loan BA SER W2-9024	U.S. Treasury	AA+	\$ 989,400	30%
Federal Home Loan MTG CORP MTN	U.S. Treasury	AA+	\$ 985,580	30%

Issuer	Investment Type	February 28, 2022		
		S&P Quality Rating	Reported Amount	Percentage of Total Investments
Credit Suisse Ag New York MTN	Corporate Bond	A+	\$ 496,375	36%
Bank Nova Scotia B C Note	Corporate Bond	A-	\$ 494,550	35%
JP Morgan Chase & Co MTN	Corporate Bond	A-	\$ 397,475	29%

Concentrations of Credit Risk

The policy of the District is to diversify investments so that the failure of any one issuer would not unduly harm the District's cash flow.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

The custodial risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state and 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 percent of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first deed mortgage notes having a value of 150 percent of the secured public deposits.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 3 – Investments (continued)

Custodial Credit Risk (continued)

As of February 28, 2023, the District has not established a deposit or investment policy related to custodial credit risk. All banks holding District funds have pledged securities as collateral. The market value of the securities pledged exceeded 110 percent of the amount on deposit at February 28, 2023 and 2022.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of February 28, 2023:

	Assets at Fair Value as of February 28, 2023			
	Level 1	Level 2	Level 3	Total
Cambridge Investment Research:				
Corporate Bonds	\$ 854,212	\$ -	\$ -	\$ 854,212
U.S. Treasury/Agency Securities	\$ 2,456,740	\$ -	\$ -	\$ 2,456,740

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of February 28, 2022:

	Assets at Fair Value as of February 28, 2022			
	Level 1	Level 2	Level 3	Total
Cantella & Co. Inc.:				
Corporate Bonds	\$ 1,388,400	\$ -	\$ -	\$ 1,388,400

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 3 – Investments (continued)

The components of investment income were as follows:

	<u>2023</u>	<u>2022</u>
Interest	\$ 125,826	\$ 27,581
Unrealized loss	<u>(91,738)</u>	<u>(29,925)</u>
Totals	<u>\$ 34,088</u>	<u>\$ (2,344)</u>

NOTE 4 – Standby Charges Receivable

The District established a standby charge of \$86 dollars per acre in September of 1996. The standby charge is billed in advance, in November of each year, with the first installment due December 20, and the remaining balance due June 20. While the authorized standby charge is \$86, the actual amount billed may be less, reflecting credits of other revenues available to the District. The standby charges billed in November 2022 and 2021, was at \$86 per acre and amounted to \$2,392,385 and \$2,393,874, respectively.

Standby charges receivable are comprised of the following:

	<u>2023</u>	<u>2022</u>
Current year	\$ 780,479	\$ 755,655
Prior years (delinquent)	<u>18,921</u>	<u>17,876</u>
Totals	<u>\$ 799,400</u>	<u>\$ 773,531</u>

All standby charges are considered collectable because the District can withhold water delivery on delinquent accounts or enforce Section 22284 of the California Water Code, which allows for attaching a lien on the relevant property.

NOTE 5 – Water Transfers/Exchanges Receivable and Payable

Total water transfer/exchanges receivables were \$564,146 at February 28, 2023, and \$389,586 at February 28, 2022. The water transfer/exchange payables were \$225,044 at February 28, 2023. There was no payable balance at February 28, 2022.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 5 – Water Transfers/Exchanges Receivable and Payable (continued)

Water transfer/exchanges transactions were as follows:

Tulare Irrigation District

On January 29, 2019, the District entered into an exchange program with Tulare Irrigation District to transfer up to 4,000 acre feet of its 2018 Contract Year Class 1 supply. Tulare Irrigation District agrees to return one acre for each two acre feet of the District's water received in the 2018 Contract Year. Tulare Irrigation District commits to annual paybacks as specified in the agreement until all water owed to the District has been returned.

	Acre Feet	Amounts
Beginning balance receivable at March 1, 2021	1,333	\$ 66,650
Additions during the year	-	-
Deletions during the year	-	-
Ending balance receivable at February 28, 2022	1,333	\$ 66,650
Beginning balance receivable at March 1, 2022	1,333	\$ 66,650
Additions during the year	-	-
Deletions during the year	-	-
Ending balance receivable at February 28, 2023	1,333	\$ 66,650

Fresno Irrigation District

On August 10, 2019, the District entered into an exchange program with Fresno Irrigation District to transfer 500 acre feet per year of its CVP Friant Class 1 water on a two back for one basis for a period of five years to begin March 1, 2020. Both Fresno Irrigation District and the District shall be responsible for their direct cost of water. In fiscal year ended February 28, 2021, the District received 1,000 acre feet from Fresno Irrigation District. The District transferred 146 acre feet of its 500 acre feet commitment to Fresno Irrigation District in the fiscal year ended February 28, 2021, and transferred the remaining 354 acre feet in the fiscal year ended February 28, 2022.

	Acre Feet	Amounts
Beginning balance payable at March 1, 2021	(354)	\$ (14,500)
Additions during the year	-	-
Deletions during the year	354	14,500
Ending balance payable at February 28, 2022	-	\$ -

ORANGE COVE IRRIGATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2023 AND 2022**

NOTE 5 – Water Transfers/Exchanges Receivable and Payable (continued)

Lower Tule River Irrigation District

On December 22, 2021, the District entered into an exchange agreement with Lower Tule River Irrigation District to deliver up to 8,000 acre feet of the District's 2021 Class 1 water supply by February 28, 2022. Lower Tule River Irrigation District agrees to return one acre for every two-acre feet of the District's water received in the 2021 contract year.

	<u>Acre Feet</u>	<u>Amounts</u>
Beginning balance receivable at March 1, 2021	-	\$ -
Additions during the year	7,000	305,480
Deletions during the year	-	-
	<hr/>	<hr/>
Ending balance receivable at February 28, 2022	<u>7,000</u>	<u>\$ 305,480</u>
Beginning balance receivable at March 1, 2022	7,000	\$ 305,480
Additions during the year	-	-
Deletions during the year	-	-
	<hr/>	<hr/>
Ending balance receivable at February 28, 2023	<u>7,000</u>	<u>\$ 305,480</u>

On February 10, 2023, the District entered into an exchange agreement with Lower Tule River Irrigation District to deliver up to 8,000 acre feet of the District's 2022 Class 1 water supply by February 28, 2023. Lower Tule River Irrigation District agrees to return one acre for every two-acre feet of the District's water received in the 2022 contract year.

	<u>Acre Feet</u>	<u>Amounts</u>
Beginning balance receivable at March 1, 2022	-	\$ -
Additions during the year	8,000	174,560
Deletions during the year	-	-
	<hr/>	<hr/>
Ending balance receivable at February 28, 2023	<u>8,000</u>	<u>\$ 174,560</u>

ORANGE COVE IRRIGATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2023 AND 2022**

NOTE 5 – Water Transfers/Exchanges Receivable and Payable (continued)

Porterville Irrigation District

On February 4, 2022, the District entered into an exchange agreement with Porterville Irrigation District to deliver up to 400 acre feet of the District's 2021 Class 1 water supply by February 28, 2022. Porterville Irrigation District agrees to return one acre for every two-acre feet of the District's water received in the 2021 contract year.

	Acre Feet	Amounts
Beginning balance receivable at March 1, 2021	-	\$ -
Additions during the year	400	17,456
Deletions during the year	-	-
Ending balance receivable at February 28, 2022	400	\$ 17,456
Beginning balance receivable at March 1, 2022	400	\$ 17,456
Additions during the year	-	-
Deletions during the year	-	-
Ending balance receivable at February 28, 2023	400	\$ 17,456

Bureau of Reclamation

On August 11, 2022, the District entered into an exchange agreement with the Bureau of Reclamation to exchange 8,867 acre feet of the District's 2022 Class 1 water supply. The District will need to return the water supply in 2023-2024 contract years. The exact amount of return is dependent on hydrology with greater return of water.

	Acre Feet	Amounts
Beginning balance payable at March 1, 2022	-	\$ -
Additions during the year	(8,867)	(225,044)
Deletions during the year	-	-
Ending balance payable at February 28, 2023	(8,867)	\$ (225,044)

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 6 – Capital Assets

The following is a summary of changes in capital assets:

	March 1, 2022	Additions	Deletions/ Transfers	February 28, 2023
<u>Capital assets not being depreciated:</u>				
Land	\$ 25,549	\$ -	\$ -	\$ 25,549
<u>Other capital assets:</u>				
Buildings and improvements	192,059	-	-	192,059
Pipeline and equipment	18,053,496	-	-	18,053,496
Office equipment	161,658	660	(14,606)	147,712
Field and shop equipment	251,932	52,861	(36,561)	268,232
System improvements	1,446,346	4,464	-	1,450,810
Fishwater release hydroelectric plant	2,764,088	-	-	2,764,088
King River hydropower plant	507,378	-	-	507,378
Total other capital assets at historical cost	23,376,957	57,985	(51,167)	23,383,775
Accumulated depreciation	(12,512,357)	(519,548)	51,167	(12,980,738)
Other capital assets, net	10,864,600	(461,563)	-	10,403,037
Total capital assets, net	<u>\$ 10,890,149</u>	<u>\$ (461,563)</u>	<u>\$ -</u>	<u>\$ 10,428,586</u>

NOTE 7 – Investment in Friant Power Authority

The Friant Power Authority (FPA) is a joint powers agreement formed by eight irrigation districts and one water district to construct electrical generation facilities at Friant Dam (Millerton Lake). The District has a 5.25 participation percentage in the original facilities constructed by the FPA in the mid 1980's. In addition, a new project undertaken by the FPA was completed and started generating power in May of 2017, with the District's participation percentage being 12.5 percent. A 7 Megawatt hydropower plant was built adjacent to the existing FPA 2.3 Megawatt hydropower plant to take advantage of additional water releases into the San Joaquin River as a result of the San Joaquin River Restoration Program.

The District did not contribute to the FPA for the years ended February 28, 2023 and 2022. The District receives monthly distributions from the FPA. The activities of the FPA are reflected under the equity method of accounting. The equity method of accounting for investments requires that the earnings and/or losses be reported by the investor based on the percentage of equity ownership. The District's investment balance in FPA at February 28, 2023 and 2022, was \$3,801,295 and \$3,931,247, respectively. The FPA's accounting yearend is June 30 and issues a separate annual financial report. Copies may be requested at Friant Power Authority, 18015 North Fork Road, Friant, California 93626.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 7 – Investment in Friant Power Authority (continued)

Condensed financial information of Friant Power Authority is shown below:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Total assets	\$ 39,334,251	\$ 39,103,378
Total liabilities	<u>(274,964)</u>	<u>(190,641)</u>
Net position	<u>\$ 39,059,287</u>	<u>\$ 38,912,737</u>
Total revenue	\$ 6,490,244	\$ 5,312,757
Total expenses	<u>(2,763,405)</u>	<u>(2,525,546)</u>
Change in net position	<u>\$ 3,726,839</u>	<u>\$ 2,787,211</u>

NOTE 8 – Investment in Anadromous Fish Restoration Project

The Central Valley Project Improvement Act of 1992 (CVPIA) impose restoration fees on all Central Valley Project (CVP) water users and an additional surcharge fee for CVP water users on the Friant system. CVPIA also provided that stakeholders could do restoration projects and receive credit against restoration charges. In 1999 the District purchased water rights at a cost of \$607,500 in Tehama County and had proposed a project for that purpose. The District undertook a major effort to negotiate an anadromous fishery restoration project with the Department of the Interior. After early encouragement for the District to implement the project, the Department of the Interior took the position that it preferred the work be done by a conservancy group.

The District continues to explore and evaluate alternative uses of the water right that fundamentally combine satisfying the original purposes (improvement of the anadromous fishery on one of California's priority streams in Tehama County) in conjunction with additional beneficial uses further downstream. Options for those downstream beneficial uses include; a long or short-term lease for agricultural purposes, a long or short-term lease for environmental purposes (i.e. wildlife refuge supply), drought supply for agricultural entities (either north or south of the Delta), short or long-term lease to a municipal and industrial water provider or sale to an entity(ies) for one or multiple of these purposes.

The District's objective is to retain dominion and control of the water right for long-term appreciation and considers over time it will prove to be an appreciating asset.

In 2014 there was a disagreement between the District and the local watermaster relative to the time of use (seasonal or year round) and locations for beneficial disposition of the water right. As such the District petitioned the Tehama County Superior Court for declaratory relief on their 1920 Court Decree associated with the water right.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 8 – Investment in Anadromous Fish Restoration Project (continued)

A hearing occurred on August 5, 2014, in Tehama County Superior Court. In connection with the Tehama County Superior Court ruling in favor of the watermaster, the District was ordered to pay \$53,249 in attorney fees, was informed the right was seasonal (only during the irrigation season) and to be put to beneficial use within the watershed of the creek. The District immediately filed its notice of appeal with respect to the ruling and therefore was not yet required to pay any attorney fees.

The District filed an appeal with the 3rd District Appellate Court in Sacramento on the Superior Court's decision in 2014. The District received the 3rd District Appellate Court's decision on December 12, 2018. The 3rd Appellate Court decision reversed all judgements made by the Superior Court's August 5, 2014, determination. The Appellate Court ruled that the District had full access to its rights on a year round basis, for use or transfer outside of the creek's watershed (unrestricted) and without the prior approval of the Superior Court or the watermaster. In addition it was ruled that the District does not have to pay the watermaster's attorney fees.

Additional expenses continue to be incurred by the District relative to the water right in order to pursue additional uses, which as viewed by the Court are unconstrained. The investment in Anadromous Fish Restoration Project at February 28, 2023 and 2022, was \$783,420 and \$778,492, respectively.

NOTE 9 – Water Rights

The District holds a Repayment Contract with the Bureau of Reclamation for water service. Under this Contract the District has access to an entitlement (4.9 percent) of the total Class 1 water allocated by the Bureau of Reclamation in any given Contract Year. Water rights balance at February 28, 2023 and 2022, was \$7,477,616.

NOTE 10 – Water Usage Rebate Payable

The District issued a water usage rebate payable of \$3,076,071 to their landowners at February 28, 2023, due to collecting surplus funds over the past two years. These rebates were based on the amount of water used in the District by the landowner. The landowner could apply the rebate to their water bill account, pay any outstanding assessments and/or receive a payment from the District in the next fiscal year.

NOTE 11 – Excess and Advance Water Payments Received

Excess and advance water payments represent money received by the District from landowners for the purchase of water not yet received by the landowners. In Fiscal Year 2017, the District Board of Directors altered its Rules and Regulations such that full credits would no longer be carried forward into customer account balances. Starting in 2017 monies collected for water which was secured (based on water supply availability) only apply to a maximum of 10 percent of the total acre feet secured at a unit credit rate of \$25 per acre foot, regardless of the unit amount paid for water.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 12 – Retirement Plan

The District's employees have an option to participate in the Orange Cove Irrigation District 457 Plan (the Plan) defined contribution pension plans established by the Board of Directors of the District. The Plan covers all fulltime employees who have completed at least 1,000 hours of continuous service and provides for immediate 100 percent vesting for the participants. The Plan's provisions and contribution requirements are established and may be amended by the Board of Directors of the District. The District matches employee contributions up to 7 percent of their compensation. The District made contributions to the Plan amounting to \$57,655 for the year ended February 28, 2023, and \$62,809 for the year ended February 28, 2022.

On November 13, 2019, the Board of Directors authorized the adoption of a 401(a) Retirement Plan for its Engineer-Manager. Funds and fees for the Plan would be derived from the employee's compensation up to the maximum provided for under Section 401(a) of the IRS Code.

NOTE 13 – Hydropower Plants

The District owns and operates two hydroelectric power plants in Fresno County: The Fishwater Release Hydroelectric Plant located at Friant Dam, and The Kings River Siphon Hydroelectric Plant located at the intersection of the Friant-Kern Canal and the Kings River. The District holds federal energy regulatory commission licenses with termination dates of August 31, 2032, for the Fishwater Plant and July 1, 2037, for the Kings River Plant. The original purchase power agreements with PG&E terminated in August 2020 which paused operations until there was a new agreement in place. In July 2021, the District agreed to new purchase power agreements with PG&E which terminate in August 2041.

The District's hydropower plants total gross revenues and expenses for the years ended February 28, 2023 and 2022, were as follows:

	2023	2022
Fishwater Plant:		
Revenue	\$ 228,077	\$ 65,470
Expenses	(84,939)	(122,947)
Net income (loss), Fishwater Plant	\$ 143,138	\$ (57,477)
Kings River Plant:		
Revenue	\$ 101,192	\$ 31,513
Expenses	(83,813)	(76,471)
Net income (loss), Kings River Plant	\$ 17,379	\$ (44,958)
Net income (loss), hydropower plants	\$ 160,517	\$ (102,435)

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 14 – Related Party Transactions

The District's Board of Directors is composed of five members, all of whom operate or represent farming entities in the Orange Cove Irrigation District that can be considered related parties. These entities own or rent approximately 5 percent of the land in the District.

The charges to these entities during the year ended February 28, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Related party sales:		
Irrigation water sales	\$ 192,186	\$ 195,068
Standby charges	105,859	162,659
Pumping charges	-	18,467
	<u> </u>	<u> </u>
Total related party transactions	<u>\$ 298,045</u>	<u>\$ 376,194</u>
Percent to total water revenues	<u>4%</u>	<u>5%</u>

The balances for these entities at February 28, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Related party current assets:		
Standby charges receivable	\$ 8,368	\$ 44,150
Related party current liabilities:		
Water usage rebate payable	\$ 179,485	\$ -
Deferred standby fees	\$ 170,609	\$ 135,549
Excess and advance water payments received	\$ 91,791	\$ 171,685

NOTE 15 – Commitments and Contingencies

San Joaquin River Settlement and Act

In 1986 the Natural Resources Defense Council (NRDC) and a group of environmental interests (plaintiffs) filed suit against the United States (NRDC vs. Rodgers) for impacts that the Project (Friant Division) had to an historic Upper San Joaquin River (SJR) salmon fishery resulting from the construction of Friant Dam and the diversion of water from the SJR channel to federal contractors, including the District. The NRDC and the Bureau entered into a Settlement agreement in September of 2006 and legislative language soon followed that would put aside this long standing litigation.

ORANGE COVE IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2023 AND 2022

NOTE 15 – Commitments and Contingencies (continued)

San Joaquin River Settlement and Act (continued)

On March 30, 2009, an Omnibus Package of Natural Resource Bills (including that concerning River restoration) was signed into Law (Public Law 111-11). As a result of the enacted legislation, the first steps toward restoration began in fall of 2009 with the release of experimental "interim" flows. According to the 2009 San Joaquin River Restoration Act (Act), interim flows were to continue through 2011 with restoration flows commencing January 1, 2012, and full restoration flows commencing on January 1, 2014, in accordance with the 2006 projection of SJR channel improvements. Presently the SJR channel improvements are lagging the timeline projected in 2006 and there continue to be restrictions on releasing full restoration flows down the SJR. It appears that full restoration flows may not be possible for decades as available funding is insufficient to construct the necessary improvements. As a result of the Act, the District may lose approximately 6 percent of water otherwise made available by the Bureau of Reclamation under its repayment contract on an average annual basis to restore the SJR.

Apart from the loss of supply, the legislation dictates provisions to avoid and or mitigate for that loss through various programs cast within the "water management goal" an ancillary goal to the "restoration goal." The degree to which mitigation tools ameliorate supply loss is unquantifiable at this time; however, the Friant Division Contractors are hopeful that the mitigation tools will result in limited net loss of water as a result of River restoration.

Joint-Powers Authority-Friant Water Authority

As a Friant contractor the District is obligated to share in the cost of operating and maintenance costs of the Friant-Kern Canal. An agreement also exists between the Friant Water Authority (the Authority) and the San Luis & Delta-Mendota Water Authority (SLDMWA) that defines how the Authority is to compensate SLDMWA for the water delivered to Settlement (Exchange) Contractors from their project facilities. Settlement contractors receive their water without charge from those facilities and Friant Division Contractors are responsible for the operations, maintenance and repair costs incurred by the SLDMWA in delivering Settlement water. The District is also obligated to share in these costs.

Court of Claims Case Filed by the District Against the United States

In 2016 a group of Friant Division Contractors including the Orange Cove Irrigation District filed a \$350,000,000 takings claim against the United States relating to the Bureau of Reclamation's 2014 Friant Dam/Millerton Lake water operations. The proceedings for this case began in 2017. On June 7, 2022, there was a ruling that favored the defendant and denied the breach of contract claim. The District along with all other Friant Contractors participating in the litigation have filed a notice of appeal. It is anticipated that the appeal process will not be completed prior to February 2024.

NOTE 16 – Subsequent Events

Management has evaluated subsequent events through August 14, 2023, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements, nor have any subsequent events occurred, the nature of which would require disclosure.