

**Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014**



Kern County Water Agency

**KERN COUNTY WATER AGENCY
BAKERSFIELD, CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION



February 18, 2015

Directors:

Ted R. Page
President
Division 1

Bruce Hafenfeld
Division 2

Martin Milobar
Division 3

Michael Radon
Division 4

Charles (Bill) W. Wulff, Jr.
Division 5

Royce Fast
Division 6

Gene A. Lundquist
Vice President
Division 7

James M. Beck
General Manager

Amelia T. Minaberrigarai
General Counsel

Board of Directors
Kern County Water Agency
3200 Rio Mirada Drive
Bakersfield, CA 93308

RE: Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2014

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Kern County Water Agency (Agency) for the fiscal year ended June 30, 2014. The purpose of the CAFR is to provide the Board of Directors, the Member Units and other interested parties with reliable financial information about the Agency. The Agency's Administrative Operations Department has prepared the CAFR in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Agency management. Staff believes the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of the operation of the Agency. The report is presented in two parts:

1. **Introductory Section** – includes the Transmittal letter with the Agency's Organizational Chart and a listing of the Agency's principal officials, as well as other relevant information to assist the reader in understanding the Agency's management structure, operations and financial condition.
2. **Financial Section** – includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Agency's Financial Statements for the fiscal years ended June 30, 2014 and 2013, and explanatory footnotes. Other supplemental information by fund and additional information is also presented in this section.

REPORTING ENTITY

The Agency is accounted for as an enterprise fund. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses, in which the purpose is to conserve and add to basic resources, while meeting operating expenses from current revenues.

Enterprise funds account for operations that provide services on a continual basis and that are financed substantially by revenues derived from user charges. As an enterprise fund, the Agency uses the accrual basis of accounting: revenues are recognized when they become measurable and available, and expenditures are recognized as they are incurred.

(661) 634-1400

Mailing Address
P.O. Box 58

Bakersfield, CA 93302-0058

Street Address
3200 Rio Mirada Dr.
Bakersfield, CA 93308

The Agency applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

The Agency's policy requires that an independent certified public accounting firm, selected by the Agency's Board of Directors, audit its financial statements on an annual basis. The independent auditor's report for the fiscal years ended June 30, 2014 and 2013 is presented in the financial section of this report.

DISTRICT FORMATION AND ORGANIZATION

The Agency was created in 1961 by a special act of the State Legislature and approved by county voters. A primary purpose was to secure an adequate water supply for Kern County by serving as the local contracting entity for the State Water Project (SWP), a water storage and delivery system of reservoirs, aqueducts, power plants and pumping plants. The Agency was also granted the powers that enable it to participate in a wide scope of water management activities, including water and facilities acquisition and storage, water quality, flood control, drainage, land reclamation, and groundwater management and oversight. Over the years, the Agency has experienced extreme variations in supply on both local and statewide fronts due to drought conditions, increasing environmental regulations in the Sacramento-San Joaquin Delta (Delta) and ever-expanding demands on the state's water system. Making the best possible use of the existing water supply and protecting these water supplies from external threats have become increasingly important. The Agency will continue to respond to these challenges by developing unique solutions and striving for excellence in technical, administrative, policy-making and financial arenas. The Agency is committed to the health and well-being of Kern County citizens and businesses by persisting in efforts to preserve and enhance Kern County's water supply.

The Agency is the second largest participant in the SWP. The SWP extends for more than 600 miles (two-thirds of the length of California) and was planned, built and is operated by the California Department of Water Resources (DWR). The Agency has contracted to receive a maximum annual amount of 982,730 acre-feet (af) of Table A water. Of that amount, 119,000 af are designated for municipal and industrial use, and 863,730 af are designated for agricultural use.

The first deliveries of water from the SWP to Kern County began in 1968 via the California Aqueduct (Aqueduct). This concrete-lined canal passes through the west side of Kern County before crossing the Tehachapi Mountains into southern California. SWP water is then transported to Bakersfield and other areas on the east side of the San Joaquin Valley through the Cross Valley Canal (CVC), a 22-mile canal with seven low-lift pump stations, built and operated by the Agency.

Imported water supplies from the Central Valley Project via the CVC and Friant-Kern Canal are also an essential part of Kern County's water supply system. These federal supplies normally provide an average of more than 400,000 af per year primarily to Delano-Earlimart Irrigation District, Semitropic Water Storage District, Shafter-Wasco Irrigation District, Arvin-Edison Water Storage District and Kern-Tulare Water District.

The Kern River supplies water for agriculture, industry and hydroelectric power generation, with flows averaging about 760,000 af annually. The Kern River originates in two forks near Mt. Whitney in the southern Sierra Nevada mountain range. Isabella Reservoir impounds Kern River water behind a 185-foot-high earthen dam, which has a capacity of 570,000 af. The Kern River is the largest local source of surface water in Kern County.

Kern County, the second most productive agricultural county in the state in 2012, relies on an adequate water supply to maintain its economy.¹ A vast underground water basin supplies about 37 percent of the water used for domestic and agricultural purposes, in addition to the surface water sources, the Kern River (21 percent), SWP (23 percent), Friant-Kern Canal (11 percent) and local streams (8 percent), for a combined annual supply from all sources of about 3.7 million acre-feet. Annual precipitation in the San Joaquin Valley portion of the county averages about 6.5 inches and makes up less than one percent of the county's total supply.

Total annual municipal and industrial water use in Kern County is approximately 222,000 af, most of which occurs in the Bakersfield area. With such limited annual precipitation, careful water management practices have been developed by both the urban and agricultural sectors. Kern County farmers are among the most skilled water managers in the world through the use of highly efficient irrigation methods.

Significant advancements in irrigation have been made through the use of drip and low volume application methods, as well as row and border systems. Laser land leveling, widely practiced in Kern County, helps achieve uniform water distribution. With national and worldwide demands for food and fiber increasing, the water and agricultural industries of Kern County will continue to develop efficient technologies to meet future irrigation requirements.

Urban areas of Kern County are also committed to the wise use of water. The Improvement District No. 4 (ID4) purveyors (California Water Service Company; East Niles Community Services District; North of the River Municipal Water District, which wholesales water to Oildale Mutual Water Company; and the City of Bakersfield) help support the Agency's water conservation school education program and its many public water conservation outreach efforts. In 1992, the Agency signed the Memorandum of Understanding Regarding Urban Water Conservation in California and became a member of the California Urban Water Conservation Council. Cost-effective water conservation "best management practices" are emphasized in the service areas of the Agency and the urban purveyors. The Agency is also a member of the Agricultural Water Management Council, which pursues implementation of agricultural best management practices. Additionally, the Agency is a participant in the Tulare Lake Basin Portion of Kern County Integrated Regional Water Management Plan (Kern IRWMP), which seeks to preserve the economic and environmental health of Kern County communities through comprehensive management of our water resources. The Kern IRWMP is a collaboration of water suppliers, community and government representatives, environmental groups and a variety of other stakeholders. ID4 also completed the 2010 update to its Urban Water Management Plan (UWMP). An UWMP details the water supply reliability of the urban water supplier during normal, dry and multiple dry years. UWMP updates are due to the Department of Water Resources by December 31 in years that end in 5 or 0.

¹ California Department of Agriculture. 2013. *California Agricultural Statistics: 2012 Crop Year*.

MEMBER UNITS

The Agency has long-term contracts for SWP water with 13 local water districts, called “Member Units.” Since 1968, the Member Units have received almost 35 million acre-feet of SWP water. Under the terms of the Monterey Amendment, which was implemented in 1995, the Member Units and Dudley Ridge Water District agreed to permanently retire 45,000 af of SWP Entitlement in exchange for transferring the Kern Water Bank (KWB) property from DWR to local control. In addition, the Agency agreed to allow up to 130,000 af of Table A water to be permanently sold to urban contractors on a willing buyer-willing seller basis. As of 2010, contract amendments have been executed to permanently transfer 130,000 af to other SWP Contractors.

Below is a table listing the Member Units and the entitlement transfers (af) completed as of June 30, 2013. Also shown are permanent transfers that have occurred between Member Units.

Member Unit	SWP Maximum Annual Entitlement as of 1996	Retired for the KWB in 1996-97	Transferred in 1998	Transferred in 2000	Transferred in 2001	Transferred in 2004	Transferred in 2010	SWP Maximum Annual Entitlement 2010 - 2035 [1]
1. Berrenda Mesa WD (AG)	155,100		-25,000 (Mojave WA)	-7,000 (Alameda, Zone 7)	-8,000 (KCWA)	-6,500 (West Kern WD)	-16,000 (Coachella VWD/ Desert WA)	92,600
2. Lost Hills WD (AG)	140,400	-6,290 (On behalf of Westside Mutual)		-15,000 (Alameda, Zone 7)				119,110
3. Belridge WSD (AG)	163,000	-15,335 (On behalf of Westside Mutual)	-157 (Tejon Castac WD)	-4,000 (Palmdale WA)	-10,000 (Alameda, Zone 7) -9,781 (Napa & Solano)	-2,219 (Alameda, Zone 7)		121,508
4. Semitropic WSD (AG)	158,000	-3,000						155,000
5. Cawelo WD (AG)	38,200							38,200
6. Rosedale-Rio Bravo WSD (AG)	29,900							29,900
7. Buena Vista WSD (AG)	21,300							21,300
8. Kern Delta WD (AG)	25,500							25,500

9. Henry Miller WD (AG)	35,500							35,500
10. West Kern WD (M&I)	25,000							25,000
West Kern WD (AG)						6,500		6,500
11. Wheeler Ridge-Maricopa WSD	248,903	-10,815		-41,000 (Castac WA)				197,088
12. Tehachapi Cummings CWD (AG)	4,300							4,300
Tehachapi Cummings CWD (M&I)	15,000							15,000
13. Tejon Castac WD (AG)	4,021	-900	157					3,278
Tejon Castac WD (M&I)	2,000							2,000
KCWA Improvement District No. 4 (M&I)	77,000							77,000
KCWA Improvement District No. 4 (AG)	10,276	-4,330						5,946
KCWA (AG)					8,000			8,000
Subtotal (AG)	1,034,400	-40,670	-25,000	-67,000	-19,781	-2,219		879,730
Subtotal (M&I)	119,000							119,000
Total	1,153,400	-40,670 [2]	-25,000	-67,000	-19,781	-2,219	-16,000	982,730

[1] The remaining 16,000 af of the 130,000 af transferable under the Monterey Amendment were transferred in 2010.

[2] Dudley Ridge Water District and SWP agricultural contractors located outside Kern County retired an additional 4,330 af, bringing the total amount retired for the KWB to 45,000 af.

ECONOMIC CONDITIONS AND OUTLOOK

Kern County has sometimes been referred to as “The Golden Empire,” because of its rich history of gold, oil and agricultural production. Located at the southern end of the San Joaquin Valley, Kern County ranks in the top five most productive counties in the United States and is one of the nation’s leading petroleum-producing counties.

The agricultural industry is one of the largest industries in Kern County—approximately 90 percent of the water related to the Agency is designated for agricultural use. Kern County farmers rank among the most effective and efficient in the world.

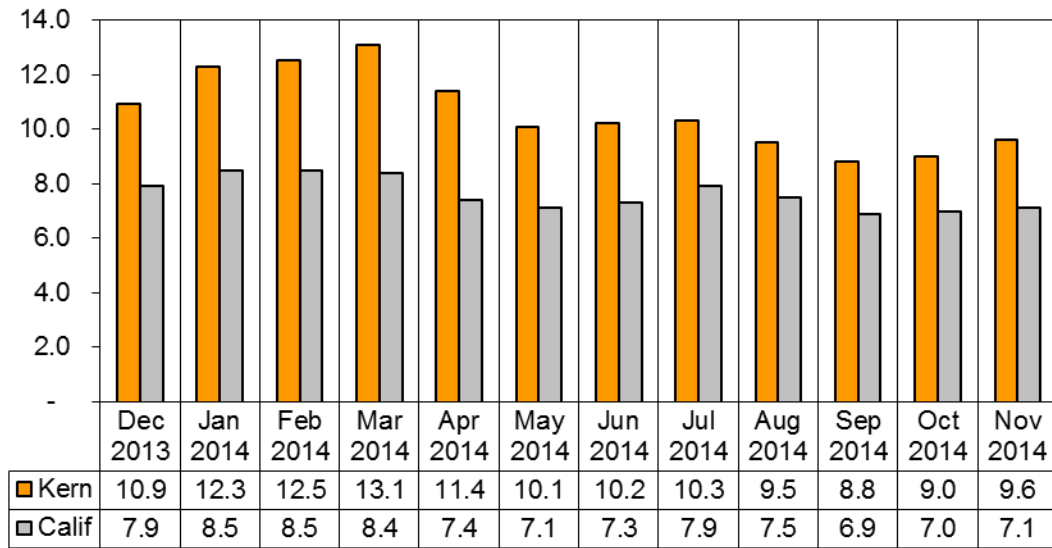
Kern County produces a wide variety of crops with over 30 types of fruits and nuts, over 40 types of vegetables and over 10 field crops, as well as lumber, nursery stock, livestock, poultry and dairy products. The total value of these agricultural products was \$6.2 billion and \$5.6 billion in 2012 and 2011 respectively. A breakdown of the top 20 commodities for 2011 is provided below.

<i>Kern County 2012 Crop Report</i>		
COMMODITY	VALUE	2011 RANKING
1. Grapes, All	\$ 1,498,987,000	1
2. Almonds, Including By-Products	821,857,000	3
3. Milk, Market & Manufacturing	690,062,000	2
4. Citrus, Fresh & Processing	620,350,000	4
5. Pistachios	486,213,000	6
6. Cattle & Calves	382,913,000	7
7. Carrots, Fresh & Processing	350,439,000	5
8. Hay, Alfalfa	213,466,000	8
9. Cotton, Including Processed Cottonseed	147,637,000	10
10. Potatoes, Fresh & Processing	85,102,000	11
11. Silage & Forage	75,149,000	12
12. Pomegranates, Fresh & Processing	58,781,000	14
13. Nursery Fruit and Nut Trees & Vines	57,555,000	19
14. Apiary Products	56,707,000	13
15. Tomatoes, Fresh & Processing	53,657,000	15
16. Eggs & Egg Product	40,343,000	17
17. Bell Peppers, Fresh & Processing	40,143,000	16
18. Wheat	35,294,000	18
19. Nursery, Roses	33,346,000	23
20. Onions, Fresh & Dehydrator	28,350,000	22

Kern County’s rich agricultural heritage can be traced back to a century ago. When the first settlers came to the area, they found swampland that provided breeding grounds for encephalitis and malaria-carrying mosquitoes. By harnessing the uncontrolled flow of water from the Kern River, this dangerous area was converted into some of the most productive agricultural land in the world. Other marginal grassland was also transformed into productive farming land that has fed the world for nearly a century.

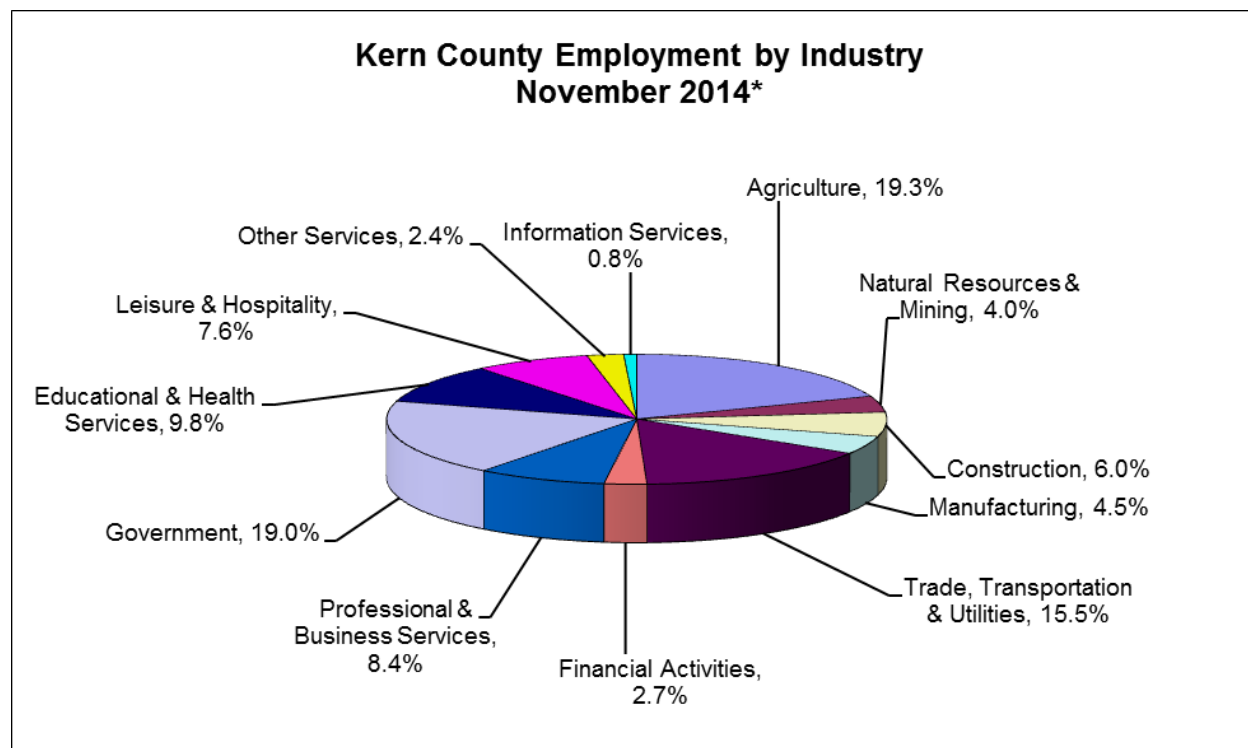
According to California Department of Finance population estimates, Kern County’s population is expected to grow over the next 40 years from 841,609 in 2010 to 1,823,277 in 2050. The estimated increase of 941,668, or 217, percent puts Kern County 1st on the list of fastest growing counties based on numerical change for the years 2010–2050. Kern County is estimated to grow an average of 21 percent every 10 years and is expected to be one of the 10 largest counties in California by 2050. Kern was number 14 on the list of largest counties in California in 2000 but is expected to be number eight in 2050. The civilian labor force decreased to 398,200 as of November 2013, a .2% decrease from the previous year. The civilian labor force decreased by 900 workers from November 2012 to November 2013. Agriculturally-oriented counties like Kern tend to have greater seasonal variations on employment and higher unemployment rates.

Kern County Unemployment Rates



Source: California Employment Development Department
 Data not seasonally adjusted

As of November 2013, government, agriculture and trade, transportation and utilities comprised a large part of Kern County’s employment sectors. Together, these industries account for 54.4 percent of the total employment in the County. Agriculture made up the largest share with 19.5 percent. Government and trade, transportation and utilities account for 19.3 and 15.6 percent, respectively. There were 26,500 jobs in professional and business services, while educational and health services provided 29,200 jobs.



*Total Employment November 2013: 310,900

ACCOMPLISHMENTS DURING FISCAL YEAR 2013-14

The Agency experienced another highly productive fiscal year. In addition to various operational achievements, much progress was made in the area of capital projects. Highlights are presented below:

Cross Valley Canal Expansion Project

The CVC serves as the Agency’s primary conduit for water deliveries from and to the Aqueduct. The \$93 million CVC Expansion Project is the largest component of the Proposition 13 Phase II Grant Program and also includes construction of the CVC/Friant-Kern Canal Intertie (Intertie). The outcome will create expanded CVC conveyance capacity from 922 cubic feet per second (cfs) to 1,422 cfs, an increase of about 54 percent, and 500 cfs of capacity in the Intertie. This represents a significant milestone in the development of Kern County’s surface water conveyance infrastructure. The substantial elements of the project were completed June, 2012. The Supervisory Control and Data Acquisition system was completed December, 2012.

Improvement District No. 4 Projects

Multiple ID4 capital projects progressed through the year, and highlights of the year’s activity are provided below.

Relocation of the Rosedale-Rio Bravo Water Storage District and Improvement District No. 4 Joint Use Groundwater Recovery Facility (Joint Use) Project: On July 13, 2011, work began on the relocation of Joint Use well facilities in preparation for the construction of the Westside Parkway Project. The work was performed under an agreement with the City of Bakersfield. The engaged MGE Underground to relocate a 30-inch diameter water transmission pipeline from the wells and Security Paving to install a 21-kilovolt electrical transmission conduit. This work was substantially completed on October 25, 2012.

Henry C. Garnett Water Purification Plant Sodium Hypochlorite Tank Modifications Project (Phase I): On May 7, 2012, the Notice of Award was issued to W.M. Lyles Company for the Sodium Hypochlorite Tank Modifications. The contract provided for the repair of two of six 12,000-gallon fiberglass-reinforced plastic tanks for the Bulk Sodium Hypochlorite Facility. These tanks started to leak due to crack formation in the tank bottoms caused by inadequate support underneath the fiberglass-reinforced plastic tank bottom. The tanks were lifted and grout was injected to fill the annular space between the tank bottom and the concrete pedestal. The tank supports were replaced. The tanks were then reset, inlet nozzles and the lining of the tank bottom were repaired, and the connections plumbed. This contract was completed on July 13, 2012.

Henry C. Garnett Water Purification Plant Clearwell No. 1 Coating Repairs Project: On June 29, 2012, the Notice of Award was issued to Industrial Coating and Restoration Services, Inc. for the repair of the interior coating of Clearwell No. 1. The contract removed coated areas of the existing coating on the interior structural elements of the fixed metal roof system where the coating system had failed due to corrosion. A new coating system was then applied to appropriately prepared metal surfaces where the previous coating system was removed. The contract was completed on November 3, 2012.

Henry C. Garnett Water Purification Plant Sodium Hypochlorite Tank Modifications Project (Phase II): On November 20, 2012, the Notice of Award was issued to W.M. Lyles Company for the Sodium Hypochlorite Tank Modifications. The contract provided for the repair of two of six 12,000-gallon fiberglass-reinforced plastic tanks for the Bulk Sodium Hypochlorite Facility. These tanks started to leak due to crack formation in the tank bottoms caused by inadequate support underneath the fiberglass-reinforced plastic tank bottoms. The tanks were lifted and grout was injected to fill the annular space between the tank bottom and the concrete pedestal. The tank supports were replaced. The tanks were then reset, inlet nozzles and the lining of the tank bottom were repaired, and the connections were plumbed. This contract was completed on February 4, 2013.

Henry C. Garnett Water Purification Plant Precipitated Solids Drying Bed: On April 26, 2013, the Notice of Award was issued to Clark Brothers, Inc. for the expansion of the existing precipitated solids drying beds at the Henry C. Garnett Water Purification Plant. This contract provided three additional precipitated solids drying beds, 8-inch diameter polyvinyl chloride (pvc) effluent distribution pipeline and asphalt road surfacing. The contract was completed on September 12, 2013.

Other Accomplishments

At the state level, staff was actively involved in a number of processes that affect the ability of the SWP to meet its project goals, including efforts to optimize water supplies and energy/power activities.

On the administrative level, the Agency continued to enhance its business infrastructure through enhanced automation and information technology.

THE AGENCY'S FUTURE

The Agency will continue to focus on providing the most reliable, cost-effective and highest quality water supply for Kern County and will continue the development and implementation of major capital improvement projects that will help achieve that goal. Non-routine goals and priorities for the immediate future include the following:

- Continue to participate in the Bay Delta Conservation Plan and the Delta Habitat Conservation and Conveyance Program.
- Continue to participate in the efforts to define a solution for conveyance around the Delta.
- Continue to work with other SWP contractors and DWR to increase the efficiency and reliability of the SWP, including focusing attention on energy/power maximization efforts.

- Continue to participate in the resolution of Isabella Reservoir issues.
- Continue efforts to address policy issues related to the enhancement and development of Kern County groundwater banking programs.
- Continue efforts to complete capital projects underway.
- Continue implementation of the electronic/digital records management system.
- Continue implementation of an upgraded voice and data network.

Furthermore, the Agency will continue to refine procedures for evaluating the financial needs of the Agency and will ensure that adequate funds are available to continue the Agency's mission.

ACCOUNTING SYSTEM

The Administrative Operations Department is responsible for providing financial services for the Agency, including: financial accounting and reporting; accounts payable; custody and investment of funds; borrowing of funds and protection of credit ratings in the investment market; long-range financial planning; billing and collection of water charges, taxes, and other revenues; and special financial analyses. The Agency's books and records are maintained on an enterprise fund accrual basis of accounting. Revenues are recognized when they become measurable and available, and expenditures are recognized as they are incurred.

INTERNAL CONTROLS

The Agency's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the Agency's assets from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. When establishing or reviewing controls, management must recognize that the cost to implement a control should not exceed the benefits likely to be derived, and that in order to assess cost vs. benefit, estimates and judgment on the part of management will be required. All internal control evaluations occur within the above framework. Management believes the current system of internal controls adequately safeguards the Agency's assets and provides reasonable assurance that accounting transactions are properly recorded.

BUDGETARY CONTROLS

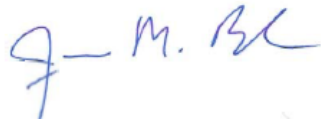
The Agency is required to prepare an annual budget. State law requires that the Kern County Board of Supervisors approve or reject the Agency's budget in total. The Kern County Board of Supervisors is not authorized to have line item control over the Agency's budget. Some operations and projects included within the Agency's budget are contingent upon receiving funding from sources both outside the Agency and between Agency operated funds. Budgetary approval by the Kern County Board of Supervisors for revenues and expenditures does not constitute a funding obligation on the part of the County of Kern or any other entity, either from an outside agency or between Agency funds.

The Agency's budget contains revenues and expenditures which range in nature from regular annual operations to one-time capital projects. The completion of some operations and one-time capital projects is contingent on the receipt of certain revenues. If certain revenues are not forthcoming during the fiscal year, the operation or capital project may not be completed. In either case, budgetary authority is required before funds may be expended during the next fiscal year.

ACKNOWLEDGEMENTS

We wish to thank the Directors for their continued leadership in excellence in financial management.

Respectfully submitted,

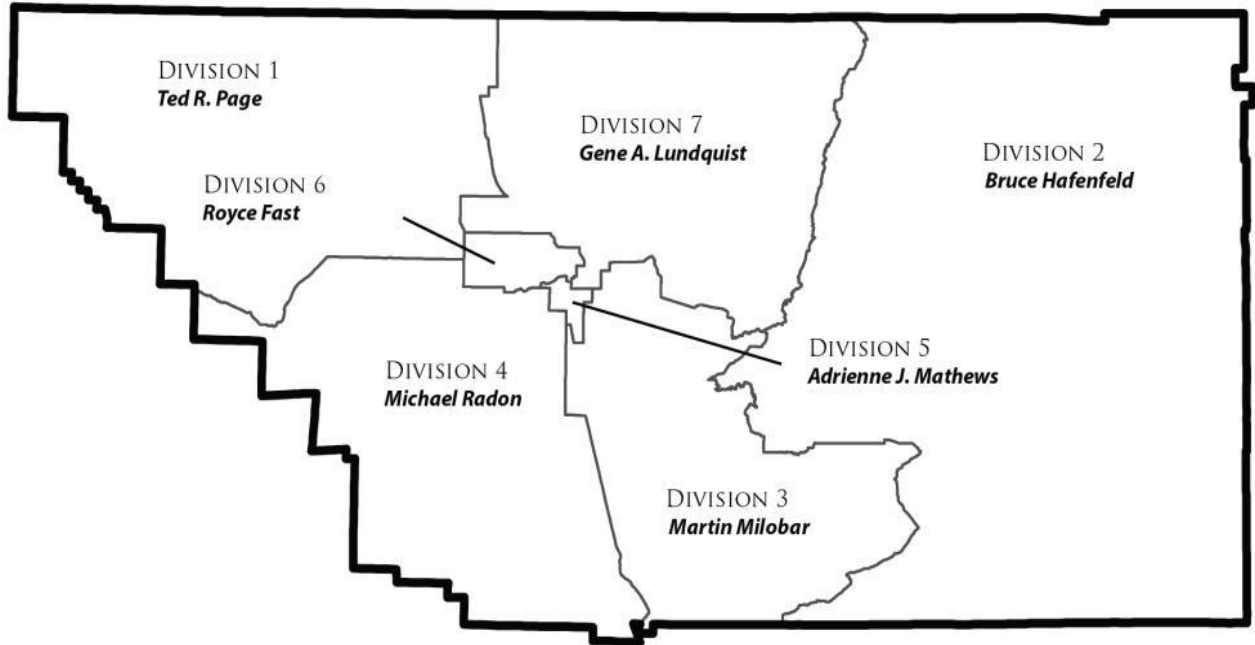
A handwritten signature in blue ink that reads "J. M. Beck". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke.

James M. Beck
General Manager

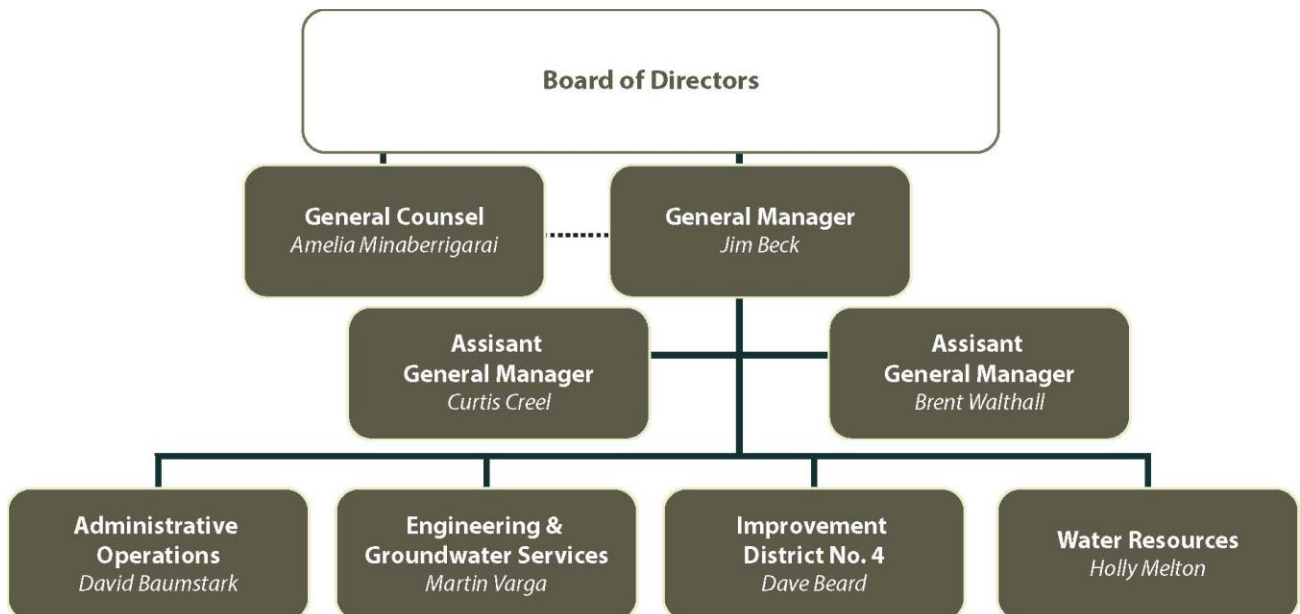
A handwritten signature in blue ink that reads "Nick Paul". The signature is written in a cursive style with a large initial "N" and a long horizontal stroke.

Nick Pavletich
Controller

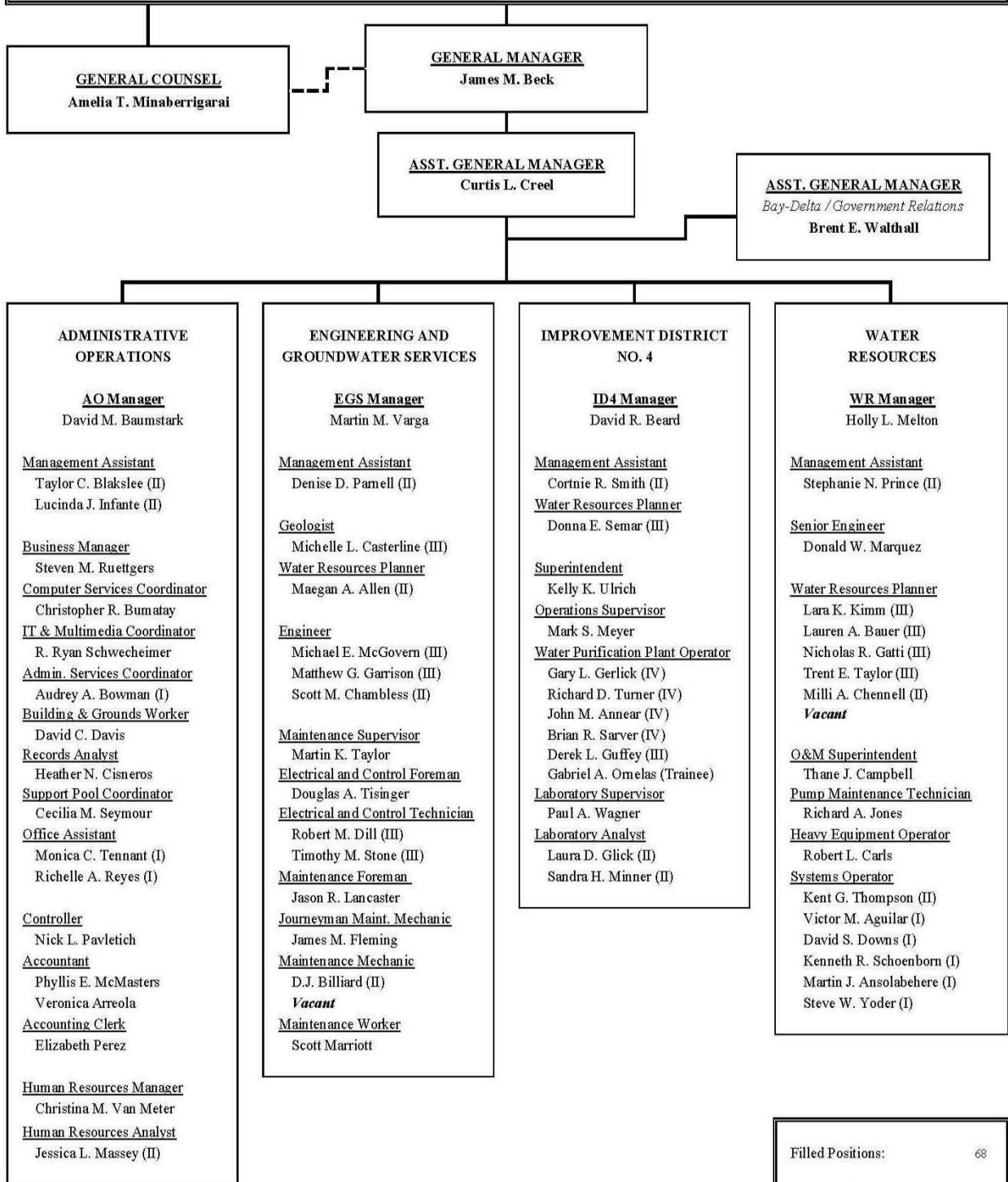
Kern County Water Agency Board of Directors



Management



KERN COUNTY WATER AGENCY
Elected Seven-Member Board



Filled Positions:	68
Vacant Positions:	2

6/26/14

FINANCIAL SECTION



Certified Public Accountants
Business & Personal Consultants

Member of the McGladrey Alliance

Member of AICPA Division for Firms
Private Companies Practice Section

NANCY C. BELTON

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kern County Water Agency
Bakersfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of **Kern County Water Agency**, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents. The financial statements of **Kern County Water Agency** as of and for the years ended June 30, 2012, 2011 and 2010 are presented for purposes of additional analysis. This information was derived from audit reports for those years, however it does not include all disclosures required for a presentation in accordance with accounting principles generally accepted in the United States of America for those years.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Kern County Water Agency**, as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 3-6 and 33 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 audit 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.

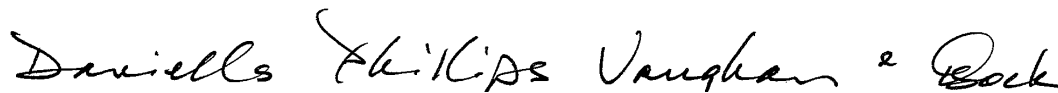
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses and combining financial statements, as listed in the table of contents as other supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of functional expenses and combining financial statements, as listed in the table of contents as other supplementary information, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2015 on our consideration of the **Kern County Water Agency'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 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 **Kern County Water Agency's** internal control over financial reporting and compliance.


Bakersfield, California
February 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has issued an accounting standard referred to as GASB Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB Statement Number 34 establishes financial reporting standards for state and local governments, including states, cities, villages and special purpose governments such as school districts and public utilities. This section of the Kern County Water Agency Comprehensive Annual Financial Report presents management's discussion and analysis of the Agency's financial performance during the Fiscal Years ended June 30, 2014 and 2013. Please read it in conjunction with the Transmittal Letter at the front of this report and the Agency's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

In the Fiscal Years ended June 30, 2014 and 2013, the Agency's total assets were \$429.3 and \$459.4 million, respectively. Current and Other Assets totaled \$94.3 million at June 30, 2014 and \$120.4 million at June 30, 2013. Current Liabilities totaled \$45.8 and \$59.0 million as of June 30, 2014 and 2013, respectively. Noncurrent liabilities equaled \$133.1 and \$137.0 million at June 30, 2014 and 2013, respectively.

Kern County Water Agency's Net Assets (in millions)

	2014	2013
Current and Other Assets	\$ 94.3	\$ 120.4
Capital Assets (Net of Depreciation)	335.0	339.0
Total Assets	\$ 429.3	\$ 459.4
Current Liabilities	\$ 45.8	\$ 59.1
Noncurrent Liabilities	133.1	136.9
Total Liabilities	178.9	196.0
Invested in Capital Assets, Net of Related Debt	198.1	198.5
Restricted	-	4.3
Unrestricted	52.3	60.6
Total Net Assets	250.4	263.4
Total Liabilities and Net Assets	\$ 429.3	\$ 459.4

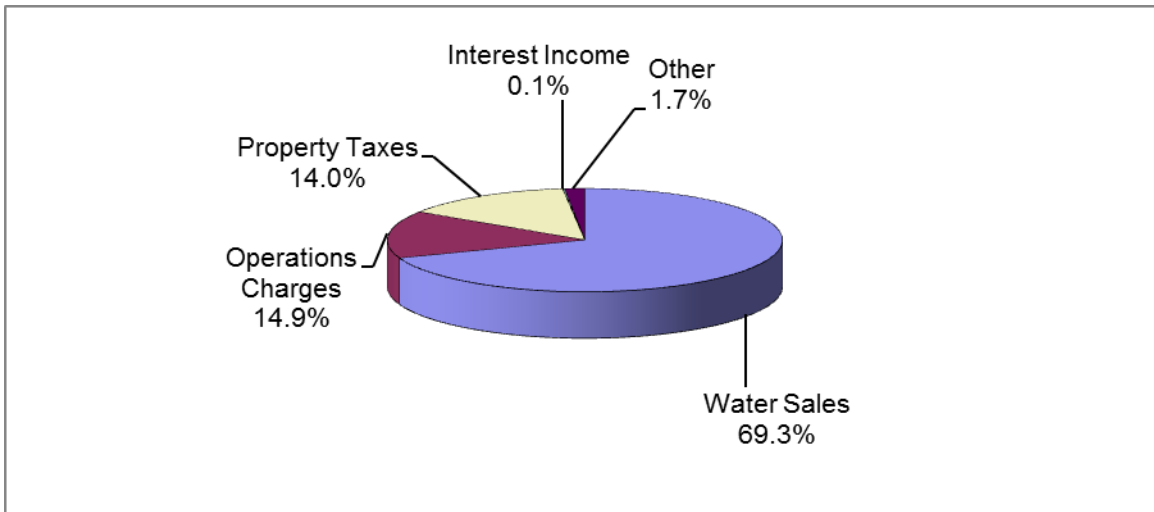
Total revenues as reported in the Statement of Revenues, Expenses and Changes in Net Position for Fiscal Years ended June 30, 2014 and 2013, were \$212.0 and \$156.3 million which includes total operating revenues of \$178.5 and \$123.9 million and non-operating revenues of \$33.5 and \$32.4 million, respectively, which includes taxes and interest income.

Total operating and non-operating expenses for Fiscal Years ended June 30, 2014 and 2013 were \$225.2 and \$159.6 million, respectively (includes non-operating expenses, interest and other expenditures). Operating costs were \$217.8 and \$152.2 million including Depreciation and Amortization expenses of \$6.7 and \$6.2 million and Non-operating expenses were \$7.3 and \$7.4 million, for the Fiscal Years ended June 30, 2014 and 2013, respectively.

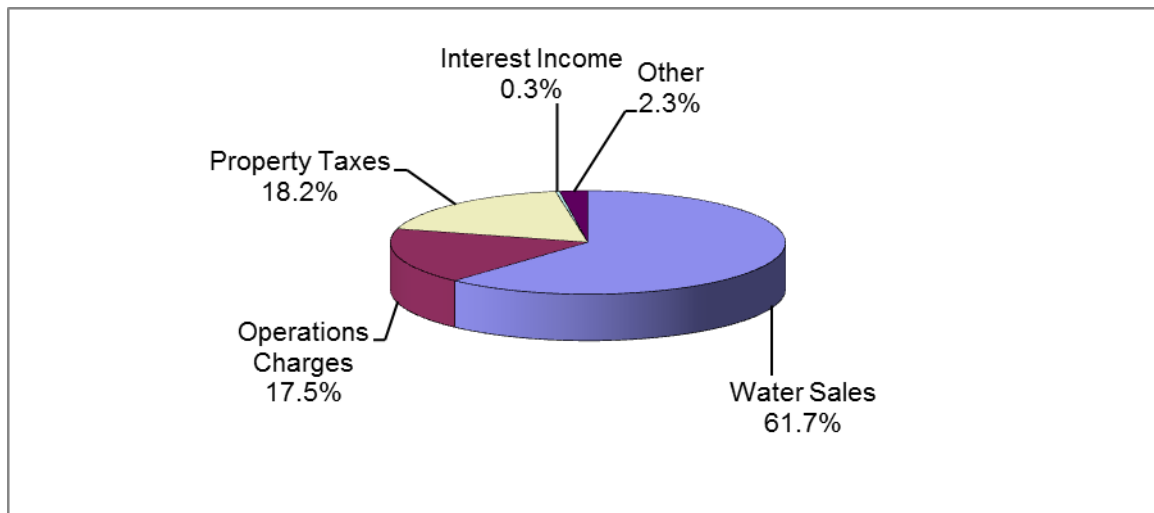
Kern County Water Agency's Increase in Net Assets
(in millions)

	2014	2013
Operating Revenues	\$ 178.5	\$ 123.9
Operating Expenses	217.8	152.2
Operating Income (Loss)	(39.2)	(28.3)
Non-operating Revenues	33.5	32.4
Non-operating Expenses	7.3	7.4
Non-operating Income (Loss)	26.2	25.0
Change in Net Position	\$ (13.0)	\$ (3.3)

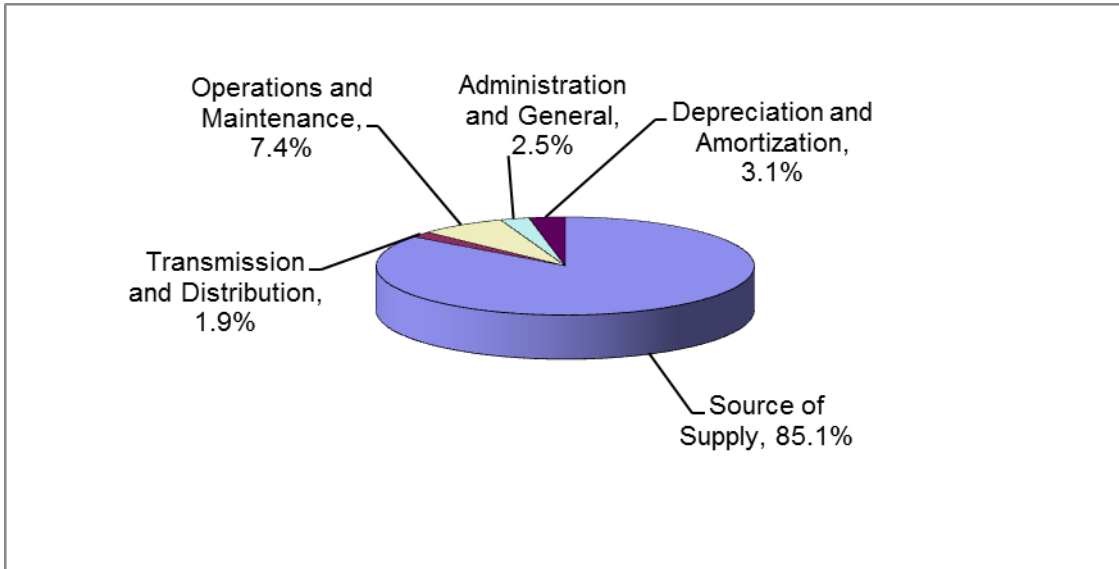
Sources of Revenue for Fiscal Year Ended June 30, 2014



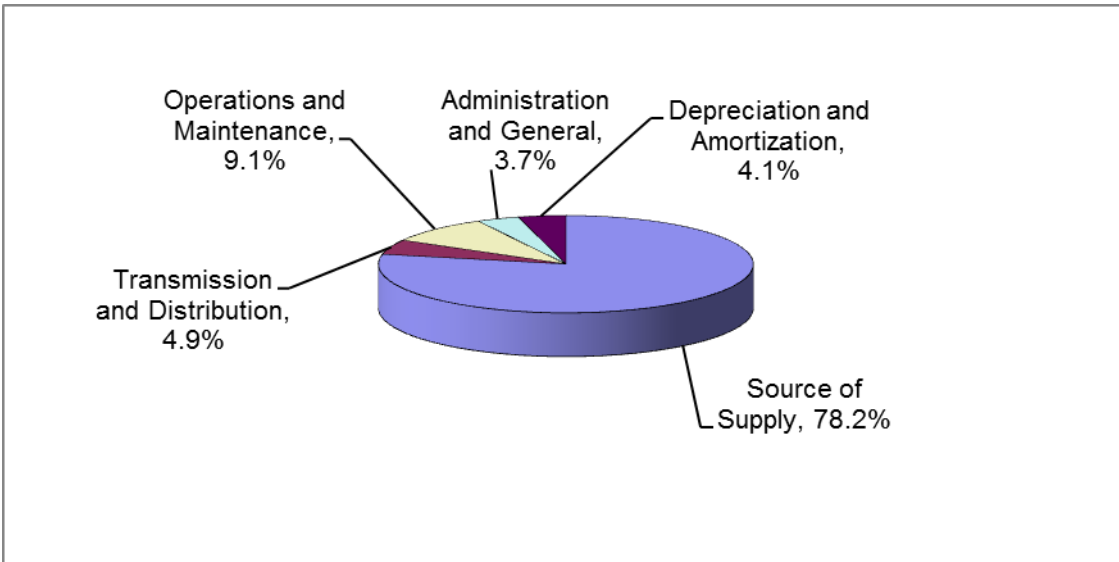
Sources of Revenue for Fiscal Year Ended June 30, 2013



Functional Expenses for Fiscal Year Ended June 30, 2014



Functional Expenses for Fiscal Year Ended June 30, 2013



CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM

The Agency's Fiscal Year 2013-2014 capital assets were \$396.4 million net of \$61.4 million accumulated depreciation for a net book value of \$335.0 million. Included in the total reported on the Statement of Net Assets is \$96.5 million in construction in progress reflecting capital projects in various stages of completion.

The Agency's Fiscal Year 2012-2013 capital assets were \$393.7 million net of \$54.7 million accumulated depreciation for a net book value of \$339.0 million. Included in the total reported on the Statement of Net Assets is \$97.5 million in construction in progress reflecting capital projects in various stages of completion.

The Agency has developed principles of agreement for implementation of an \$83 million infrastructure improvement program funded in part through revenues made available under Proposition 13. The program includes several projects that would create additional infrastructure and improve existing infrastructure to allow for more effective water supply management within Kern County. Projects contained in the program include: expansion of the Cross Valley Canal, an intertie between the Cross Valley Canal and the Friant-Kern Canal and pump-back facilities on the Friant-Kern Canal.

LONG-TERM DEBT

For the fiscal year ended June 30, 2014 and 2013, the Agency had approximately \$136.9 and \$140.5 million, respectively, in bonds, notes and certificates of participations outstanding, a decrease of \$3.6 million from last year. More detailed information about the Agency's long-term debts is presented in Notes 6 & 7 to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Agency relies on property taxes for the largest portion of its budget. Due to the State of California's budget short-fall, the State has implemented an additional 2 year program of Educational Revenue Augmentation Fund (ERAF) in fiscal years 2004-05 and 2005-06. The ERAF was established as part of the reallocation of property taxes mandated in Fiscal years 1992-93 and 1993-94 by the State during the State's last budget crisis. Property taxes were reallocated from counties, cities, and special districts to school districts via the ERAF, based on formulas contained in Revenue and Taxation Code Sections 97.2 and 97.3, thereby reducing State General Fund allocations to school districts. These reallocations were made a permanent part of the tax allocation process. The tax shifts legislated for 1992-93 and 1993-94 are now referred to as ERAF I and ERAF II. Legislation for 2004-05 created new tax shifts referred to as ERAF III. ERAF I and II affected the Agency by reallocating approximately 10% of the Agency's property tax revenues. ERAF III reallocated approximately 99% of the Agency's property tax revenues in the fiscal years 2004-05 and 2005-06. Current legislation under ERAF III allows the State to reallocate Agency's property tax revenues, but if a reallocation is made it must be repaid before any further allocation can be made. Due to the State's current budget crisis there is a possibility that the State will reallocate property tax revenues in the future.

The Agency's budget for 2013-14 does not include any consideration for ERAF III since the fiscal year 2005-06 was the second and final year of the ERAF III legislation.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Board of Directors, the Agency's Member Units, taxpayers, creditors and investors with a general overview of the Kern County Water Agency's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Kern County Water Agency's Administrative Operations Department at 3200 Rio Mirada Drive, Bakersfield, California 93308.

BASIC FINANCIAL STATEMENTS

KERN COUNTY WATER AGENCY

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	2014	2013 Restated - Note 13
ASSETS		
Current Assets		
Cash and investments (Note 2)	\$ 77,807,366	\$ 98,439,020
Receivables:		
Accounts receivable	4,786,978	7,485,496
Taxes receivable	246,520	177,916
Interest receivable	63,180	109,679
Prepaid Expenses	421,111	569,826
Inventories (Note 3)	6,959,401	7,427,829
Total current assets	90,284,556	114,209,766
Restricted cash and investments (Note 2)	673,194	2,814,838
Property and equipment (Note 4)	334,993,873	338,991,507
Investment in Kern Water Bank (Note 5)	3,343,691	3,343,691
Total assets	\$ 429,295,314	\$ 459,359,802
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of long-term debt (Note 6)	\$ 3,811,041	\$ 3,660,983
Accounts payable	4,325,679	7,334,223
Accrued expenses	19,234,489	15,955,921
Deferred revenue	18,463,601	32,122,165
Total current liabilities	45,834,810	59,073,292
Long-term Debt (Note 6)	133,064,867	136,875,910
Net Position		
Invested in capital assets, net of related debt	198,117,965	198,454,614
Restricted for State Water Contract (Note 8)	-	4,285,287
Unrestricted	52,277,672	60,670,699
Total net position	250,395,637	263,410,600
Total liabilities and net position	\$ 429,295,314	\$ 459,359,802

See Notes to Financial Statements.

2012

2011

2010

----- Restated - Note 13 -----

\$ 87,790,734	\$ 70,722,950	\$ 85,161,374
6,736,982	5,961,649	10,963,923
166,625	175,939	394,759
153,509	139,340	307,598
1,468,175	1,438,803	1,626,584
7,527,356	7,060,436	6,626,346
<u>103,843,381</u>	<u>85,499,117</u>	<u>105,080,584</u>
18,488,548	16,759,146	30,642,019
342,294,208	334,865,247	318,673,784
3,343,691	3,343,691	3,343,691
<u>\$ 467,969,828</u>	<u>\$ 440,467,201</u>	<u>\$ 457,740,078</u>

\$ 3,356,795	\$ 3,323,062	\$ 3,174,710
7,852,708	7,269,560	10,456,355
12,977,687	12,977,521	10,428,605
36,424,850	30,966,525	36,756,063
<u>60,612,040</u>	<u>54,536,668</u>	<u>60,815,733</u>
<u>140,648,414</u>	<u>144,144,251</u>	<u>147,482,046</u>
211,055,680	198,478,911	191,614,841
6,076,597	-	4,353,765
49,577,097	43,307,371	53,473,693
<u>266,709,374</u>	<u>241,786,282</u>	<u>249,442,299</u>
<u>\$ 467,969,828</u>	<u>\$ 440,467,201</u>	<u>\$ 457,740,078</u>

KERN COUNTY WATER AGENCY

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION**

Years Ended June 30, 2014 and 2013

	2014	2013 Restated - Note 13
Operating Revenue		
Charges for untreated water	\$ 137,134,216	\$ 87,459,895
Charges for treated water	6,860,109	6,458,847
Ground water charges	3,013,694	2,682,901
Charges for operations and maintenance	13,362,666	12,556,253
Charges for power	6,886,964	6,699,925
Exchange and conveyance fees	1,400,064	889,648
Other user charges	1,447,548	751,538
Refunds and credits	7,118,941	5,068,325
Reimbursements	1,319,908	1,358,925
	<u>178,544,110</u>	<u>123,926,257</u>
Operating Expenses		
Source of supply	185,424,502	119,108,478
Transmission and distribution	4,120,627	7,521,447
Operations and maintenance	16,093,581	13,763,753
Administration and general	5,399,667	5,657,266
Depreciation and amortization	6,743,702	6,190,367
	<u>217,782,079</u>	<u>152,241,311</u>
Operating (loss)	<u>(39,237,969)</u>	<u>(28,315,054)</u>
Non-operating Revenues (Expenses)		
Property taxes:		
General purpose distribution	6,644,285	6,546,403
Voter approved	23,133,433	21,838,045
Grant income	-	-
Cost sharing income	576,571	445,217
Interest income	320,136	452,381
County collection charges	(140,512)	(148,629)
Interest expense	(7,241,475)	(7,290,062)
Other	2,930,568	3,172,925
	<u>26,223,006</u>	<u>25,016,280</u>
Change in net position	<u>(13,014,963)</u>	<u>(3,298,774)</u>
Net position, beginning, as previously stated (Note 1)	263,410,600	266,709,374
Change in accounting principle (Note 13)	-	-
Net position, beginning, as restated	<u>263,410,600</u>	<u>266,709,374</u>
Net position, ending	<u>\$ 250,395,637</u>	<u>\$ 263,410,600</u>

See Notes to Financial Statements.

2012 2011 2010

----- Restated - Note 13 -----

\$ 110,428,667	\$ 78,656,393	\$ 85,684,853
6,598,860	4,880,497	6,910,011
2,716,272	2,704,364	3,089,944
12,890,719	12,328,442	15,582,648
6,711,653	4,994,773	5,712,283
1,839,059	1,079,571	285,453
435,075	292,365	648,762
10,116,543	7,674,472	4,266,347
2,061,769	873,336	1,155,339
<u>153,798,617</u>	<u>113,484,213</u>	<u>123,335,640</u>

136,605,981	121,956,906	108,135,573
8,177,266	7,381,962	3,677,733
10,524,186	8,642,033	14,201,280
5,567,790	5,371,894	5,969,523
3,418,918	2,757,699	2,516,233
<u>164,294,141</u>	<u>146,110,494</u>	<u>134,500,342</u>
<u>(10,495,524)</u>	<u>(32,626,281)</u>	<u>(11,164,702)</u>

6,292,246	6,040,561	5,411,028
27,416,787	19,762,227	20,658,641
-	405,730	2,016,297
3,400,104	512,223	9,947,073
633,928	798,633	1,698,074
(140,699)	(140,628)	(128,834)
(3,024,257)	(3,181,637)	(3,199,236)
840,507	773,155	815,137
<u>35,418,616</u>	<u>24,970,264</u>	<u>37,218,180</u>
<u>24,923,092</u>	<u>(7,656,017)</u>	<u>26,053,478</u>

241,786,282	249,442,299	226,559,366
-	-	(3,170,545)
<u>241,786,282</u>	<u>249,442,299</u>	<u>223,388,821</u>
<u>\$ 266,709,374</u>	<u>\$ 241,786,282</u>	<u>\$ 249,442,299</u>

KERN COUNTY WATER AGENCY

STATEMENTS OF CASH FLOWS (Page 1 of 2) Years Ended June 30, 2014 and 2013

	2014	2013 Restated - Note 13
Cash Flows From Operating Activities		
Receipts from users	\$ 167,583,562	\$ 118,875,058
Source of supply purchases	(184,955,354)	(119,008,951)
Payments for administration services	(5,236,426)	(4,758,917)
Payments for suppliers for goods and services	(19,937,489)	(18,746,208)
Net cash (used in) operating activities	(42,545,707)	(23,639,018)
Cash Flows From Noncapital Financing Activities		
Receipt of cost sharing income	576,573	445,217
Receipt of grant income	-	-
Decrease (increase) in restricted cash and investments	2,141,644	15,673,710
Proceeds from property taxes	29,709,114	28,373,157
Other non-operating income	2,790,059	3,028,592
Net cash provided by noncapital financing activities	35,217,390	47,520,676
Cash Flows From Capital And Related Financing Activities		
Principal (payments) on long term-debt	(3,660,985)	(3,468,335)
Proceeds from long-term debt, net of costs of issuance	-	-
Interest payments, net of capitalized interest of \$0 2014; \$0 2013	(7,259,102)	(7,369,305)
Purchases of property and equipment	(5,551,944)	(3,025,087)
Proceeds from sale of property and equipment	2,803,041	133,144
Net cash (used in) capital and related financing activities	(13,668,990)	(13,729,583)
Cash Flows From Investing Activities		
Interest received -		
Net cash provided by investing activities	365,653	496,211
Net increase (decrease) in cash and investments	(20,631,654)	10,648,286
Cash and investments		
Beginning	98,439,020	87,790,734
Ending	\$ 77,807,366	\$ 98,439,020

See Notes to Financial Statements.

2012

2011

2010

----- Restated - Note 13 -----

\$ 155,681,609	\$ 115,436,885	\$ 127,409,768
(137,072,901)	(121,986,024)	(107,744,038)
(5,597,162)	(5,184,113)	(6,581,646)
(18,118,138)	(19,757,248)	(25,427,546)
<u>(5,106,592)</u>	<u>(31,490,500)</u>	<u>(12,343,462)</u>
3,400,104	512,223	9,947,073
-	405,730	2,016,297
(1,729,402)	13,885,873	51,608,155
36,518,347	26,021,608	26,038,246
787,473	595,022	686,303
<u>38,976,522</u>	<u>41,420,456</u>	<u>90,296,074</u>
(3,462,752)	(3,144,811)	(3,022,831)
-	-	1,335,939
(3,024,257)	(3,162,581)	(3,244,147)
(10,971,243)	(19,033,191)	(46,426,502)
36,347	5,312	2,546
<u>(17,421,905)</u>	<u>(25,335,271)</u>	<u>(51,354,995)</u>
619,759	966,891	2,111,929
<u>17,067,784</u>	<u>(14,438,424)</u>	<u>28,709,546</u>
70,722,950	85,161,374	56,451,828
<u>\$ 87,790,734</u>	<u>\$ 70,722,950</u>	<u>\$ 85,161,374</u>

KERN COUNTY WATER AGENCY

STATEMENTS OF CASH FLOWS (Page 2 of 2) Years Ended June 30, 2014 and 2013

	2014	2013 Restated - Note 13
Reconciliation of operating (loss) to net cash (used in) operating activities		
Operating (loss)	\$ (39,237,969)	\$ (28,315,054)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation and amortization	6,743,702	6,190,367
Changes in working capital components:		
Decrease (increase) in:		
Accounts receivable	2,698,518	(748,514)
Prepaid expenses	148,715	898,349
Inventories	468,428	99,527
Increase (decrease) in:		
Accounts payable	(3,008,544)	(518,485)
Accrued expenses	3,300,007	3,057,477
Deferred revenue	(13,658,564)	(4,302,685)
Net cash (used in) operating activities	<u>\$ (42,545,707)</u>	<u>\$ (23,639,018)</u>

2012

2011

2010

----- Restated - Note 13 -----

\$ (10,495,524) \$ (32,626,281) \$ (11,164,702)

3,418,918 2,757,699 2,516,233

(775,333) 5,002,274 (661,252)

(29,372) 187,781 (582,856)

(466,920) (434,090) 6,097

583,148 (3,186,795) (6,249,497)

(2,799,834) 2,598,450 (942,865)

5,458,325 (5,789,538) 4,735,380

\$ (5,106,592) \$ (31,490,500) \$ (12,343,462)

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Agency

Kern County Water Agency (the Agency) was established July 6, 1961 under the provisions of the Kern County Water Agency Act. The Agency is a completely separate and autonomous body from the County of Kern, except for the fact that the County Board of Supervisors must approve the Agency's annual budget. The budget must be approved or disapproved as a total package. The County has no responsibility or authority to change line items within the budget or express authority for budget overages. Accounting policies of the Agency conform to generally accepted accounting principles applicable to state and local governments.

The Agency operates under a Board of Directors/Manager form of government and provides the following services as authorized by its charter: Acquiring water supplies for its Member Units, authorizing the acquisition of property and works to carry out the purpose of the Agency, authorizing the incurrence of indebtedness, providing for the issuance of bonds, providing for the levy and collection of taxes for the payment of such indebtedness, and providing for its organization, operation and management. The Agency's Directors are elected to four year terms by the population of Kern County in its general election held in even numbered years.

A summary of the Agency's significant accounting policies follows:

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates with respect to the Agency's financial statements include amounts receivable from the State of California with respect to various contracts.

Reporting Entity

The criteria used in determining what accounting entities, agencies, commissions and authorities are part of the Agency's operations include how the budget is adopted, whether debt is secured by general obligation of the Agency, the Agency's duty to cover any deficits that may occur, and supervision over the accounting functions. There are no other agencies, organizations or activities meeting any of the above criteria that are excluded from the Agency reporting entity.

Basis of Presentation

The Agency accounts for its operations as an enterprise fund, and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting in conformity with the Uniform System of Accounts for Special Districts as prescribed by the Controller of the State of California. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges for wholesale water sales to purveyors within the Agency. Operating expenses of the Agency include cost of sales, administrative expenses, depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Cash and Short-Term Investments

The Agency has adopted GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB No. 31, investments consisting of short-term cash equivalents, are reported at their fair value and all changes in fair value are reflected in income of the period in which they occur. In addition, all interest income generated from investment pools are allocated to all funds based on the cash balance within each fund. See Note 2 for further information on cash and short-term investments.

Restricted Cash

These assets consist of cash and investments restricted by various funds for specific purposes. See Note 2 for a detail listing of the restricted cash amounts.

Inventories

Inventories are stated at cost, not to exceed market value, using the first-in/first-out method. Banked water inventory is calculated using actual cost per acre-foot, not to exceed market value. Other inventory items held for consumption consist of the cost of chemicals on hand for water treatment.

Property and Equipment

Property and equipment is stated at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Structures	40 years
Improvements	15 to 40 years
Equipment	7 years
Wells	20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Deferred revenue

Deferred revenue is primarily the result of advance billings during the last month of the fiscal year for water or services to be provided subsequent to year-end.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014

Long-Term Obligations

Long-term debt is recognized as a liability when incurred. Bonds payable represent general obligations of Improvement District No. 4 (Urban Bakersfield). The Board of Directors of the Agency is obligated to levy ad valorem taxes for payment of bond principal and interest on all taxable property, exclusive of mineral rights, within the boundaries of Improvement District No. 4, subject to taxation by the Agency without limitation of rate or amount.

Although the bonds are general obligations, it is the intention of the Agency to pay the bond service from a combination of revenue sources, which include ad valorem taxes, water sales and a pump tax generated within Improvement District No. 4.

Net Position/Fund Equity

The basic financial statements utilize a net position presentation. Net position is categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - This category represents net position of the Agency not restricted for any project or other purpose.

Compensated Absences

Compensated absences represent the vested portion of accumulated vacation, sick and disability pay and are presented as a component of fringe benefits in the financial statements.

The Agency accrues a liability for compensated absences which meet the following criteria:

- The Agency's obligation relating to employees' rights to receive compensation for future absences is attributed to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria, expenditures for vacation and vested sick leave benefits are recognized when earned and expensed as salaries in the year earned.

Property Taxes

The County of Kern bills and collects taxes on behalf of the Agency. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable to the County in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. Tax revenues are recognized by the Agency when they are both measurable and available.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Budgets and Budgetary Accounting

Annually, the Agency produces a budget for the forthcoming year which details ongoing and future Agency activities. The procedures established to develop a final budget are as follows:

By May's regular board meeting each year, the Business Manager prepares a preliminary budget based upon the Agency's goals and objectives for the coming fiscal year. The operating budget includes proposed expenditures and the means of financing them for the year, along with estimates for the current year and actual financial data for the two preceding years. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/cost center level.

The budget is then reviewed by the Agency's Board Administrative Committee before the May board meeting. A public hearing is opened at the May board meeting to receive public comments, in accordance with the requirements of Section 7.6 of the Agency Act. The public hearing is closed and the budget is adopted (with any changes) on or before the June board meeting. The adopted budget is then sent to the County by August 1.

In August, as part of the public hearings on the Kern County budget, the Kern County Board of Supervisors holds a public hearing on the Agency's budget. The Board of Supervisors officially adopts the Agency budget thereafter.

While formal budgetary integration is employed as a management control device during the year, there are no appropriated budget controls which would require the Agency to get formal County or Board approval for budgetary line item changes.

Subsequent events:

The Company has evaluated subsequent events through February 18, 2015, the date on which the financial statements were available to be issued. There are no subsequent events considered material by management that would require disclosure in the financial statements.

Authoritative pronouncements:

In March 2012 the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB No. 65 requires organizations to account for debt issuance costs, except for any portion related to prepaid insurance costs, as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. The Agency adopted the recognition provisions of GASB No. 65 for its year ending June 30, 2014.

In June 2012 the Government Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. GASB No. 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts where contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable, pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit term, and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Agency is required to adopt the recognition provisions of GASB No. 68 for its year ending June 30, 2015. The effect of the implementation of GASB No. 68 has not been determined and is being evaluated by management.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2014 and 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Cash and investments:		
Cash in bank and on hand	\$ 8,262,101	\$ 4,019,792
Cash in Local Agency Investment Fund	14,516,843	8,086,011
Investments in County Treasury	55,028,422	86,333,217
	77,807,366	98,439,020
 Restricted cash and investments:		
Cash with fiscal agent - notes payable	501,860	501,827
Cash with fiscal agent - 2008 bonds	147,638	129,780
Ag rate management trust	23,696	2,183,231
	673,194	2,814,838
 Total cash and investments	 \$ 78,480,560	 \$ 101,253,858

Deposits are carried at cost plus accrued interest. The bank balances are protected by a combination of FDIC insurance and the bank's collateral pool, in accordance with the California Government Code.

For all cash on hand and on deposit at June 30, 2014 and 2013 amortized cost approximates fair market value.

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the *investment types* that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or Agency's investment policy, where more restrictive) that address *interest rate risk*, *credit risk*, and *custodial or credit risk*.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA and Other	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	None
Commerical Paper - Select Agencies	270 days	25% of the agency's money	A-1: if the issuer has issued long'term debt it must be rated "A" without regard to modifiers
Commerical Paper - Other Agencies	270 days	40% of the agency's money	A-1: if the issuer has issued long'term debt it must be rated "A" without regard to modifiers
Negotiable Certificates of Deposit	5 years	30%	None
CD Placement Service	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium Term Notes	5 years	30%	"A" Rating
Mutual Funds and Money Market Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securites	5 years	20%	"AA" Rating
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Local Agency Investment (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All Agency investments are considered short-term investments with maturities of 12 months or less.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Disclosures Relating to Credit Risk

Generally credit risk is the risk that an issuer of an investment will fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency is required to disclose the rating for all investments. Cash invested in the Local Agency Investment Fund (LAIF) and the Kern County Treasury are considered “exempt from disclosure” under GASB No. 40. The investments held in cash with fiscal agent are federal treasury obligations and rated AAA at June 30, 2014 and 2013.

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 not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (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 and the Agency’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an 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.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: none of the Agency’s deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investments in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to be the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – INVENTORIES

Inventories consist of the following at June 30, 2014 and 2013:

	2014	2013
Improvement District No. 4:		
Chemicals	\$ 149,930	\$ 149,930
Banked water	3,366,254	3,780,064
Total Improvement District No. 4	3,516,184	3,929,994
General Fund:		
Banked water	3,443,217	3,479,647
Lower Kern River Fund:		
Banked water	-	18,188
Total Inventory	\$ 6,959,401	\$ 7,427,829

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Changes in banked water inventory for Improvement District No. 4 were as follows:

	<u>Acre-Feet</u>	<u>Valuation</u>
Balance at June 30, 2011	287,566	\$ 3,391,269
Additions	18,598	423,978
Balance at June 30, 2012	<u>306,164</u>	<u>3,815,247</u>
Deletions	(3,746)	(35,183)
Balance at June 30, 2013	<u>302,418</u>	<u>3,780,064</u>
Deletions	(44,060)	(413,810)
Balance at June 30, 2014	<u><u>258,358</u></u>	<u><u>\$ 3,366,254</u></u>

Changes in banked water inventory for Ground Water Banking were as follows:

	<u>Acre-Feet</u>	<u>Valuation</u>
Balance at June 30, 2011 and 2012	134,134	\$ 3,531,743
Deletions	(3,166)	(52,096)
Balance at June 30, 2013	<u>130,968</u>	<u>3,479,647</u>
Deletions	(2,214)	(36,430)
Balance at June 30, 2014	<u><u>128,754</u></u>	<u><u>\$ 3,443,217</u></u>

Changes in banked water inventory for Lower Kern River were as follows:

	<u>Acre-Feet</u>	<u>Valuation</u>
Balance at June 30, 2011	-	\$ -
Additions	8,000	48,492
Balance at June 30, 2012	<u>8,000</u>	<u>48,492</u>
Deletions	(5,000)	(30,304)
Balance at June 30, 2013	<u>3,000</u>	<u>18,188</u>
Deletions	(3,000)	(18,188)
Balance at June 30, 2014	<u><u>-</u></u>	<u><u>\$ -</u></u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

NOTE 4 - PROPERTY AND EQUIPMENT

Capital asset activity for the years ended June 30, 2014 and 2013 was as follows:

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014
Land	\$ 15,825,736	\$ -	\$ -	\$ 15,825,736
Water Rights	32,879,452	-	-	32,879,452
Construction in Progress	97,487,319	1,768,098	(2,805,361)	96,450,056
Subtotal	<u>146,192,507</u>	<u>1,768,098</u>	<u>(2,805,361)</u>	<u>145,155,244</u>
Structures & Improvements	224,732,046	2,545,504	-	227,277,550
Equipment	6,750,022	208,092	(7,439)	6,950,675
Wells	16,035,819	1,030,250	-	17,066,069
Subtotal	<u>247,517,887</u>	<u>3,783,846</u>	<u>(7,439)</u>	<u>251,294,294</u>
Accumulated depreciation:				
Structures & Improvements	47,627,803	5,679,304	-	53,307,107
Equipment	4,139,850	650,350	(7,439)	4,782,761
Wells	2,951,234	414,563	-	3,365,797
Subtotal	<u>54,718,887</u>	<u>6,744,217</u>	<u>(7,439)</u>	<u>61,455,665</u>
Net Depreciable Capital				
Assets	<u>192,799,000</u>	<u>(2,960,371)</u>	<u>-</u>	<u>189,838,629</u>
Total Capital Assets	<u>\$ 338,991,507</u>	<u>\$ (1,192,273)</u>	<u>\$ (2,805,361)</u>	<u>\$ 334,993,873</u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

	Balance 7/1/2012	Additions	Deletions	Transfers	Balance 6/30/2013
Land	\$ 15,825,736	\$ -	\$ -	\$ -	\$ 15,825,736
Water Rights	21,446,091	-	-	11,433,361	32,879,452
Construction in Progress	216,075,222	2,470,997	(133,770)	(120,925,130)	97,487,319
Subtotal	<u>253,347,049</u>	<u>2,470,997</u>	<u>(133,770)</u>	<u>(109,491,769)</u>	<u>146,192,507</u>
Structures & Improvements	115,183,646	63,257	(6,626)	109,491,769	224,732,046
Equipment	6,704,569	170,680	(125,227)	-	6,750,022
Wells	15,715,666	320,153	-	-	16,035,819
Subtotal	<u>137,603,881</u>	<u>554,090</u>	<u>(131,853)</u>	<u>109,491,769</u>	<u>247,517,887</u>
Accumulated depreciation:					
Structures & Improvements	42,100,437	5,530,012	(3,277)	631	47,627,803
Equipment	3,980,762	284,625	(124,906)	(631)	4,139,850
Wells	2,575,523	375,711	-	-	2,951,234
Subtotal	<u>48,656,722</u>	<u>6,190,348</u>	<u>(128,183)</u>	<u>-</u>	<u>54,718,887</u>
Net Depreciable Capital					
Assets	<u>88,947,159</u>	<u>(5,636,258)</u>	<u>(3,670)</u>	<u>109,491,769</u>	<u>192,799,000</u>
Total Capital Assets	<u>\$ 342,294,208</u>	<u>\$ (3,165,261)</u>	<u>\$ (137,440)</u>	<u>\$ -</u>	<u>\$ 338,991,507</u>

NOTE 5 - INVESTMENT IN KERN WATER BANK

In December 1995, negotiations between the California Department of Water Resources (DWR) and its State Water Project ("SWP") contractors resulted in the development of a set of management principles referred to as the "Monterey Agreement" (the final set of principles was completed in Monterey, California). The Monterey Agreement clarifies and proposes amending the water supply contracts with respect to the allocation of shortages of available water supplies from the SWP.

Other provisions of the Monterey Agreement include the transfer of the Kern Water Bank property to agricultural contractors in exchange for a permanent reduction of entitlement of 45,000 acre-feet per year, the use of contractor funds (collected by DWR) for rate management, the facilitation for agricultural contractors to transfer 130,000 acre-feet of annual entitlement to urban contractors on a willing-buyer/willing-seller basis, and greater flexibility for contractors to store or sell SWP water or to transport non-SWP water in DWR facilities as capacity is available.

The Kern Water Bank project is administered by a Joint Powers Authority. The contractors who are relinquishing 45,000 acre-feet of annual entitlement (referred to as the Kern Water Bank Authority) in exchange for the Kern Water Bank property and their respective shares in the project are as follows:

Westside Mutual Water Co.	21,625	acre feet	48.06%
Wheeler Ridge-Maricopa WSD	10,815	acre feet	24.03%
KCWA for Improvement District No. 4	4,330	acre feet	9.62%
Dudley-Ridge Water District	4,330	acre feet	9.62%
Semitropic ID	3,000	acre feet	6.67%
Tejon-Castaic Water District	900	acre feet	2.00%
	<u>45,000</u>	<u>acre feet</u>	<u>100.00%</u>

The Agency's Improvement District No. 4 investment in the Kern Water Bank of \$3,343,691 at June 30, 2014 and 2013, represents its share of amounts paid to or on behalf of the Kern Water Bank Authority for the construction of the Kern Water Bank project.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014

NOTE 6 - LONG-TERM DEBT

The following is a summary of the long-term debt activity for the years ended June 30, 2014 and 2013:

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014	Amount Due in One Year
Certificates of Participation:					
2006 Certificates of Participation	\$ 22,995,000	\$ -	\$ 810,000	\$ 22,185,000	\$ 845,000
Discount on COPs - 2006	(14,799)	-	(648)	(14,151)	(648)
2008 Certificates of Participation	110,880,000	-	2,265,000	108,615,000	2,365,000
Premium on COPs - 2008	1,124,439	-	45,280	1,079,159	45,280
	<u>134,984,640</u>	<u>-</u>	<u>3,119,632</u>	<u>131,865,008</u>	<u>3,254,632</u>
Notes Payable:					
California Dept. of Water Resources - KCWA/BMWD	752,543	-	158,214	594,329	163,234
California Dept. of Water Resources - Pioneer Project	2,317,121	-	263,196	2,053,925	270,349
California Dept. of Water Resources SRF-ID4 Operations	2,482,589	-	119,943	2,362,646	122,826
	<u>\$ 140,536,893</u>	<u>\$ -</u>	<u>\$ 3,660,985</u>	<u>\$ 136,875,908</u>	<u>\$ 3,811,041</u>
Restated - Note 13					
	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013	Amount Due in One Year
Certificates of Participation:					
2006 Certificates of Participation	\$ 23,770,000	\$ -	\$ 775,000	\$ 22,995,000	\$ 810,000
Discount on COPs - 2006	(15,447)	-	(648)	(14,799)	(648)
2008 Certificates of Participation	113,060,000	-	2,180,000	110,880,000	2,265,000
Premium on COPs - 2008	1,169,719	-	45,280	1,124,439	45,280
	<u>137,984,272</u>	<u>-</u>	<u>2,999,632</u>	<u>134,984,640</u>	<u>3,119,632</u>
Notes Payable:					
California Dept. of Water Resources - KCWA/BMWD	905,948	-	153,405	752,543	158,214
California Dept. of Water Resources - Pioneer Project	2,573,489	-	256,368	2,317,121	263,195
California Dept. of Water Resources SRF-ID4 Operations	2,541,500	-	58,911	2,482,589	119,942
	<u>\$ 144,005,209</u>	<u>\$ -</u>	<u>\$ 3,468,316</u>	<u>\$ 140,536,893</u>	<u>\$ 3,660,983</u>

Total interest expense incurred during the years ended June 30, 2014 and 2013 was \$7,241,475 and \$7,290,062, respectively.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

NOTE 7 - CERTIFICATES OF PARTICIPATION AND NOTES PAYABLE

In April 2006, the Agency issued \$17,150,000 2006 A Water Revenue Certificates of Participation and \$10,550,000 2006 B Water Revenue Certificates of Participation, to provide funding for the expansion of the Agency's Henry C. Garnett Water Purification Plant.

The 2006 A series certificates have an interest rate range of 4.00% to 4.60% and the 2006 B series certificates have an interest rate of 5.85%. Under the terms of the agreement, the Agency is responsible for interest payments on May 1 and November 1 of each year. The Agency is responsible for principal payments once per year. The annual principal and interest requirements for retirement of the certificates of participation are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2006 A Series:			
2015	\$ 557,599	\$ 630,000	\$ 1,187,599
2016	532,399	655,000	1,187,399
2017	506,199	685,000	1,191,199
2018	478,799	700,000	1,178,799
2019	450,799	735,000	1,185,799
2020-2024	1,831,032	2,790,000	4,621,032
2025-2029	1,329,162	2,390,000	3,719,162
2030-2034	741,215	2,980,000	3,721,215
2035-2036	96,600	1,390,000	1,486,600
	6,523,804	12,955,000	19,478,804
2006 B Series:			
2015	539,955	215,000	754,955
2016	527,378	230,000	757,378
2017	513,923	240,000	753,923
2018	499,883	255,000	754,883
2019	484,965	270,000	754,965
2020-2024	2,168,303	1,610,000	3,778,303
2025-2029	1,638,000	2,150,000	3,788,000
2030-2034	929,273	2,870,000	3,799,273
2035-2036	123,138	1,390,000	1,513,138
	7,424,818	9,230,000	16,654,818
Total 2006 COP's	\$ 13,948,622	\$ 22,185,000	\$ 36,133,622

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

In May 2008, the Agency issued \$84,365,000 2008 A Water Revenue Certificates of Participation and \$36,555,000 2008 B Water Revenue Certificates of Participation, to provide funding for the expansion of the Agency's Cross Valley Canal.

The 2008 A series certificates have an interest rate range of 3% to 5% and the 2008 B series certificates have an interest rate range of 4.838% to 6.649%. Under the terms of the agreement, the Agency is responsible for interest payments on May 1 and November 1 of each year. The Agency is responsible for principal payments once per year. The annual principal and interest requirements for retirement of the certificates of participation are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2008 A Series:			
2015	\$ 3,681,400	\$ 1,745,000	\$ 5,426,400
2016	3,594,150	1,840,000	5,434,150
2017	3,520,550	1,915,000	5,435,550
2018	3,443,950	1,990,000	5,433,950
2019	3,364,350	2,065,000	5,429,350
2020-2024	15,280,750	11,865,000	27,145,750
2025-2029	12,000,500	15,170,000	27,170,500
2030-2034	7,810,250	19,340,000	27,150,250
2035-2038	2,465,750	19,260,000	21,725,750
	55,161,650	75,190,000	130,351,650
2008 B Series:			
2015	2,200,680	620,000	2,820,680
2016	2,164,441	655,000	2,819,441
2017	2,126,156	695,000	2,821,156
2018	2,085,534	735,000	2,820,534
2019	2,042,573	780,000	2,822,573
2020-2024	9,363,454	4,745,000	14,108,454
2025-2029	7,562,240	6,540,000	14,102,240
2030-2034	5,078,839	9,025,000	14,103,839
2035-2038	1,652,277	9,630,000	11,282,277
	34,276,194	33,425,000	67,701,194
Total 2008 COP's	\$ 89,437,844	\$ 108,615,000	\$ 198,052,844

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

California Department of Water Resources - KCWA/BMWD

On November 13, 1992, the Agency entered into a contract with the California Department of Water Resources (DWR) to borrow \$2,687,000 under the Water Conservation and Water Quality Bond Law of 1986. The loan proceeds were used for developing recharge facilities on land owned by Berrenda Mesa Water District. The loan has an interest rate of 3.148% and is payable in semi-annual installments over a period of 25 years. As of June 30, 2014 and 2013, the Agency had borrowings of \$594,329 and \$752,543, respectively, against the loan. Under the terms of the agreement, the Agency is responsible for interest and principal payments on April 1 and October 1 of each year. According to the contract, the payments remaining at June 30, 2014 are due as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2015	\$ 17,439	\$ 163,234	\$ 180,673
2016	12,282	168,390	180,672
2017	6,902	173,771	180,673
2018	1,404	88,934	90,338
Total	<u>\$ 38,027</u>	<u>\$ 594,329</u>	<u>\$ 632,356</u>

California Department of Water Resources - Pioneer Project

On November 18, 1999, the Agency entered into a contract with the California DWR to borrow up to \$5 million under the Department's Prop 204 groundwater recharge construction loan program. The loan proceeds were used to construct new groundwater recovery wells and rehabilitate existing wells all located on the Agency's Pioneer property. The loan has an interest rate of 2.7% and is payable in semi-annual installments over a period of 20 years from the Pioneer Project budget. As of June 30, 2014 and 2013, the Agency had borrowings against the loan totaling \$2,053,925 and \$2,317,121, respectively. The Agency is responsible for interest and principal payments on April 1 and October 1 of each year. According to the contract, the payments remaining at June 30, 2014 are due as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2015	\$ 53,649	\$ 270,349	\$ 323,998
2106	46,392	277,606	323,998
2017	38,673	285,326	323,999
2018	30,999	293,000	323,999
2019	23,034	300,964	323,998
2020-2021	21,316	626,680	647,996
Total	<u>\$ 214,063</u>	<u>\$ 2,053,925</u>	<u>\$ 2,267,988</u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

California Department of Water Resources SRF Loan – ID4 Operations

During fiscal year 2008, the Agency entered into a contract with the California DWR to borrow up to \$2,825,780 under the Department’s Safe Drinking Water State Revolving Fund loan program. The loan proceeds were used to construct infrastructure to enable the Agency to continue to meet safe drinking water standards of the State of California. The loan has an interest rate of 2.39% and is payable in semi-annual installments over a period of 20 years beginning six months from completion of the project, which occurred in December 2009. Interest payments began January 1, 2009. As of June 30, 2014 and 2013, the Agency had borrowings against the loan totaling \$2,362,646 and \$2,482,589, respectively. The Agency is responsible for interest and principal payments on April 1 and October 1 of each year. According to the contract, the payments remaining at June 30, 2014 are due as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2015	\$ 55,738	\$ 122,826	\$ 178,564
2106	52,785	125,779	178,564
2017	49,760	128,803	178,563
2018	46,664	131,900	178,564
2019	43,492	135,071	178,563
2020-2024	167,160	725,659	892,819
2025-2029	75,629	817,191	892,820
2030	3,151	175,417	178,568
Total	\$ 494,379	\$ 2,362,646	\$ 2,857,025

NOTE 8 – RESTRICTED NET ASSETS

Funds received from member units in the State Contract Payment Fund are restricted for payments required to be made for the State Water Project Bill.

NOTE 9 - RETIREMENT PLANS

Kern County Employees Retirement Plan

Plan Description and Provisions

All full-time Agency employees are eligible to participate as general members in the Kern County Employees' Retirement Association (KCERA), which is administered by KCERA's Board of Retirement. The Kern County Board of Supervisors established the KCERA under the provisions of the County Employees' Retirement Law of 1937 on January 1, 1945. All permanent employees of the County of Kern and thirteen related agencies are covered by KCERA, which operates as a cost-sharing multi-employer defined benefit plan. It is the responsibility of KCERA to function as an investment and administrative agent for the County with respect to the pension plan.

KCERA became independent from the County's supervision and control as a result of the 1992 passage of Proposition 162, which legally established the independent control of the Board of Retirement. Separate audited financial statements can be obtained from KCERA at 1115 Truxtun Avenue, Bakersfield, California 93301.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Management of the KCERA plan is vested with the Board of Retirement, which consists of nine members and one alternate. The Board of Retirement establishes policy for the operation of the plan, considers applications for disability retirement, recommends contributions on the basis of actuarial valuations and controls investment of assets. Prior to January 1, 1997, the Kern County Treasurer-Tax Collector was responsible for financial reporting and accounting for all investments as required by Government Code Section 31596; thereafter, responsibility for financial reporting and accounting is vested with the Board of Retirement as required by Government Code Section 31596 et seq., as amended. On January 11, 1987, the Board of Retirement authorized the retirement fund to incur an administrative expense and hire an Administrator to serve at the Board's pleasure. The Administrator is responsible for the processing and computing of applications for retirement benefits, refunds, beneficiary allowances, death benefits, reciprocity, and any other duties the Board may assign. The Administrator also acts as Secretary for all Board and Committee meetings and performs other activities as directed by the Board of Retirement. The KCERA provides for retirement, disability, death, beneficiary and cost-of-living benefits.

A member may retire after reaching the age of 50 with 10 years of service; or general members may retire with 30 years of service and safety members may retire with 20 years of service, regardless of age. Members who retire at or after age 50 with 10 or more years of service are entitled to pension benefits for the remainder of their lives. The amount of such monthly benefit is determined as a percentage of their final monthly compensation and is based on age at retirement and the number of years of service. The final monthly compensation is the monthly average of the final 12 months compensation, or, if the member so elects, any other continuous 12 month period in the member's work history. Retiring members may choose from four optional beneficiary retirement allowances. Pension provisions include deferred allowances whereby a member may terminate his or her employment with the County after five or more years of County service. If the member does not withdraw his or her accumulated contributions, the member is entitled to all pension benefits after being vested five years, and upon reaching the age of 50 with 10 or more years of participation in the retirement system. An active member's surviving spouse is entitled to receive death benefits which consist of accumulated contributions plus interest, and one month's salary for each full year of service up to a maximum of six months' salary. A member with five years of service, regardless of age, who becomes permanently incapacitated for the performance of duty as a result of injury or disease arising out of and in the course of employment, is eligible for a service connected disability regardless of length of service or age.

All of the Kern County Water Agency's 68 full-time general employees participate in the KCERA. The payroll for Agency employees covered by the KCERA for the years ended June 30, 2014 and 2013 was \$6,103,860 and \$5,944,708, respectively. The Agency's total payroll for the years ended June 30, 2014 and 2013 was \$6,345,706 and \$6,265,206, respectively.

Group	
Retirees and beneficiaries currently receiving benefits	64
Vested terminated employees	5
Active employees:	
Fully vested	55
Non-vested	13

Basis of Accounting

KCERA follows the accounting principles generally accepted in the United States of America. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of KCERA. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of the plan.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Method Used to Value Investments

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

Funding Policy

The County, Special Districts, and certain covered employees make contributions to the plan at rates calculated by an actuary to cover both normal cost and the prior service costs such that any unfunded liability will be funded over an initial 30-year period. The County must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes. The County's contribution rates for the year ended June 30, 2014 are based on the Entry Age Funding.

In accordance with the County Employees' Retirement Law of 1937 certain covered employees are required to pay a percentage of their salaries, depending on their age at date of entry into the system. The County must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by State statutes. The County's contribution rates for the fiscal year ended June 30, 2014 are based on the Entry Age Funding Method.

Kern County Water Agency employees hired prior to January 1, 2010 participate in Tier I (3% at 60) retirement. Employees in Tier I hired on or before August 22, 2004 no longer contribute to retirement, while employees hired after that date contribute between 6% and 12% of base salary throughout the duration of employment toward the pension. Employees hired on or after January 1, 2010 participate in Tier II retirement (1.62% at 65). In Tier II, employees contribute between 4% and 8% of base salary throughout the duration of employment toward the pension.

A schedule of the annual required employer contributions and the percentage contributed for the fiscal years 2012 through 2014 is presented as follows:

Fiscal Year	Annual Required Contribution	Percentage Contributed
2014	\$220,393,000	100%
2013	\$211,677,000	100%
2012	\$189,837,000	100%

Covered employees are required by KCERA to contribute a percentage of their salaries depending upon their age at date of entry into the system. The Agency is required by KCERA to contribute at actuarially determined rates on an annual basis. A rate of 38.96% and 38.18% of covered employees' payroll was paid by the Agency for the years ended June 30, 2014 and 2013, respectively.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

The Agency contribution information is as follows:

Years Ended June 30,	Total Number of Employees Covered	Current Employee Contributions	Employer Contributions	Annual Covered Payroll	Employee Contributions as a Percentage of Covered Payroll	Employer Contributions as a Percentage of Covered Payroll
2014	68	\$164,265	\$2,377,879	\$6,103,860	2.7%	38.96%
2013	65	\$151,977	\$2,269,496	\$5,944,708	2.6%	38.18%
2012	71	\$169,526	\$2,409,988	\$6,636,635	2.6%	36.31%

Funding Status

The amount of the “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the funding status of KCERA on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems. KCERA does not make separate measurements of assets and pension benefit obligations for individual employers.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 2014. Net assets available to pay pension benefits were valued as of the same date. Economic assumptions included: a 7.50% investment rate of return, projected salary increases of 4.25% per year, and a 3.25% annual increase in Consumer Price Index. The annual increase in system benefits is capped at 2.5%.

Deferred Compensation

The Kern County Water Agency (Agency) provides investment opportunities to all Agency employees through an IRC 457 Deferred Compensation Plan (Plan) to defer a portion of their income, on a pre-tax basis. The Plan provided for two (2) investment providers: Great-West Retirement Services and Lincoln Financial Group. Employee contributions to the Plan are limited to the maximum allowed by law, and investment recordkeeping fees and mutual fund fees are levied directly against each participating employee's account balance.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Litigation

The Agency is involved in various litigation and subject to claims in the normal course of business. While it is not feasible to determine the outcome of any of these uncertainties, it is the opinion of management that their outcomes will not have a material adverse effect on the financial position, results of operations, or cash flows of the Agency.

In addition, the County of Kern is involved in litigation regarding protested tax assessments. The contested assessments at June 30, 2014 and 2013 totaled approximately \$2,116,000 and \$4,674,000, respectively. In the opinion of legal counsel for the County of Kern, a large majority of the appeals will be withdrawn by the applicant or settled by a stipulation of value, and the County Tax Assessor will prevail in the majority of appeals. Accordingly, liabilities have not been recorded for these amounts.

Construction Commitments

The Agency has entered into several construction contracts for its facilities. At June 30, 2014 the total outstanding commitments were \$2,240,336.

NOTE 11 - JOINT VENTURES

The Agency is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) whose members have pooled funds to be self-insured for Liability and Property Insurance. The JPIA was created on July 5, 1979, and has continued without interruption since that time. The Agency has an auto and general liability self-insured retention level of \$25,000.

The relationship between the Agency and the JPIA is such that the JPIA is not a component unit of the Agency for financial reporting purposes.

Condensed financial information for JPIA for the years ended September 30, 2013 or 2012 (the most recent data available) is as follows:

	2014	2013
Total Assets	\$ 194,823,604	\$ 188,033,750
Total Liabilities	100,307,836	100,670,416
Designated Fund Balance	<u>\$ 94,515,768</u>	<u>\$ 87,363,334</u>
Total Revenues	\$ 140,452,408	\$ 95,122,401
Total Expenses	133,299,974	55,071,111
Net Increase in Fund Equity	<u>\$ 7,152,434</u>	<u>\$ 40,051,290</u>

The JPIA had no outstanding debt at September 30, 2013 or 2012. The Agency's share of year-end assets, liabilities and fund equity has not been computed.

The Agency is a participant in the Kern Water Bank Authority (KWBA) which was established in 1995 after the Kern Water Bank was transferred from the California Department of Water Resources to local ownership. The Agency's percentage of ownership in the KWBA is 9.62% within Improvement District No. 4.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

The relationship between the Agency and KWBA is such that the KWBA is not a component unit of the Agency for financial reporting purposes.

Condensed financial information for KWBA for the years ended December 31, 2013 and 2012 (the most recent data available) is as follows:

	2014	2013
Total Assets	\$ 77,677,315	\$ 70,873,607
Total Liabilities	(32,405,008)	(31,863,375)
Total Contributed Capital	(37,255,403)	(34,336,634)
	<u>\$ 8,016,904</u>	<u>\$ 4,673,598</u>
Total Revenues	\$ 15,387,499	\$ 9,933,579
Total Expenses	14,125,424	9,977,003
Increase (decrease) in Net Position	<u>\$ 1,262,075</u>	<u>\$ (43,424)</u>

The KWBA had an outstanding loan in the amount of \$18,653,615 and \$19,987,259 at December 31, 2013 and 2012, respectively. The Agency's share of year-end assets, liabilities and retained earnings has not been computed.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description: The Kern County Water Agency Post-Employment Benefits Plan (the Plan) is a single-employer, defined benefit healthcare plan administered by Kern County Water Agency. The Plan provides medical insurance benefits to eligible employees and their spouses. The Agency's Board of Directors has the authority to establish and amend benefit provisions.

Funding Policy: The contribution requirements of plan members and the Agency are established by the Agency's Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Agency's Board of Directors. For the years ended June 30, 2014 and 2013, the Agency contributed \$507,644 and \$488,634, respectively, for current premiums.

Annual OPEB Cost and Net OPEB Obligation: The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation to the Plan:

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

Annual required contribution	\$	2,910,411
Interest on net OPEB obligation		373,753
Adjustment to annual required contribution		(725,954)
Annual OPEB cost (expense)		2,558,210
Contributions made		(507,664)
Increase in net OPEB obligation		2,050,546
Net OPEB obligation, beginning of year		10,678,664
Net OPEB obligation, end of year	\$	12,729,210

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 2,558,210	19.8%	\$12,729,210
6/30/2013	\$ 2,628,796	18.6%	\$10,678,645
6/30/2012	\$ 2,703,175	16.6%	\$8,538,483

Funded Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, the plan was 0% percent funded. The actuarial accrued liability for benefits was \$25.5 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$25.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6,636,635, and the ratio of the UAAL to the covered payroll was 384.6% percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2014**

In the June 30, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 7.25 percent initially, reduced by decrements to an ultimate rate of 4.5 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 20 years.

NOTE 13 – PRIOR PERIOD RESTATEMENT

As a result of the implementation of GASB 65 as explained in Note 1, a restatement of beginning net position was required. Prepaid bond issuance costs as of June 30, 2010, the earliest year presented, were removed from the balance sheet in accordance with GASB 65 requirements. This decreased beginning net position for that period by \$3,170,545.

In addition to the restatement of beginning net position as noted above, the presentation of amortization expense and long-term debt balances as of and for the fiscal years ended June, 30, 2010 through June, 30 2013 were restated as follows as a result of implementing GASB 65:

Operating Expenses

	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Depreciation and amortization, as originally stated	\$ 6,301,888	\$ 3,560,439	\$ 2,869,220	\$ 2,627,754
Restatement	(111,521)	(111,521)	(111,521)	(111,521)
Depreciation and amortization, as restated	<u>\$ 6,190,367</u>	<u>\$ 3,448,918</u>	<u>\$ 2,757,699</u>	<u>\$ 2,516,233</u>

Liabilities

	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Long-term Debt, as originally stated	\$ 134,262,970	\$ 137,812,432	\$ 141,196,748	\$ 144,423,022
Restatement	2,724,461	2,835,982	2,947,503	3,059,024
Long-term Debt, as restated	<u>\$ 136,987,431</u>	<u>\$ 140,648,414</u>	<u>\$ 144,144,251</u>	<u>\$ 147,482,046</u>

REQUIRED SUPPLEMENTARY INFORMATION SECTION

**Kern County Water Agency
Schedules of Funding Progress
Year Ended June 30, 2014**

OTHER POST-EMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2012	\$0	\$25,525,349	\$25,525,349	0.0%	\$6,636,635	384.6%
6/30/2009	\$0	\$20,293,118	\$20,293,118	0.0%	\$6,140,051	330.5%

KCERA

Ten-year historical data showing KCERA's progress in accumulating sufficient assets to pay benefits when due is available from the Association. A three year schedule of the funding progress of the County retirement system is presented as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded (Underfunded) AAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll	Unfunded AAL as % of Covered Payroll
6/30/2014	\$3,342,122	\$5,492,440	(\$2,150,318)	60.8%	\$555,634	387.0%
6/30/2013	\$3,120,632	\$5,108,619	(\$1,987,987)	61.1%	\$555,752	357.7%
6/30/2012	\$2,960,507	\$4,894,990	(\$1,934,483)	60.5%	\$543,558	355.9%

OTHER SUPPLEMENTARY INFORMATION SECTION

KERN COUNTY WATER AGENCY

SCHEDULE OF FUNCTIONAL EXPENSES Year Ended June 30, 2014

	Source of Supply	Transmission and Distribution	Operations and Maintenance	Administration and General	Total
Water purchases	\$ 170,241,303	\$ -	\$ -	\$ -	\$ 170,241,303
Salaries, wages and benefits	2,931,244	1,776,311	4,836,652	4,403,264	13,947,471
Power	830,047	1,142,819	7,400,554	-	9,373,420
Other	233,085	42,994	1,541,504	63,344	1,880,927
Refunds and credits	6,448,866	-	-	3,907	6,452,773
Association and membership fees	1,649,641	10,512	118,547	24,184	1,802,884
Professional fees	408,466	32,488	237,098	339,685	1,017,737
Operations	75,171	76,162	738,521	18,023	907,877
Maintenance	90,849	246,788	659,777	105,086	1,102,500
Capital outlay	17,994	6,172	304,102	36,542	364,810
Recharge and recovery fees	1,973,948	-	-	36,431	2,010,379
Insurance	47,355	60,898	138,340	62,878	309,471
Exchange and conveyance fees	158,582	685,932	-	-	844,514
Meeting and travel	181,949	6,087	33,847	42,422	264,305
Other administrative	-	13,831	40,272	102,608	156,711
Telephone and utilities	64,121	18,904	32,155	108,049	223,229
Director fees	71,881	729	12,212	53,244	138,066
	<u>\$ 185,424,502</u>	<u>\$ 4,120,627</u>	<u>\$ 16,093,581</u>	<u>\$ 5,399,667</u>	<u>\$ 211,038,377</u>

KERN COUNTY WATER AGENCY

SCHEDULE OF FUNCTIONAL EXPENSES Year Ended June 30, 2013

	Source of Supply	Transmission and Distribution	Operations and Maintenance	Administration and General	Total
Water purchases	\$ 104,815,253	\$ -	\$ -	\$ -	\$ 104,815,253
Salaries, wages and benefits	2,525,830	1,888,643	4,347,533	4,461,584	13,223,590
Power	66,447	4,446,438	3,720,405	-	8,233,290
Other	4,033,455	482,696	2,914,463	206,753	7,637,367
Refunds and credits	4,143,444	-	-	5,459	4,148,903
Association and membership fees	1,754,584	10,498	123,927	13,283	1,902,292
Professional fees	971,653	14,443	227,646	424,824	1,638,566
Operations	69,387	106,324	1,073,770	21,215	1,270,696
Maintenance	20,275	243,316	440,829	110,813	815,233
Capital outlay	2,564	16,691	702,721	18,384	740,360
Recharge and recovery fees	364,890	-	-	52,096	416,986
Insurance	46,748	58,265	125,660	70,946	301,619
Exchange and conveyance fees	70,942	216,195	-	-	287,137
Meeting and travel	146,173	5,149	17,656	39,594	208,572
Other administrative	15,773	11,725	38,507	111,122	177,127
Telephone and utilities	22,099	18,934	18,253	82,395	141,681
Director fees	38,961	2,130	12,383	38,798	92,272
	<u>\$ 119,108,478</u>	<u>\$ 7,521,447</u>	<u>\$ 13,763,753</u>	<u>\$ 5,657,266</u>	<u>\$ 146,050,944</u>

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - SUMMARY OF ALL ACTIVITIES June 30, 2014

	State Contract Activities	Treatment Transportation Flood Control Activities	Groundwater Banking Activities	General and Administrative Activities
ASSETS				
Current Assets				
Cash and investments	\$ 33,344,438	\$ 24,277,530	\$ 3,714,609	\$ 12,497,077
Receivables:				
Accounts receivable	1,625,107	4,264,352	3,240,823	49,896
Taxes receivable	144,069	34,391	-	68,060
Interest receivable	18,545	21,972	2,593	20,070
Due from other funds	200,000	-	156,596	44,109
Prepaid expenses	1,595,480	3,918,392	140,998	231,621
Inventories	-	3,516,184	-	3,443,217
Total current assets	36,927,639	36,032,821	7,255,619	16,354,050
Restricted cash and investments	23,696	2,430,929	-	2,192,281
Property and equipment	8,433	193,408,480	31,073,098	110,993,671
Investment in Kern Water Bank	-	3,343,691	-	-
Total assets	\$ 36,959,768	\$ 235,215,921	\$ 38,328,717	\$ 129,540,002
LIABILITIES AND NET ASSETS				
Current portion of long-term debt	\$ -	\$ 3,377,458	\$ 433,583	\$ -
Accounts payable	1,595,979	1,223,370	1,395,730	110,600
Accrued expenses	2,892,654	12,446,213	618,058	7,670,764
Due to other funds	-	200,000	44,109	156,596
Deferred revenue	19,782,498	3,359,663	437,334	349,486
Total current liabilities	24,271,131	20,606,704	2,928,814	8,287,446
Long-term Debt	-	130,850,197	2,214,670	-
Net Position				
Invested in capital assets, net of related debt	8,433	59,180,825	28,424,845	110,993,671
Restricted for State Water Contract	-	-	-	-
Unrestricted	12,680,204	24,578,195	4,760,388	10,258,885
Total net position	12,688,637	83,759,020	33,185,233	121,252,556
Total liabilities and net position	\$ 36,959,768	\$ 235,215,921	\$ 38,328,717	\$ 129,540,002

	Interfund	2014	2013
Subtotal	Eliminations	Total	Total
			Restated - Note 13
\$ 73,833,654	\$ 3,973,712	\$ 77,807,366	\$ 98,439,020
9,180,178	(4,393,200)	4,786,978	7,485,496
246,520	-	246,520	177,916
63,180	-	63,180	109,679
400,705	(400,705)	-	-
5,886,491	(5,465,380)	421,111	569,826
6,959,401	-	6,959,401	7,427,829
96,570,129	(6,285,573)	90,284,556	114,209,766
4,646,906	(3,973,712)	673,194	2,814,838
335,483,682	(489,809)	334,993,873	338,991,507
3,343,691	-	3,343,691	3,343,691
\$ 440,044,408	\$ (10,749,094)	\$ 429,295,314	\$ 459,359,802
\$ 3,811,041	\$ -	\$ 3,811,041	\$ 3,549,462
4,325,679	-	4,325,679	7,334,223
23,627,689	(4,393,200)	19,234,489	15,955,921
400,705	(400,705)	-	-
23,928,981	(5,465,380)	18,463,601	32,122,165
56,094,095	(10,259,285)	45,834,810	58,961,771
133,064,867	-	133,064,867	136,987,431
198,607,774	(489,809)	198,117,965	198,454,614
-	-	-	4,285,287
52,277,672	-	52,277,672	60,670,699
250,885,446	(489,809)	250,395,637	263,410,600
\$ 440,044,408	\$ (10,749,094)	\$ 429,295,314	\$ 459,359,802

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - STATE CONTRACT ACTIVITIES June 30, 2014

	State Contract Payment	Settlement Allocation	Supplemental Water	Westlands Payback
ASSETS				
Current Assets				
Cash and investments	\$ 10,804,710	\$ 40	\$ 9,768,908	\$ 1,422,443
Receivables:				
Accounts receivable	1,625,107	-	-	-
Taxes receivable	-	-	-	-
Interest receivable	10,674	-	-	1,041
Due from other funds	-	-	200,000	-
Prepaid expenses	1,595,480	-	-	-
Inventories	-	-	-	-
Total current assets	14,035,971	40	9,968,908	1,423,484
Restricted cash and investments	23,696	-	-	-
Property and equipment	8,433	-	-	-
Investment in Kern Water Bank	-	-	-	-
Total assets	\$ 14,068,100	\$ 40	\$ 9,968,908	\$ 1,423,484
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,595,979	-	-	-
Accrued expenses	2,892,654	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	18,358,263	-	-	1,424,235
Total current liabilities	22,846,896	-	-	1,424,235
Long-term Debt	-	-	-	-
Net Position				
Invested in capital assets, net of related debt	8,433	-	-	-
Restricted for State Water Contract	-	-	-	-
Unrestricted	(8,787,229)	40	9,968,908	(751)
Total net position	(8,778,796)	40	9,968,908	(751)
Total liabilities and net position	\$ 14,068,100	\$ 40	\$ 9,968,908	\$ 1,423,484

Zone of Benefit No. 17	Zone of Benefit No. 18	Zone of Benefit No. 19	2014 Total	2013 Total Restated - Note 13
\$ 5,089,777	\$ 981,560	\$ 5,277,000	\$ 33,344,438	\$ 57,690,773
-	-	-	1,625,107	3,920,460
81,449	25,212	37,408	144,069	103,374
3,480	589	2,761	18,545	48,251
-	-	-	200,000	150,000
-	-	-	1,595,480	1,082,456
-	-	-	-	-
5,174,706	1,007,361	5,317,169	36,927,639	62,995,314
-	-	-	23,696	2,183,231
-	-	-	8,433	13,561
-	-	-	-	-
<u>\$ 5,174,706</u>	<u>\$ 1,007,361</u>	<u>\$ 5,317,169</u>	<u>\$ 36,959,768</u>	<u>\$ 65,192,106</u>

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	1,595,979	5,551,010
-	-	-	2,892,654	2,020,598
-	-	-	-	-
-	-	-	19,782,498	32,891,995
-	-	-	24,271,131	40,463,603
-	-	-	-	-
-	-	-	8,433	13,561
-	-	-	-	4,285,287
5,174,706	1,007,361	5,317,169	12,680,204	20,429,655
<u>5,174,706</u>	<u>1,007,361</u>	<u>5,317,169</u>	<u>12,688,637</u>	<u>24,728,503</u>
<u>\$ 5,174,706</u>	<u>\$ 1,007,361</u>	<u>\$ 5,317,169</u>	<u>\$ 36,959,768</u>	<u>\$ 65,192,106</u>

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - TREATMENT TRANSPORTATION FLOOD CONTROL ACTIVITIES

June 30, 2014

	Cross Valley Canal Operations	Improvement District No. 1	Improvement District No. 3	Improvement District No. 4 Operations
ASSETS				
Current Assets				
Cash and investments	\$ 3,637,844	\$ 29,851	\$ (3,276)	\$ 9,127,114
Receivables:				
Accounts receivable	158,761	-	-	4,105,591
Taxes receivable	-	793	170	-
Interest receivable	3,035	(99)	33	7,882
Due from other funds	-	-	-	-
Prepaid expenses	-	-	-	1,156,478
Inventories	-	-	-	3,516,184
Total current assets	3,799,640	30,545	(3,073)	17,913,249
Restricted cash and investments	-	-	33,353	-
Property and equipment	15,789,753	726,109	48,227	13,516,325
Investment in Kern Water Bank	-	-	-	3,343,691
Total assets	\$ 19,589,393	\$ 756,654	\$ 78,507	\$ 34,773,265
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 122,826
Accounts payable	165,144	-	657	939,444
Accrued expenses	2,638,854	145	973	6,559,013
Due to other funds	-	200,000	-	-
Deferred revenue	3,220,739	-	-	138,924
Total current liabilities	6,024,737	200,145	1,630	7,760,207
Long-term Debt	-	-	-	2,239,817
Net Position				
Invested in capital assets, net of related debt	15,789,753	726,109	48,227	11,153,682
Restricted for State Water Contract	-	-	-	-
Unrestricted	(2,225,097)	(169,600)	28,650	13,619,559
Total net position	13,564,656	556,509	76,877	24,773,241
Total liabilities and net position	\$ 19,589,393	\$ 756,654	\$ 78,507	\$ 34,773,265

Improvement District No. 4 Bonds	Zone of Benefit No. 7	2014 Total	2013 Total Restated - Note 13
\$ 22,040	\$ 11,463,957	\$ 24,277,530	\$ 24,020,469
-	-	4,264,352	3,269,974
-	33,428	34,391	38,116
1,598	9,523	21,972	31,849
-	-	-	-
-	2,761,914	3,918,392	3,499,163
-	-	3,516,184	3,929,994
23,638	14,268,822	36,032,821	34,789,565
43,025	2,354,551	2,430,929	4,189,651
163,328,066	-	193,408,480	197,838,911
-	-	3,343,691	3,343,691
<u>\$ 163,394,729</u>	<u>\$ 16,623,373</u>	<u>\$ 235,215,921</u>	<u>\$ 240,161,818</u>

\$ 3,254,632	\$ -	\$ 3,377,458	\$ 3,128,053
118,125	-	1,223,370	1,209,503
1,252,457	1,994,771	12,446,213	10,534,676
-	-	200,000	150,000
-	-	3,359,663	3,220,287
4,625,214	1,994,771	20,606,704	18,242,519
128,610,380	-	130,850,197	134,339,178

31,463,054	-	59,180,825	60,371,680
-	-	-	-
(1,303,919)	14,628,602	24,578,195	27,208,441
30,159,135	14,628,602	83,759,020	87,580,121
<u>\$ 163,394,729</u>	<u>\$ 16,623,373</u>	<u>\$ 235,215,921</u>	<u>\$ 240,161,818</u>

**KERN COUNTY WATER AGENCY
COMBINING STATEMENT OF NET POSITION -
GROUNDWATER BANKING ACTIVITIES**

June 30, 2014

	Kern Water Bank	Lower Kern River	Pioneer Project	Proposition 204 Loan
ASSETS				
Current Assets				
Cash and investments	\$ (20,517)	\$ 2,783,597	\$ 885,021	\$ 430,199
Receivables:				
Accounts receivable	95,913	592,998	1,973,851	-
Taxes receivable	-	-	-	-
Interest receivable	-	1,735	1,182	54
Due from other funds	-	-	-	-
Prepaid expenses	-	-	-	-
Inventories	-	-	-	-
Total current assets	75,396	3,378,330	2,860,054	430,253
Restricted cash and investments	-	-	-	-
Property and equipment	-	14,163,616	9,654,503	4,048,772
Investment in Kern Water Bank	-	-	-	-
Total assets	\$ 75,396	\$ 17,541,946	\$ 12,514,557	\$ 4,479,025
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 270,349
Accounts payable	9,574	322,285	1,046,189	892
Accrued expenses	22,133	68,081	260,471	139
Due to other funds	-	-	-	-
Deferred revenue	25,000	-	307,571	66,606
Total current liabilities	56,707	390,366	1,614,231	337,986
Long-term Debt	-	-	-	1,783,576
Net Position				
Invested in capital assets, net of related debt	-	14,163,616	9,654,503	1,994,847
Restricted for State Water Contract	-	-	-	-
Unrestricted	18,689	2,987,964	1,245,823	362,616
Total net position	18,689	17,151,580	10,900,326	2,357,463
Total liabilities and net position	\$ 75,396	\$ 17,541,946	\$ 12,514,557	\$ 4,479,025

Entitlement Retention	Joint KCWA/BM Water Banking	Agency Participation in CVC	2014 Total	2013 Total
				Restated - Note 13
\$ (1,286,714)	\$ 630,022	\$ 293,001	\$ 3,714,609	\$ 1,913,342
93,969	477,157	6,935	3,240,823	1,890,710
-	-	-	-	-
(942)	370	194	2,593	3,853
-	156,596	-	156,596	156,596
43,962	-	97,036	140,998	404,375
-	-	-	-	18,188
(1,149,725)	1,264,145	397,166	7,255,619	4,387,064
-	-	-	-	-
-	3,206,207	-	31,073,098	30,433,137
-	-	-	-	-
<u>\$ (1,149,725)</u>	<u>\$ 4,470,352</u>	<u>\$ 397,166</u>	<u>\$ 38,328,717</u>	<u>\$ 34,820,201</u>

\$ -	\$ 163,234	\$ -	\$ 433,583	\$ 421,409
-	16,790	-	1,395,730	410,609
-	163,649	103,585	618,058	478,321
-	44,109	-	44,109	44,109
-	-	38,157	437,334	478,847
-	387,782	141,742	2,928,814	1,833,295
-	431,094	-	2,214,670	2,648,253
-	2,611,879	-	28,424,845	27,363,475
-	-	-	-	-
(1,149,725)	1,039,597	255,424	4,760,388	2,975,178
(1,149,725)	3,651,476	255,424	33,185,233	30,338,653
<u>\$ (1,149,725)</u>	<u>\$ 4,470,352</u>	<u>\$ 397,166</u>	<u>\$ 38,328,717</u>	<u>\$ 34,820,201</u>

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - GENERAL AND ADMINISTRATIVE ACTIVITIES June 30, 2014

	General	Proposition 13 Phase II	Water Management	Western Hills
ASSETS				
Current Assets				
Cash and investments	\$ 7,791,424	\$ 894,351	\$ 908,657	\$ 2,801,360
Receivables:				
Accounts receivable	11,522	27,050	-	-
Taxes receivable	68,060	-	-	-
Interest receivable	16,122	-	2,042	1,906
Due from other funds	44,109	-	-	-
Prepaid expenses	215,631	-	-	-
Inventories	3,443,217	-	-	-
Total current assets	11,590,085	921,401	910,699	2,803,266
Restricted cash and investments	312,281	-	1,880,000	-
Property and equipment	15,506,504	95,487,167	-	-
Investment in Kern Water Bank	-	-	-	-
Total assets	\$ 27,408,870	\$ 96,408,568	\$ 2,790,699	\$ 2,803,266
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -
Accounts payable	107,535	-	-	-
Accrued expenses	7,648,812	-	-	18,876
Due to other funds	156,596	-	-	-
Deferred revenue	-	-	-	349,486
Total current liabilities	7,912,943	-	-	368,362
Long-term Debt	-	-	-	-
Net Position				
Invested in capital assets, net of related debt	15,506,504	95,487,167	-	-
Restricted for State Water Contract	-	-	-	-
Unrestricted	3,989,423	921,401	2,790,699	2,434,904
Total net position	19,495,927	96,408,568	2,790,699	2,434,904
Total liabilities and net position	\$ 27,408,870	\$ 96,408,568	\$ 2,790,699	\$ 2,803,266

Section 125	Kern Fan Monitoring Committee	2014 Total	2013 Total Restated - Note 13
\$ 10,278	\$ 91,007	\$ 12,497,077	\$ 9,064,111
-	11,324	49,896	2,354,820
-	-	68,060	36,426
-	-	20,070	25,726
-	-	44,109	44,109
15,990	-	231,621	166,548
-	-	3,443,217	3,479,647
<u>26,268</u>	<u>102,331</u>	<u>16,354,050</u>	<u>15,171,387</u>
-	-	2,192,281	2,192,281
-	-	110,993,671	111,195,707
-	-	-	-
<u>\$ 26,268</u>	<u>\$ 102,331</u>	<u>\$ 129,540,002</u>	<u>\$ 128,559,375</u>

\$ -	\$ -	\$ -	\$ -
754	2,311	110,600	163,101
-	3,076	7,670,764	6,872,794
-	-	156,596	156,596
-	-	349,486	113,752
<u>754</u>	<u>5,387</u>	<u>8,287,446</u>	<u>7,306,243</u>
-	-	-	-

-	-	110,993,671	111,195,707
-	-	-	-
25,514	96,944	10,258,885	10,057,425
<u>25,514</u>	<u>96,944</u>	<u>121,252,556</u>	<u>121,253,132</u>
<u>\$ 26,268</u>	<u>\$ 102,331</u>	<u>\$ 129,540,002</u>	<u>\$ 128,559,375</u>

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - SUMMARY OF ALL ACTIVITIES
Year Ended June 30, 2014**

	State Contract Activities	Treatment Transportation Flood Control Activities	Groundwater Banking Activities	General and Administrative Activities
Operating Revenue				
Charges for untreated water	\$ 141,544,428	\$ -	\$ -	\$ 872,497
Charges for treated water	-	6,860,109	-	-
Ground water charges	-	3,013,694	-	-
Charges for operations and maintenance	-	11,583,065	3,179,957	-
Charges for power	-	3,769,934	5,102,691	-
Exchange and conveyance fees	-	1,150,501	340,645	-
Other user charges	-	795,890	684,156	70,692
Refunds and credits	6,448,866	645,026	25,049	-
Reimbursements	409,914	561,008	355,953	7,129
	148,403,208	28,379,227	9,688,451	950,318
Operating Expenses				
Salaries, wages and benefits	2,596,164	6,151,393	793,951	4,406,184
Water purchases	169,999,368	5,977,370	(452,726)	-
Exchange and conveyance fees	-	322,517	851,323	-
Recharge and recovery fees	-	3,181,318	216,432	36,431
Power	-	5,722,031	4,408,002	18,813
Refunds and credits	6,452,773	-	-	-
Operations	52,521	713,605	123,728	18,023
Maintenance	4,908	1,262,324	556,088	199,702
Other administrative	(5,066)	51,738	5,741	104,079
Insurance	39,329	183,903	23,283	62,956
Telephone and utilities	62,862	48,903	3,415	108,049
Meeting and travel	181,076	37,789	3,018	42,422
Association and membership fees	1,647,244	128,763	7,944	24,360
Director fees	68,486	9,911	6,425	53,244
Professional fees	414,156	189,598	150,905	335,935
Capital outlay	17,952	337,297	8,870	36,542
Depreciation	5,128	5,875,079	618,414	245,081
Agency overhead allocation	757,737	1,448,599	431,769	(2,638,105)
Other	13,123	798,915	1,014,470	85,591
	182,307,761	32,441,053	8,771,052	3,139,307
Operating income (loss)	(33,904,553)	(4,061,826)	917,399	(2,188,989)
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	6,644,285
Voter approved	15,902,978	7,230,455	-	-
Cost sharing income	-	18,650	557,921	-
Interest income	127,698	89,013	6,174	97,251
County collection charges	(38,882)	(17,824)	(24)	(83,782)
Interest expense	-	(7,152,909)	(83,261)	(5,305)
Other	-	73,340	657,833	2,199,396
Transfers to other funds	(693,107)	(883,478)	-	(6,690,453)
Transfers from other funds	6,566,000	883,478	790,538	27,021
	21,864,687	240,725	1,929,181	2,188,413
Change in net position	(12,039,866)	(3,821,101)	2,846,580	(576)
Net position, beginning	24,728,503	87,580,121	30,338,653	121,253,132
Net position, ending	\$ 12,688,637	\$ 83,759,020	\$ 33,185,233	\$ 121,252,556

Subtotal	Interfund Eliminations	2014 Total	2013 Total Restated - Note 13
\$ 142,416,925	\$ (5,282,709)	\$ 137,134,216	\$ 87,459,895
6,860,109	-	6,860,109	6,458,847
3,013,694	-	3,013,694	2,682,901
14,763,022	(1,400,356)	13,362,666	12,556,253
8,872,625	(1,985,661)	6,886,964	6,699,925
1,491,146	(91,082)	1,400,064	889,648
1,550,738	(103,190)	1,447,548	751,538
7,118,941	-	7,118,941	5,068,325
1,334,004	(14,096)	1,319,908	1,358,925
187,421,204	(8,877,094)	178,544,110	123,926,257
13,947,692	-	13,947,692	13,223,590
175,524,012	(5,282,709)	170,241,303	104,815,254
1,173,840	(329,326)	844,514	287,137
3,434,181	(1,423,803)	2,010,378	416,986
10,148,846	(775,427)	9,373,419	8,233,290
6,452,773	-	6,452,773	4,148,903
907,877	-	907,877	197,957
2,023,022	(920,523)	1,102,499	1,887,972
156,492	-	156,492	177,126
309,471	-	309,471	301,619
223,229	-	223,229	141,681
264,305	-	264,305	208,572
1,808,311	(5,426)	1,802,885	1,902,292
138,066	-	138,066	92,272
1,090,594	(72,857)	1,017,737	1,638,566
400,661	(35,851)	364,810	740,360
6,743,702	-	6,743,702	6,190,367
-	-	-	-
1,912,099	(31,172)	1,880,927	7,637,367
226,659,173	(8,877,094)	217,782,079	152,241,311
(39,237,969)	-	(39,237,969)	(28,315,054)
6,644,285	-	6,644,285	6,546,403
23,133,433	-	23,133,433	21,838,045
576,571	-	576,571	445,217
320,136	-	320,136	452,381
(140,512)	-	(140,512)	(148,629)
(7,241,475)	-	(7,241,475)	(7,290,062)
2,930,569	-	2,930,569	3,172,925
(8,267,038)	883,478	(7,383,560)	(2,664,853)
8,267,037	(883,478)	7,383,559	2,664,853
26,223,006	-	26,223,006	25,016,280
(13,014,963)	-	(13,014,963)	(3,298,774)
263,900,409	(489,809)	263,410,600	266,709,374
\$ 250,885,446	\$ (489,809)	\$ 250,395,637	\$ 263,410,600

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
STATE CONTRACT ACTIVITIES
Year Ended June 30, 2014**

	State Contract Payment	Settlement Allocation	Supplemental Water	Westlands Payback
Operating Revenue				
Charges for untreated water	\$ 141,544,428	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	-	-	-
Charges for power	-	-	-	-
Exchange and conveyance fees	-	-	-	-
Other user charges	-	-	-	-
Refunds and credits	6,448,866	-	-	-
Reimbursements	262,328	-	147,586	-
	<u>148,255,622</u>	<u>-</u>	<u>147,586</u>	<u>-</u>
Operating Expenses				
Salaries, wages and benefits	2,596,164	-	-	-
Water purchases	154,993,896	-	-	-
Exchange and conveyance fees	-	-	-	-
Recharge and recovery fees	-	-	-	-
Power	-	-	-	-
Refunds and credits	6,448,866	-	-	3,907
Operations	52,521	-	-	-
Maintenance	4,908	-	-	-
Other administrative	(5,066)	-	-	-
Insurance	39,329	-	-	-
Telephone and utilities	62,862	-	-	-
Meeting and travel	181,076	-	-	-
Association and membership fees	1,647,244	-	-	-
Director fees	68,486	-	-	-
Professional fees	414,156	-	-	-
Capital outlays	17,952	-	-	-
Depreciation	5,128	-	-	-
Agency overhead allocation	757,737	-	-	-
Other	13,123	-	-	-
	<u>167,298,382</u>	<u>-</u>	<u>-</u>	<u>3,907</u>
Operating income (loss)	<u>(19,042,760)</u>	<u>-</u>	<u>147,586</u>	<u>(3,907)</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	-	-	-
Cost sharing income	-	-	-	-
Interest income	65,116	-	27,107	3,907
County collection charges	-	-	-	-
Interest expense	-	-	-	-
Other	-	-	-	-
Transfers to other funds	-	-	(27,107)	-
Transfers from other funds	5,900,000	-	-	-
	<u>5,965,116</u>	<u>-</u>	<u>-</u>	<u>3,907</u>
Change in net position	<u>(13,077,644)</u>	<u>-</u>	<u>147,586</u>	<u>-</u>
Net position, beginning	4,298,848	40	9,821,322	(751)
Net position, ending	<u>\$ (8,778,796)</u>	<u>\$ 40</u>	<u>\$ 9,968,908</u>	<u>\$ (751)</u>

Zone of Benefit No. 17	Zone of Benefit No. 18	Zone of Benefit No. 19	2014 Total	2013 Total Restated - Note 13
\$ -	\$ -	\$ -	\$ 141,544,428	\$ 93,723,561
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	43,500
-	-	-	6,448,866	4,143,444
-	-	-	409,914	745,748
-	-	-	148,403,208	98,656,253
-	-	-	2,596,164	2,302,005
7,502,736	854,697	6,648,039	169,999,368	104,033,886
-	-	-	-	-
-	-	-	-	-
-	-	-	6,452,773	4,148,903
-	-	-	52,521	56,150
-	-	-	4,908	5,439
-	-	-	(5,066)	12,846
-	-	-	39,329	39,498
-	-	-	62,862	21,343
-	-	-	181,076	145,717
-	-	-	1,647,244	1,750,439
-	-	-	68,486	37,280
-	-	-	414,156	918,225
-	-	-	17,952	2,339
-	-	-	5,128	9,972
-	-	-	757,737	762,843
-	-	-	13,123	4,167,920
7,502,736	854,697	6,648,039	182,307,761	118,414,805
(7,502,736)	(854,697)	(6,648,039)	(33,904,553)	(19,758,552)
-	-	-	-	-
7,616,393	1,119,400	7,167,185	15,902,978	15,485,398
-	-	-	-	-
16,250	2,206	13,112	127,698	213,250
(19,112)	(2,545)	(17,225)	(38,882)	(42,859)
-	-	-	-	-
-	-	-	-	41,965
(666,000)	-	-	(693,107)	(37,643)
-	-	666,000	6,566,000	-
6,947,531	1,119,061	7,829,072	21,864,687	15,660,111
(555,205)	264,364	1,181,033	(12,039,866)	(4,098,441)
5,729,911	742,997	4,136,136	24,728,503	28,826,944
\$ 5,174,706	\$ 1,007,361	\$ 5,317,169	\$ 12,688,637	\$ 24,728,503

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
TREATMENT TRANSPORTATION FLOOD CONTROL ACTIVITIES**

Year Ended June 30, 2014	Cross Valley Canal Operations	Improvement District No. 1	Improvement District No. 3	Improvement District No. 4 Operations
Operating Revenue				
Charges for untreated water	\$ -	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	6,860,109
Ground water charges	-	-	-	3,013,694
Charges for operations and maintenance	2,453,598	-	-	733,139
Charges for power	1,139,952	-	-	2,629,982
Exchange and conveyance fees	7,459	-	-	1,143,042
Other user charges	-	-	-	795,890
Refunds and credits	-	-	-	645,026
Reimbursements	15	-	-	560,993
	<u>3,601,024</u>	<u>-</u>	<u>-</u>	<u>16,381,875</u>
Operating Expenses				
Salaries, wages and benefits	1,776,311	18,709	31,175	4,325,198
Water purchases	-	-	-	-
Exchange and conveyance fees	-	-	-	322,517
Recharge and recovery fees	-	-	-	3,181,318
Power	1,142,819	-	-	4,579,212
Refunds and credits Operations	76,162	68	-	637,375
Maintenance	246,788	27	-	1,015,509
Other administrative	13,831	(11)	687	37,231
Insurance	60,898	272	761	121,972
Telephone and utilities	18,904	108	28	29,863
Meeting and travel	6,087	84	253	31,365
Association and membership fees	10,129	-	-	118,634
Director fees	729	570	1,344	7,268
Professional fees	32,488	18,915	-	134,445
Capital outlays	6,172	132	13	330,980
Depreciation	919,483	4,250	-	4,950,698
Agency overhead allocation	415,636	29,478	22,442	981,043
Other	42,994	17	82	748,027
	<u>4,769,431</u>	<u>72,619</u>	<u>56,785</u>	<u>21,552,655</u>
Operating income (loss)	<u>(1,168,407)</u>	<u>(72,619)</u>	<u>(56,785)</u>	<u>(5,170,780)</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	78,174	14,575	-
Cost sharing income	18,650	-	-	-
Interest income	9,492	(297)	163	35,514
County collection charges	-	(993)	(113)	-
Interest expense	-	-	-	(58,621)
Other	197	-	-	27,863
Transfers to other funds	-	-	-	(883,478)
Transfers from other funds	-	-	-	-
	<u>28,339</u>	<u>76,884</u>	<u>14,625</u>	<u>(878,722)</u>
Change in net position	<u>(1,140,068)</u>	<u>4,265</u>	<u>(42,160)</u>	<u>(6,049,502)</u>
Net position, beginning	14,704,724	552,244	119,037	30,822,743
Net position, ending	<u>\$ 13,564,656</u>	<u>\$ 556,509</u>	<u>\$ 76,877</u>	<u>\$ 24,773,241</u>

Improvement District No. 4 Bonds	Zone of Benefit No. 7	2014 Total	2013 Total Restated - Note 13
\$ -	\$ -	\$ -	\$ -
-	-	6,860,109	6,469,810
-	-	3,013,694	2,682,901
8,396,328	-	11,583,065	12,028,189
-	-	3,769,934	6,471,104
-	-	1,150,501	918,150
-	-	795,890	471,324
-	-	645,026	913,096
-	-	561,008	773,041
<u>8,396,328</u>	<u>-</u>	<u>28,379,227</u>	<u>30,727,615</u>
-	-	6,151,393	6,072,752
-	5,977,370	5,977,370	7,419,787
-	-	322,517	223,238
-	-	3,181,318	427,163
-	-	5,722,031	8,029,286
-	-	-	-
-	-	713,605	1,167,104
-	-	1,262,324	1,290,850
-	-	51,738	47,134
-	-	183,903	171,029
-	-	48,903	36,492
-	-	37,789	22,478
-	-	128,763	125,153
-	-	9,911	14,513
3,750	-	189,598	214,040
-	-	337,297	761,220
648	-	5,875,079	5,509,189
-	-	1,448,599	1,358,917
7,795	-	798,915	1,817,430
<u>12,193</u>	<u>5,977,370</u>	<u>32,441,053</u>	<u>34,707,775</u>
<u>8,384,135</u>	<u>(5,977,370)</u>	<u>(4,061,826)</u>	<u>(3,980,160)</u>
-	-	-	-
-	7,137,706	7,230,455	6,352,647
-	-	18,650	574,587
12,647	31,494	89,013	144,042
-	(16,718)	(17,824)	(17,980)
(7,094,288)	-	(7,152,909)	(7,195,164)
45,280	-	73,340	413,288
-	-	(883,478)	(1,358,324)
883,478	-	883,478	1,305,228
<u>(6,152,883)</u>	<u>7,152,482</u>	<u>240,725</u>	<u>218,324</u>
2,231,252	1,175,112	(3,821,101)	(3,761,836)
27,927,883	13,453,490	87,580,121	91,341,957
<u>\$ 30,159,135</u>	<u>\$ 14,628,602</u>	<u>\$ 83,759,020</u>	<u>\$ 87,580,121</u>

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - GROUNDWATER BANKING ACTIVITIES**

Year Ended June 30, 2014

	Kern Water Bank	Lower Kern River	Pioneer Project	Proposition 204 Loan
Operating Revenue				
Charges for untreated water	\$ -	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	103,840	1,896,079	325,107
Charges for power	-	872,398	3,517,145	-
Exchange and conveyance fees	-	29,197	260,510	-
Other user charges	-	202,488	298,279	-
Refunds and credits	-	-	25,043	-
Reimbursements	355,953	-	-	-
	<u>355,953</u>	<u>1,207,923</u>	<u>5,997,056</u>	<u>325,107</u>
Operating Expenses				
Salaries, wages and benefits	236,577	28,511	461,571	-
Water purchases	-	-	-	-
Exchange and conveyance fees	41,370	350,149	363,415	-
Recharge and recovery fees	-	216,432	-	-
Power	-	170,734	3,501,603	-
Refunds and credits	-	-	-	-
Operations	13,197	-	101,078	-
Maintenance	6,609	-	117,309	-
Other administrative	2,129	835	2,365	-
Insurance	2,663	388	15,335	-
Telephone and utilities	986	71	2,156	-
Meeting and travel	505	32	2,145	-
Association and membership fees	137	138	5,339	-
Director fees	-	3,395	3,030	-
Professional fees	-	40,789	107,220	-
Capital outlays	-	42	8,828	-
Depreciation	-	-	441,161	107,490
Agency overhead allocation	73,242	31,101	266,996	-
Other	2,638	215,549	793,378	1,129
	<u>380,053</u>	<u>1,058,166</u>	<u>6,192,929</u>	<u>108,619</u>
Operating income (loss)	<u>(24,100)</u>	<u>149,757</u>	<u>(195,873)</u>	<u>216,488</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	-	-	-
Cost sharing income	-	-	557,921	-
Interest income	(84)	6,077	2,195	437
County collection charges	-	(24)	-	-
Interest expense	-	-	-	(60,803)
Other	-	657,833	-	-
Transfers to other funds	-	-	-	-
Transfers from other funds	85	-	790,453	-
	<u>1</u>	<u>663,886</u>	<u>1,350,569</u>	<u>(60,366)</u>
Change in net assets	<u>(24,099)</u>	<u>813,643</u>	<u>1,154,696</u>	<u>156,122</u>
Net position, beginning	42,788	16,337,937	9,745,630	2,201,341
Net position, ending	<u>\$ 18,689</u>	<u>\$ 17,151,580</u>	<u>\$ 10,900,326</u>	<u>\$ 2,357,463</u>

Entitlement Retention	Joint KCWA/BM Water Banking	Agency Participation in CVC	2014 Total	2013 Total Restated - Note 13
\$ -	\$ -	\$ -	\$ -	\$ 170,560
-	-	-	-	-
-	-	-	-	-
-	476,465	378,466	3,179,957	1,766,340
-	713,196	(48)	5,102,691	1,873,089
-	44,389	6,549	340,645	774,803
-	183,389	-	684,156	157,521
-	6	-	25,049	11,785
-	-	-	355,953	347,962
-	1,417,445	384,967	9,688,451	5,102,060
(1)	67,293	-	793,951	385,500
(452,726)	-	-	(452,726)	737,262
-	96,389	-	851,323	530,911
-	-	-	216,432	30,304
-	726,012	9,653	4,408,002	1,727,939
-	-	-	-	-
-	9,453	-	123,728	26,227
-	79,332	352,838	556,088	390,749
-	412	-	5,741	6,024
-	4,897	-	23,283	20,045
-	202	-	3,415	1,451
-	336	-	3,018	783
-	1,947	383	7,944	13,243
-	-	-	6,425	1,681
786	2,110	-	150,905	149,559
-	-	-	8,870	76,940
-	69,763	-	618,414	412,564
-	60,430	-	431,769	262,744
-	1,776	-	1,014,470	2,934,188
(451,941)	1,120,352	362,874	8,771,052	7,708,114
451,941	297,093	22,093	917,399	(2,606,054)
-	-	-	-	-
-	-	-	-	-
-	-	-	557,921	-
(4,642)	1,519	672	6,174	5,419
-	-	-	(24)	(24)
-	(22,458)	-	(83,261)	(94,898)
-	-	-	657,833	694,898
-	-	-	-	(36)
-	-	-	790,538	2,615,876
(4,642)	(20,939)	672	1,929,181	3,221,235
447,299	276,154	22,765	2,846,580	615,181
(1,597,024)	3,375,322	232,659	30,338,653	29,723,472
\$ (1,149,725)	\$ 3,651,476	\$ 255,424	\$ 33,185,233	\$ 30,338,653

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - GENERAL AND ADMINISTRATIVE ACTIVITIES
Year Ended June 30, 2014**

	General	Proposition 13 Phase II	Water Management	Western Hills
Operating Revenue				
Charges for untreated water	\$ -	\$ -	\$ -	\$ 872,497
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	-	-	-
Charges for power	-	-	-	-
Exchange and conveyance fees	-	-	-	-
Other user charges	-	-	-	-
Refunds and credits	-	-	-	-
Reimbursements	7,129	-	-	-
	<u>7,129</u>	<u>-</u>	<u>-</u>	<u>872,497</u>
Operating Expenses				
Salaries and wages	4,367,036	-	220	2,700
Water purchases	-	-	-	-
Exchange and conveyance fees	-	-	-	-
Recharge and recovery fees	36,431	-	-	-
Power	-	-	-	18,813
Refunds and credits	-	-	-	-
Operations	15,875	-	-	-
Maintenance	199,238	-	-	-
Other administrative	103,599	-	-	7
Insurance	61,820	-	-	78
Telephone and utilities	107,827	-	-	-
Meeting and travel	42,340	-	-	-
Association and membership fees	24,184	-	-	176
Director fees	53,244	-	-	-
Professional fees	222,353	-	-	-
Capital outlays	36,315	-	-	-
Depreciation	245,081	-	-	-
Agency overhead allocation	(2,680,589)	-	-	-
Other	85,446	-	-	-
	<u>2,920,200</u>	<u>-</u>	<u>220</u>	<u>21,774</u>
Operating income (loss)	<u>(2,913,071)</u>	<u>-</u>	<u>(220)</u>	<u>850,723</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	6,644,285	-	-	-
Voter approved	-	-	-	-
Cost sharing income	-	-	-	-
Interest income	81,320	-	7,659	7,947
County collection charges	(83,782)	-	-	-
Interest expense	-	(5,305)	-	-
Other	274	2,199,122	-	-
Transfers to other funds	(5,900,000)	-	-	(790,453)
Transfers from other funds	27,021	-	-	-
	<u>769,118</u>	<u>2,193,817</u>	<u>7,659</u>	<u>(782,506)</u>
Change in net position	<u>(2,143,953)</u>	<u>2,193,817</u>	<u>7,439</u>	<u>68,217</u>
Net position, beginning	21,639,880	94,214,751	2,783,260	2,366,687
Net position, ending	<u>\$ 19,495,927</u>	<u>\$ 96,408,568</u>	<u>\$ 2,790,699</u>	<u>\$ 2,434,904</u>

Section 125	Kern Fan Monitoring Committee	2014 Total	2013 Total Restated - Note 13
\$ -	\$ -	\$ 872,497	\$ 941,455
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	70,692	70,692	106,827
-	-	-	-
-	-	7,129	311,065
-	70,692	950,318	1,359,347
(1,228)	37,456	4,406,184	4,463,333
-	-	-	-
-	-	-	186,883
-	-	36,431	52,096
-	-	18,813	756
-	-	-	-
-	2,148	18,023	21,215
-	464	199,702	200,934
-	473	104,079	111,122
-	1,058	62,956	71,047
-	222	108,049	94,332
-	82	42,422	39,594
-	-	24,360	13,457
-	-	53,244	38,798
-	113,582	335,935	421,824
-	227	36,542	18,384
-	-	245,081	258,642
-	42,484	(2,638,105)	(2,384,504)
-	145	85,591	207,490
(1,228)	198,341	3,139,307	3,815,403
1,228	(127,649)	(2,188,989)	(2,456,056)
-	-	6,644,285	6,546,403
-	-	-	-
-	-	-	-
-	325	97,251	89,670
-	-	(83,782)	(87,766)
-	-	(5,305)	-
-	-	2,199,396	2,379,172
-	-	(6,690,453)	(2,615,876)
-	-	27,021	90,775
-	325	2,188,413	6,402,378
1,228	(127,324)	(576)	3,946,322
24,286	224,268	121,253,132	117,306,810
\$ 25,514	\$ 96,944	\$ 121,252,556	\$ 121,253,132



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NANCY C. BELTON

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
Kern County Water Agency
Bakersfield, California

We have audited, in accordance with the 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 financial statements of **Kern County Water Agency**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Kern County Water Agency's** basic financial statements, and have issued our report thereon dated February 18, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Kern County Water Agency's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Kern County Water Agency's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Kern County Water Agency's** internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Kern County Water Agency's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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 this 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.

Daniells Phillips Vaughan & Beck
Bakersfield, California
February 18, 2015