Semitropic Water Storage District

Combined Financial Statements

December 31, 2013 and 2012

C O N T E N T S

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report

Board of Directors
Semitropic Water Storage District
Wasco, California

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Semitropic Water Storage District as of and for the years ended December 31, 2013 and 2012, and the related notes to the combined financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Semitropic Water Storage District as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

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

As discussed in Note 12 to the financial statements, in 2013 the District adopted new accounting guidance, GASB Statement No. 65, *Items previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated May 14, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Semitropic Water Storage District's internal control over financial reporting and compliance.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
May 14, 2014

Management's Discussion and Analysis

The following discussion and analysis of Semitropic Water Storage District financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2013 and 2012. This information is presented in conjunction with the basic audited financial statements and accompanying notes, which follow this section.

Financial Highlights

The District's total net position decreased $3.3 million or 2% over the course of the year's operations.

The District's total revenues experienced a net increase of $20.9 million or 55% during the year ended December 31, 2013. The primary reason for the net increase in total revenues was the increase of $13.6 million in groundwater banking revenue and increase of $7.2 million in General Administrative and General Project Service Charges.

The District's total expenses increased $17.4 million, or 41%. The primary reason for the increase was due to an increase of $10.5 million in transmission and distribution expense and from a $5.5 million impairment of an investment.

The District's gross capital assets increased $3.0 million, or 1%, during the year ended December 31, 2013 due to the purchase of land and other various assets during the year.

Overview of the Combined Financial Statements

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

Required Financial Statements

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

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

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

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

Financial Analysis of the District

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

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

Table A
Condensed Statements of Net Position
December 31, 2013 and 2012
(in millions)

	2013	2012	Dollar Change	Percentage Change
Current assets	$ 33.4	$ 18.6	$ 14.8	80%
Capital assets	235.8	238.8	(3.0)	-1%
Noncurrent other assets	68.3	73.3	(5.0)	-7%
Total assets	337.5	330.7	6.8	2%
Deferred outflows of resources	27.4	29.8	(2.4)	-8%
	$ 364.9	$ 360.5	$ 4.4	1%
Current liabilities	$ 14.8	$ 9.4	$ 5.4	57%
Long-term liabilities	175.9	173.6	2.3	1%
Total liabilities	190.7	183.0	7.7	4%
Invested in capital assets, net of related debt	93.6	106.8	(13.2)	-12%
Restricted	16.9	12.0	4.9	41%
Unrestricted	63.7	58.7	5.0	9%
Total net position	174.2	177.5	(3.3)	-2%
	$ 364.9	$ 360.5	$ 4.4	1%

As the net position table above indicates, total assets increased by $4.4 million to $364.9 million at December 31, 2013, from $360.5 million at December 31, 2012. The increase in the total assets of the District was primarily due to an increase in current assets of $14.8 million, specifically unrestricted cash and accounts receivable.

Total liabilities increased by $7.7 million to $190.7 million at December 31, 2013, from $183.0 million at December 31, 2012. The increase is mostly due to the net of the issuance of the 2013 bonds and 2013 warrants offset by the adjustment to the fair market value of swaps.

Table B
Condensed Statements of Revenues and Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012
(in millions)

	2013	2012	Dollar Change	Percentage Change
Operating revenue:				
Contract water	$ 4.6	$ 7.3	$ (2.7)	-37%
Noncontract water	0.7	6.7	(6.0)	-90%
Groundwater banking	27.6	14.0	13.6	97%
Electrical transfer & hookup	3.6	1.7	1.9	112%
Other charges	3.4	3.0	0.4	13%
	39.9	32.7	7.2	22%
Nonoperating income:				
Interest income	1.1	1.0	0.1	10%
GA & GP service charges	12.0	4.8	7.2	150%
Prior year income, net	1.6	(0.2)	1.8	-900%
Change in FMV of interest rate swap	4.6	-	4.6	100%
	19.3	5.6	13.7	245%
Total revenues	59.2	38.3	20.9	55%
Operating expenses:				
Transmission & distribution	24.3	13.8	10.5	76%
Well operations	0.3	0.5	(0.2)	-40%
Source of supply	11.9	12.3	(0.4)	-3%
General and administration	3.3	3.2	0.1	3%
Depreciation expense	6.0	6.8	(0.8)	-12%
	45.8	36.6	9.2	25%
Nonoperating expenses:				
Interest expense	7.5	6.8	0.7	10%
Other expenses	0.9	(1.1)	2.0	-182%
Impairment of investment	5.5	-	5.5	100%
	13.9	5.7	8.2	144%
Total expenses	59.7	42.3	17.4	41%
Change in net position	(0.5)	(4.0)	3.5	-88%
Net position, beginning of year	177.5	181.5	(4.0)	-2%
Cumulative effect of change in accounting principal	(2.8)	-	(2.8)	100%
Net position, end of year	$ 174.2	$ 177.5	$ (3.3)	-2%

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

The District's total revenues increased by $20.9 million to $59.2 million during the year ended December 31, 2013, from $38.3 million during the year ended December 31, 2012. 2013 was a water recovery year, or dry year. In 2013, the allocation from the State Water Project (SWP) decreased to 35%, from 60% in 2012. This decrease in allocation meant that there was less water allocated to SWP contractors, including the District and some of our banking partners. Due to the 35% water allocation the District's banking partners requested recovery from their stored water accounts. Furthermore the 35% allocation resulted in the decrease in contract water revenue by $2.7 million and a decrease in noncontract water revenue by $6 million, and the increase in groundwater banking revenues of $13.6 million from 2012. Water banking revenues includes the recovery fee charged per acre-foot of water recovered, the energy cost for returning the water requested and the capital fee received from a new banking agreement entered into during the year. General Administrative and General Project service charges were higher due a rate increase of $1 per acre in the General Administrative Service Charge and $50 per acre in the General Project Service Charge.

Total expenses increased $17.4 million to $59.7 million during the year ended December 31, 2013 from $42.3 million during the year ended December 31, 2012. This increase was primarily due to the increase in transmission and distribution expenses (increase of $10.3 million from 2012) due to the increased power costs incurred to return water requested by our groundwater banking partners and the District's cost to recover stored water from the Kern Water Bank. Another part of the increase in total expenses was from $5.5 million in impairment in investment that was expensed in 2013. Please see note 4 of the combined financial statements for additional detail.

As of December 31, 2013, the District had invested $322 million in capital assets as shown in Table C.

Table C
Capital Assets
December 31, 2013 and 2012
(in millions)

	2013	*2012*	*Dollar Change*	*Percentage Change*
Land	$ 35.0	$ 33.4	$ 1.6	5%
Source of supply	13.1	13.1	-	0%
Transmission and distribution	245.4	244.9	0.5	0%
General plant and equipment	3.1	3.1	-	0%
Communication equipment	0.01	0.02	-	0%
Autos and trucks	1.5	1.5	-	0%
Office equipment	0.6	0.5	0.1	20%
Field and miscellaneous equipment	0.4	0.4	-	0%
Well drilling equipment	2.9	2.9	-	0%
Wells	1.7	1.7	-	0%
Capacity rights	4.5	4.5	-	0%
Construction in progress	13.8	13.0	0.8	6%
Total capital assets	322.0	319.0	3.0	1%
Less accumulated depreciation	86.2	80.2	6.0	7%
Total net capital assets	$ 235.8	$ 238.8	$ (3.0)	-1%

As can be seen from the table above, total capital assets increased $3.0 million to $322 million at December 31, 2013, from $319 million at December 31, 2012. The increase is due to the purchase of land and construction of capital projects during the year.

Table D
Debt
December 31, 2013 and 2012
(in millions)

	2013	2012	Dollar Change	Percentage Change
Revenue bonds	$ 145.8	$ 140.5	$ 5.3	4%
Warrants	1.8	-	1.8	100%
Swap	12.7	17.4	(4.7)	-27%
Other debt	11.4	12.6	(1.2)	-10%
Total debt	$ 171.7	$ 170.5	$ 1.2	1%

Revenue bonds are legally secured by a portion of the District's water banking revenues and/or the District's general administrative and general project service charges. If the revenue streams pledged to specific revenue bonds are not sufficient to repay the debt, for only the 2007 and 2009 bonds, the District is not legally obligated to appropriate other funds for debt service payments.

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

Total debt increased $1.2 million to $171.7 million during the year ended December 31, 2013 from $170.5 million during the year ended December 31, 2012. The increase is due to the issuance of the 2013 bonds and 2013 warrants, which were used for capital projects and land acquisitions.

The District received an AA-/Stable rating by Standard & Poor's for the 2009 fixed rate debt issued to replace variable debt.

The District received an A+/Stable rating by Standard & Poor's for both the 2012A and 2012B water banking revenue refunding bonds issued to replace variable debt.

The District received an A+/Stable rating by Standard & Poor's for the 2014A revenue bonds issued for land acquisitions and capital projects.

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2013 against actual.

Table E
Budget vs. Actual Comparison
For the Year Ended December 31, 2013
(in millions)

	Actual	*Budget*	*Change*	*Percentage Change*
Operating revenues:				
Contract water	$ 4.6	$ 5.2	$ (0.6)	-12%
Noncontract water	0.7	0.5	0.2	40%
Groundwater banking	27.6	12.7	14.9	117%
Electrical transfer & hookup	3.6	0.8	2.8	350%
Other revenue	3.4	1.6	1.8	113%
	39.9	20.8	19.1	92%
Nonoperating income:				
Interest income	1.1	0.2	0.9	450%
GA & GP service charges	12.0	4.5	7.5	167%
Prior year income, net	1.6	0.8	0.8	100%
Change in FMV of interest rate swap	4.6	-	4.6	100%
	19.3	5.5	13.8	251%
Total revenue	59.2	26.3	32.9	125%
Operating expenses:				
Transmission & distribution	24.3	6.1	18.2	298%
Well operations	0.3	-	0.3	100%
Source of supply	11.9	9.9	2.0	20%
General and administration	3.3	8.3	(5.0)	-60%
Depreciation and amortization	6.0	6.2	(0.2)	-3%
	45.8	30.5	15.3	50%
Nonoperating expenses:				
Interest expense	7.5	6.5	1.0	15%
Other expenses	0.9	-	0.9	100%
Impairment of investment	5.5	-	5.5	100%
	13.9	6.5	7.4	114%
Total expenses	59.7	37.0	22.7	61%
Change in net position	$ (0.5)	$ (10.7)	$ 10.2	-95%

Total revenue was above budgeted revenues for 2013 mainly due to the increased amount of groundwater banking revenues and GA and GP service charges. Groundwater banking revenues were higher than budget due to the recovery of water by our banking partners during the year, as well as a new banking agreement entered into at year end. GA and GP service charges were higher than budgeted due a rate increase of $1 per acre for General Administrative Service Charge and $50 per acre in the General Project Service Charge.

Total expenses came out above budgeted operating expenses by $22.7 million. This was mostly due to the difference in transmission and distribution expense (increase of $18.2 million) and impairment of investment expense ($5.5 million). Transmission and distribution expenses were higher due to the increased power costs of recovering water for our banking partners. Impairment of investment is detailed in note 4 of the combined financial statements.

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

Contacting the District Management

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

Semitropic Water Storage District

Combined Statements of Net Position
December 31, 2013 and 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***2013***	***2012***
Current Assets		
Cash and cash equivalents	$ 18,846,711	$ 11,850,148
Receivables		
Current portion of notes receivable	758,288	2,720,419
Accounts receivable, trade	8,543,936	1,748,205
General administrative and general project service charges receivable	5,147,411	2,157,485
Other prepaid expenses and deposits	110,455	109,126
Total current assets	33,406,801	18,585,383
Noncurrent Assets		
Restricted assets		
Cash	5,739,405	4,442,816
Investments	11,112,787	7,586,678
Total restricted assets	16,852,192	12,029,494
Capital assets, net of accumulated depreciation	235,827,175	238,814,034
Other noncurrent assets		
Notes receivable, less current portion	17,486,051	18,152,765
Banked water inventory	8,811,709	11,641,427
Investment in Semitropic-Rosamond Water Bank Authority	22,443,180	28,869,546
Investment in Kern Water Bank Authority	2,686,135	2,601,955
Total other noncurrent assets	51,427,075	61,265,693
Total noncurrent assets	304,106,442	312,109,221
Total Assets	337,513,243	330,694,604
Deferred Outflows of Resources		
Deferred outflow of interest rate swap	116,248	194,642
Deferred outflow of advance refunding of bonds	27,244,461	29,583,147
Total deferred outflows of resources	27,360,709	29,777,789
	$ 364,873,952	$ 360,472,393

See Notes to Combined Financial Statements.

LIABILITIES AND NET POSITION	*2013*	*2012*
Current Liabilities		
Current maturities of long-term debt	$ 6,288,812	$ 5,582,504
Trade accounts payable	4,546,804	579,264
Customer deposits	2,037,170	1,586,369
Accrued liabilities	1,017,981	1,067,619
Deferred revenue	912,972	582,756
Total current liabilities	14,803,739	9,398,512
Long-Term Liabilities		
Long-term debt, less current maturities	163,149,749	156,053,775
Obligations under interest rate swap	12,738,417	17,446,468
	175,888,166	173,500,243
Total Liabilities	190,691,905	182,898,755
Net Position		
Invested in capital assets, net of related debt	93,633,075	106,760,902
Restricted for:		
Debt service	16,816,408	12,002,014
Cafeteria plan	35,784	27,480
Unrestricted	63,696,780	58,783,242
	174,182,047	177,573,638
	$ 364,873,952	$ 360,472,393

Semitropic Water Storage District

Combined Statements of Revenues and Expenses
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenue:		
Contract water	$ 4,600,801	$ 7,303,398
Noncontract water	710,888	6,685,486
Groundwater banking	27,591,181	13,955,189
Electrical transfer and hookup charges	3,597,146	1,738,351
Other charges	3,383,343	3,002,384
	39,883,359	32,684,808
Operating expenses:		
Transmission and distribution	24,305,532	13,736,785
Well operations	297,771	535,934
Source of supply	11,893,042	12,275,489
General and administrative	3,280,620	3,197,784
Depreciation and amortization expense	6,017,308	6,806,656
	45,794,273	36,552,648
Operating loss	(5,910,914)	(3,867,840)
Nonoperating income (expense):		
Interest income	1,098,755	959,887
General administrative service charges	254,172	73,757
General project service charges	11,715,222	4,736,985
Interest expense	(7,542,811)	(6,766,822)
Equity in income (loss) from investments	(778,349)	1,199,990
Impairment of investment	(5,480,114)	-
Other income (expense), net	(163,124)	72,724
Prior year income (expense), net	1,563,487	(150,203)
Loss on disposal of assets	(147)	(142,952)
Change in fair value of interest rate swap	4,629,657	-
	5,296,748	(16,634)
Change in net position	$ (614,166)	$ (3,884,474)

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Changes in Net Position
For the Years Ended December 31, 2013 and 2012

Balance, December 31, 2011	$ 181,458,112
Change in net position	(3,884,474)
Balance, December 31, 2012, as previously stated	177,573,638
Cumulative effect of change in accounting principal (see Note 12)	(2,777,425)
Balance, December 31, 2012, as restated	174,796,213
Change in net position	(614,166)
Balance, December 31, 2013	$ 174,182,047

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	$ 44,248,476	$ 37,419,011
Payments to suppliers for goods and services	(29,935,948)	(22,711,215)
Payments to employees for services	(3,130,808)	(4,102,456)
Net cash provided by operating activities	11,181,720	10,605,340
Cash flows from capital and related financing activities:		
Payment for acquisition and construction of capital assets	(1,374,428)	(3,737,460)
Proceeds from sale of capital assets	-	5,000
Payments for interest on bonds and construction loans	(6,557,882)	(6,786,928)
Proceeds from issuance of long term debt	10,341,649	1,925,638
Payments on long-term debt	(5,583,121)	(3,271,919)
Net cash used in capital and related financing activities	(3,173,782)	(11,865,669)
Cash flows from investing activities:		
Net purchase of investments	(3,526,109)	(91,963)
Proceeds from receipts on note receivable	2,628,845	684,441
Distributions received from investment	83,723	-
Interest income	1,098,755	959,887
Net cash provided by investing activities	285,214	1,552,365
Net increase in cash and cash equivalents	8,293,152	292,036
Cash and cash equivalents at beginning of the year	16,292,964	16,000,928
Cash and cash equivalents at the end of the year	$ 24,586,116	$ 16,292,964
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 18,846,711	$ 11,850,148
Restricted cash	5,739,405	4,442,816
	$ 24,586,116	$ 16,292,964

See Notes to Combined Financial Statements.

	2013	2012
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (5,910,914)	$ (3,867,840)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	6,017,308	6,806,656
General administrative and general project service charges	11,969,394	4,810,742
Groundwater banking revenue earned in exchange for note receivable	-	(6,500,000)
Prior year income (expense), net	1,563,487	(150,203)
Other income (expense)	(163,124)	477,491
Changes in operating assets and liabilities:		
Receivables and general administrative and general project service charges receivable	(9,785,657)	5,380,285
Other prepaid expenses and deposits	(1,329)	(8,361)
Banked water inventory	2,829,718	2,283,916
Accounts payable and accrued liabilities	4,332,621	789,898
Deferred revenue	330,216	582,756
Net cash provided by operating activities	$ 11,181,720	$ 10,605,340
Noncash investing and financing activities:		
Issuance of long-term debt for purchase of land	$ 1,638,666	$ -
Change in fair value of interest rate swaps	$ 4,708,051	$ (1,724,106)
Write down of prior year issuance costs (see Note 12)	$ 2,777,425	$ -
Refinance of 2004 and 2006 bonds and 2011 warrants in exchange for 2012 bonds	$ -	$ 81,555,000
Equity in income (loss) from investments	$ (778,349)	$ 1,199,990
Impairment of investment	$ 5,480,114	$ -
Amortization of deferred outflow of advanced refundings included in interest expense	$ 1,325,349	$ -

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

Principles of combination:

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

Nature of District's activities:

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

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

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

Significant accounting policies are as follows:

Basis of accounting and financial reporting:

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

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

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

The District utilizes a net position presentation in accordance with GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 63, *Financial reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. Net position is categorized as invested in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows.

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

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

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

Deferred Outflows of Resources:

The District reports increases in net assets that relate to future periods as deferred outflows of resources in a separate section of the combined statements of net position. Deferred outflow of resources reported in this year's financial statements are due to the deferred amount arising from the refunding of bonds in previous years as well as the deferred amount arising from the change in fair value of an interest rate swap. The deferred refunding amounts are being amortized over the remaining life of the refunding bonds as part of interest expense.

Fund accounting:

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

Use of estimates:

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

Revenue recognition:

The District has three primary sources of revenue. From its inception, the District has recognized revenue from the sale of surface irrigation water to water users located within the District for the purpose of halting the groundwater overdraft. The District's water rates are supported by an annual applied water cost analysis and are approved by the District's board on an annual basis. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. Revenue from these sales is recognized on the accrual basis as water is delivered.

Beginning in 1995, the District entered into several groundwater banking relationships with its Banking Partners, customers who are water districts located in California, using available space within the District's groundwater basin to store water during wet years (years when there is abundant rainfall and surplus water available), and pumping it back to the Banking Partners during dry years (years with little rainfall and no surplus water). The District primarily stores Banking Partners' water using in-lieu recharge, which stores water by utilizing surface water "in-lieu" of pumping groundwater, thereby storing an equal amount in the groundwater basin. The District is paid an annual fee for operating and maintaining the project and earns revenue on a per acre-foot basis at the time water is stored and when water is returned to the respective banking partner. The District also receives revenue toward energy reimbursement when water is returned. Revenue for groundwater banking is recognized in the period when annual fees are billed and when water is stored or returned for each respective Banking Partner. At December 31, 2013 and 2012, the District held 876,221 and 979,775 acre-feet (AF), respectively, of water in storage for future delivery to banking partners.

Finally, the District receives revenue from general administrative and general project service charges for landowners receiving benefit from District services. These charges are established by the Board of Directors for the period January through December of each year and are levied to landowners within the District on their county property tax statements based on uniform rates per acre. For the years ended December 31, 2013 and 2012, $11,969,394 and $4,810,742, respectively, was earned by the District for general administrative and general project service charges. If available from District funds, the Board may authorize an end of the year discretionary payment in proportion to the general project service charge to the same District landowners. For the years ended December 31, 2013 and 2012, there was no end of the year discretionary payment authorized by the District. The net of these items is reported as nonoperating revenue to the District for the same January through December period.

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

Allowance for delinquency provision:

In prior years, the allowance for delinquency provision for general administrative and general project service charges has been based on a percentage of assessments levied. The percentage is determined by collections from previous years. As of December 31, 2013, the District's management decided an allowance for delinquency provision for general administrative and general project service charges was not necessary.

Accounts receivable, trade:

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

Concentration of credit risk:

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

Capital assets:

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

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

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

Cash and cash equivalents:

The District considers cash equivalents to be all highly liquid debt instruments purchased with a maturity of three months or less. At December 31, 2013 and 2012, cash and cash equivalents include cash on hand and amounts deposited with banks, the County of Kern Treasurer and the State Treasurer's office.

The District invests any excess funds not needed for immediate needs into State of California managed Local Agency Investment Fund (LAIF), which is a permitted investment by both State law and the District's investment policy. Created by state statute, the LAIF is a component of a pooled money program that is administered by the State Treasurer's Office. The fund has regulatory oversight from the Local Investment Advisory Board, which is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. As the LAIF does not make share-value adjustments due to immaterial differences between fair value and cost, the District's cost basis in the fund is reflected in cash and cash equivalents on the combined statements of net position as of December 31, 2013 and 2012.

Custodial credit risk:

Custodial credit risk of deposits is the risk that in the event of a bank failure, the District's deposits may not be returned. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At December 31, 2013, the District had no risk associated with custodial assets.

Deposits with financial institutions:

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

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

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

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

Cash and investments as of December 31, 2013 and 2012 are classified in the accompanying combined financial statements as follows:

	2013	***2012***
Current assets - cash and cash equivalents	$ 18,846,711	$ 11,850,148
Noncurrent assets - restricted cash	5,739,405	4,442,816
Noncurrent assets - restricted investments	11,112,787	7,586,678
	$ 35,698,903	$ 23,879,642

Cash and investments as of December 31, 2013 and 2012 consisted of the following:

	2013	***2012***
Cash deposits with financial institutions	$ 12,270,438	$ 7,305,610
Deposits with Kern County	806,570	803,286
Deposits with LAIF	11,509,108	8,184,068
Investments with financial institutions	11,112,787	7,586,678
	$ 35,698,903	$ 23,879,642

Investments:

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

Disclosures relating to interest rate risk and credit risk:

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

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

	Total	*Minimum legal rating*	*AAA-AA*	*A*	*B*	*Unrated*
Corporate & Municipal Bonds	$ 7,137,199	A	$ 4,088,622	$ 2,421,230	$ 386,444	$ 240,903
U.S. Govt. Agency Securities	$ 98,879	A	$ 98,879	$ -	$ -	$ -

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

As of December 31, 2013, the District had the following investments and maturities:

		Investment maturities		
	Fair Value	*Less Than 1 Year*	*1 Year to 5 Years*	*6 Years to 25 Years*
Certificates of deposit	$ 3,876,609	$ 846,474	$ 3,030,135	$ -
Corporate & Municipal Bonds	7,137,199	867,135	6,217,754	52,310
U.S. Govt. Agency Securities	98,979	59,100	39,879	-
	$ 11,112,787	$ 1,772,709	$ 9,287,768	$ 52,310

As of December 31, 2012, the District had the following investments and maturities:

		Investment maturities		
	Fair Value	*Less Than 1 Year*	*1 Year to 5 Years*	*6 Years to 25 Years*
Certificates of deposit	$ 4,397,000	$ 2,556,000	$ 1,841,000	$ -
Corporate & Municipal Bonds	2,510,103	338,927	2,171,176	-
U.S. Govt. Agency Securities	679,575	-	-	679,575
	$ 7,586,678	$ 2,894,927	$ 4,012,176	$ 679,575

Cash flows:

GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* states for purposes of preparing the statements of cash flows, all transactions that are not classified as capital and related financing activities, noncapital financing activities or investing activities are classified as operating activities. The adjustments to reconcile operating income to net cash provided by operating activities includes other income which consists primarily of general administrative and general project service charges and water contract income from prior years.

Reclassifications:

Certain reclassifications have been made to the December 31, 2012 financial statements in order to conform to the December 31, 2013 presentation.

Recently adopted accounting pronouncements:

In April 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This statement is effective for periods beginning after December 15, 2012. See Note 12 for the effect on net position as a result of adopting GASB 65 for the year ended December 31, 2013.

Note 2. Water Received and Delivered

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

Water Received	***2013 (acre feet)***	***2012 (acre feet)***
Purchased from Kern County Water Agency		
Entitlement		
Current year allocation (35% and 60%)	54,250	96,779
Add borrowing (carryover) to next year	-	(3,971)
Add borrowing (carryover) from prior year	(5,622)	7,396
Subtotal	48,628	100,204
Other	186	349
Total water received - Kern County Water Agency	48,814	100,553
Total water received from Banking Partners	1,607	72,407
Total water received from other water agencies	1,000	3,018
In-District Ground Water Extraction		
District wells pumped	44,141	-
Pumping agreement with landowners	60,911	-
	105,052	-
Out of District Ground Water		
Kern Water Bank	40,392	50,045
Total Water Received	196,865	226,023

	2013 (acre feet)	2012 (acre feet)
Water Delivered		
Delivered In-District		
Contract	53,778	89,706
Non contract	10,620	94,147
In-District spreading and overdraft correction	-	212
Supplemental Ag water	7,870	4,594
Other	1,715	367
Total Water Delivered - In-District	73,983	189,026
Returned to other water agencies	-	5,601
Returned to Landowners	1,291	3,329
Returned to Banking Partners	77,929	-
Returned to Banking Partners exchange	32,250	17,000
	111,470	20,329
Losses	11,412	11,067
Total Water Delivered	196,865	226,023

Note 3. Restricted Assets

Reserve funds:

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

	2013		2012	
	Amount Required	Amount on Deposit	Amount Required	Amount on Deposit
Bond and loan reserve fund	$ 16,816,408	$ 16,816,408	$ 12,002,014	$ 12,002,014
Cafeteria plan	35,784	35,784	27,480	27,480
	$ 16,852,192	$ 16,852,192	$ 12,029,494	$ 12,029,494

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

Bond and loan reserve fund:

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

Cafeteria plan:

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

Note 4. Investments

Investment in Kern Water Bank Authority:

Upon adoption of the Monterey Agreement in 1997, the District obtained a 6.67% interest in Kern Water Bank Authority (KWBA) by reducing the District's annual entitlement water from 158,000 acre-feet to 155,000 acre-feet. The District is able to store water at the KWBA in wet years and draw water in dry years. The District's investment in Kern Water Bank Authority is accounted for using the equity method. Under this method, the District recognizes its share of KWBA's accrual basis income or loss. The District's equity in income (loss) from this investment for the years ended December 31, 2013 and 2012 was $84,180 and ($2,896), respectively. The earnings from this investment are included in equity in income (loss) from investments on the combined statements of revenue and expenses.

Investment in Semitropic-Rosamond Water Bank Authority:

On July 28, 2008, the District entered into a Joint Powers Agreement with Valley Mutual Water Company, LLC, and Rosamond Community Service District to create Semitropic-Rosamond Water Bank Authority (SRWBA).

Initially, the SRWBA is to consist of a "First Priority Right" to the following interests in the District's Stored Water Recovery Unit (SWRU) banking project that will provide: (1) 33,333 AF/year of SWRU Delivery Capacity, (2) 300,000 AF of SWRU Storage Capacity, and (3) 100,000 AF/year of SWRU Recovery and Return Capacity, together with rights to certain unused capacities in the SWRU and other elements of the Semitropic Water Bank, and the following rights in the Antelope Valley Water Bank (AVWB): (1) 100,000 AF/year of AVWB Delivery Capacity, (2) 500,000 AF of AVWB Storage Capacity, and (3) 100,000 AF/year of AVWB Recovery and Return Capacity.

As part of the agreement, the District recorded an investment in the amount of $20,000,000, which represents the District's equity ownership in SWRBA. The District's investment in SRWBA is accounted for using the equity method. Under this method, the District recognizes its share of SRWBA's accrual basis income or loss. The District's equity in income (loss) from this investment for the years ended December 31, 2013 and 2012 was ($862,529) and $1,202,886, respectively. The earnings from this investment are included in equity in income from investments on the combined statements of revenue and expenses.

At the end of 2012, the SRWBA joint powers agreement was amended which essentially bifurcated the two water bank operations and defined which assets and liabilities of SRWBA were owned and to be maintained by each member. In addition, beginning in 2013, all revenues and expenses would be allocated to each member on an agreed upon methodology in lieu of allocating the change in net position based on the membership interest. As part of the amendment, $1,144,944 owed to the District for expenses incurred on behalf of SRWBA was forgiven and recognized in prior year income, net, on the combined statements of revenues and expenses for the year ended December 31, 2012.

During the year ended December 31, 2013, as a result of the amended joint powers agreement which took effect in 2013, the District determined its investment in SRWBA was overstated due to the revised allocation of SRWBA's assets and liabilities. This resulted in the District writing down its investment in SRWBA by $5,480,114, which is reflected on the combined statements of revenues and expenses for the year ended December 31, 2013.

Note 5. Notes Receivable

Notes receivable consist of the following at December 31, 2013 and 2012:

	2013	*2012*
Note receivable, Poso Creek Water Company, LLC., 5.19%, secured by letter of credit in favor of the District for 18% of outstanding balance and 20,000 AF of water in storage, semiannual principal and interest payments of $728,523, due December 2026	$ 13,652,765	$ 14,373,184
Note receivable, Homer, LLC., 5.5%, secured by letter of credit in favor of the District for 30% of outstanding balance and 8,625 AF of water in storage, $2,000,000 due in 2013 with graduated principal and interest payments due annually beginning January 1, 2014, due January 2023	4,591,574	6,500,000
	18,244,339	20,873,184
Less current portion	(758,288)	(2,720,419)
	$ 17,486,051	$ 18,152,765

Note 6. Capital Assets

The following is a summary of changes in the District's capital assets for the years ended December 31, 2013 and 2012:

	Assets-At Cost				
	Balance 12/31/12	***Acquisitions***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/13***
Capital Assets not being depreciated:					
Land	$ 33,371,722	$ 1,638,666	$ -	$ -	$ 35,010,388
Construction in progress	12,968,259	892,927	-	(59,691)	13,801,495
Capital Assets being depreciated:					
Source of supply	13,141,743	-	-	-	13,141,743
Transmission and distribution	244,864,250	369,905	-	59,691	245,293,846
Communication equipment	19,976	13,253	(18,480)	-	14,749
Autos and trucks	1,440,103	50,333	-	-	1,490,436
Office equipment	545,304	39,410	(1,287)	-	583,427
Field and misc. equip.	404,079	-	-	-	404,079
Well drilling equipment	2,944,436	-	-	-	2,944,436
Wells	1,670,694	-	-	-	1,670,694
General plant and equipment	3,132,999	-	-	-	3,132,999
Capacity rights	4,480,806	8,599	-	-	4,489,405
	$ 318,984,371	$ 3,013,093	$ (19,767)	$ -	321,977,697

	Accumulated Depreciation				
	Balance 12/31/12	***Depreciation Expense***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/13***
Source of supply	$ 6,933,997	$ 333,629	$ -	$ -	$ 7,267,626
Transmission and distribution	68,715,390	5,003,593	-	-	73,718,983
Communication equipment	19,850	1,104	(18,354)	-	2,600
Autos and trucks	1,302,812	53,991	-	-	1,356,803
Office equipment	403,985	48,800	(1,266)	(17,503)	434,016
Field and misc. equip.	390,006	6,750	-	-	396,756
Well drilling equipment	1,094,396	220,663	-	-	1,315,059
Wells	132,644	69,962	-	-	202,606
General plant and equipment	983,257	83,836	-	-	1,067,093
Capacity rights	194,000	194,980	-	-	388,980
	$ 80,170,337	$ 6,017,308	$ (19,620)	$ (17,503)	$ 86,150,522

	Assets-At Cost				
	Balance 12/31/11	***Acquisitions***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/12***
Capital Assets not being depreciated:					
Land	$ 32,532,834	$ 843,888	$ (5,000)	$ -	$ 33,371,722
Construction in progress	12,191,906	2,158,855	(75,233)	(1,307,269)	12,968,259
Capital Assets being depreciated:					
Source of supply	13,141,743	-	-	-	13,141,743
Transmission and distribution	243,203,619	353,362	-	1,307,269	244,864,250
Communication equipment	19,976	-	-	-	19,976
Autos and trucks	1,440,103	-	-	-	1,440,103
Office equipment	512,069	140,704	(107,469)	-	545,304
Field and misc. equip.	404,079	-	-	-	404,079
Well drilling equipment	2,992,979	14,946	(63,489)	-	2,944,436
Wells	1,670,694	-	-	-	1,670,694
General plant and equipment	3,132,999	-	-	-	3,132,999
Capacity rights	4,255,101	225,705	-	-	4,480,806
	$ 315,498,102	$ 3,737,460	$ (251,191)	$ -	$ 318,984,371

	Accumulated Depreciation				
	Balance 12/31/11	***Depreciation Expense***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/12***
Source of supply	$ 6,600,368	$ 333,629	$ -	$ -	$ 6,933,997
Transmission and distribution	62,895,059	5,820,331	-	-	68,715,390
Communication equipment	19,850	-	-	-	19,850
Autos and trucks	1,249,355	53,457	-	-	1,302,812
Office equipment	460,228	21,600	(77,843)	-	403,985
Field and misc. equip.	382,752	7,254	-	-	390,006
Well drilling equipment	899,688	220,104	(25,396)	-	1,094,396
Wells	62,683	69,961	-	-	132,644
General plant and equipment	896,937	86,320	-	-	983,257
Capacity rights	-	194,000	-	-	194,000
	$ 73,466,920	$ 6,806,656	$ (103,239)	$ -	$ 80,170,337

Note 7. Long-Term Debt

Long-term debt at December 31, 2013 and 2012 was as follows:

	2013	***2012***
Contract payable, State of California, 3.03%, unsecured, payable $167,545 semiannually including interest, due October 1, 2016 (proceeds were used for construction of the Water Conservation Element)	$ 954,293	$ 1,253,771
Contract payable, State of California, 2.8%, unsecured, payable $45,059 semiannually including interest, due October 1, 2015 (proceeds were used for construction of the Interconnection Pipeline)	175,953	259,632
Contract payable, State of California, 2.8%, unsecured, payable $124,725 semiannually including interest, paid in full (proceeds were used to finance certain construction projects)	-	123,053
Contract payable, State of California, 2.4%, unsecured, payable $135,321 semiannually including interest, due May 2023 (proceeds were used for construction of groundwater recharge project)	2,393,786	2,603,281
Contract payable, State of California, 2.6%, unsecured, payable $55,052 semiannually including interest, due August 15, 2023 (proceeds were used for construction of groundwater recharge project)	964,198	1,047,637
Contract payable, State of California, 2.6%, unsecured, payable $161,076 semiannually including interest, due December 31, 2025 (proceeds were used for construction of a water distribution system)	3,206,350	3,442,794
Contract payable, State of California, 2.4%, unsecured, payable $159,792 semiannually including interest, due April 1, 2025 (proceeds were used for construction of a water distribution system)	3,634,909	3,863,206

2007 Revenue Bonds, 3.586%, collateralized by rights to deposits in investment accounts, principal payable semiannually, interest payable monthly, due May 15, 2017 (proceeds used for District's share of construction costs of CVC project) *	1,885,611	2,414,847
2009A Refunding Revenue Bonds, interest rates vary over life of bonds between 2.5% -5.25%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2038 (proceeds were used to refund 2008 bonds, fund a reserve for the bonds, and pay for cost of issuance of bonds)	47,570,000	48,570,000
2012A Revenue Bonds, interest rates vary over life of bonds between 2% - 5%, collateralized by future groundwater banking revenue, principal payable annually, interest payable semi-annually, due December 1, 2035 (proceeds were used to refund 2004 and 2006 bonds, refund 2011 warrants, fund a reserve for the bonds, and pay for cost of issuance of bonds)	76,120,000	77,460,000
2012B Revenue Bonds, 2.8%, collateralized by future groundwater banking revenue, principal payable annually, interest payable semi-annually, due December 1, 2022 (proceeds were used to refund 2004 and 2006 bonds, refund 2011 warrants, fund a reserve for the bonds, and pay for cost of issuance of bonds)	10,570,000	12,020,000
2013 Warrants, LIBOR multiplied by .70% plus 1.75%, semiannual principal payment of $180,000 plus interest, due December 1, 2018 (proceeds were used to purchase land)	1,800,000	-

2013A Revenue Bonds, interest rates vary over life of bonds between 3% - 5%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2023 (proceeds will be used to finance certain construction projects)	9,645,000	-
	158,920,100	153,058,221
2005 Interest Rate Swap, at cost (See Note 8)	3,327,000	3,327,000
Plus premiums, discount, and costs of issuance on bonds, net of accumulated amortization 2013, $312,230; 2012, $103,979 **	7,191,461	5,251,058
Less current maturities	(6,288,812)	(5,582,504)
Long term debt, less discount and current maturities	$ 163,149,749	$ 156,053,775

* In accordance to the terms of the bond agreement, the District is required to maintain certain financial covenants, which include minimum net position and fixed charge coverage ratio. Upon receipt of waiver, the District was in compliance with the above covenants at December 31, 2013.

** As a result of applying GASB 65 during the current year, $1,764,088 in bond issuance costs, net of accumulated amortization, were adjusted to net position during the year ended December 31, 2013. See Note 12 for additional information.

The following is a summary of the long-term debt transactions for the years ended December 31, 2013 and 2012:

	Payable 12/31/12	*Additions*	*Deletions*	*Payable 12/31/13*	*Due within One Year*
Bonds principal	$ 140,464,847	$ 9,645,000	$ (4,319,236)	$ 145,790,611	$ 4,758,309
Warrants	-	1,800,000	-	1,800,000	360,000
Loans, State of California	12,593,374	-	(1,263,885)	11,329,489	1,170,503
	153,058,221	11,445,000	(5,583,121)	158,920,100	$ 6,288,812
Fair Value of interest rate swap	17,446,468	-	(4,708,051)	12,738,417	
	$ 170,504,689	$ 11,445,000	$ (10,291,172)	$ 171,658,517	

	Payable 12/31/11	*Additions*	*Deletions*	*Payable 12/31/12*	*Due within One Year*
Bond principal	$ 126,480,040	$ 89,480,000	$ (75,495,193)	$ 140,464,847	$ 4,319,236
Warrants	7,980,000	-	(7,980,000)	-	-
Loans, State of California	13,945,101	-	(1,351,727)	12,593,374	1,263,268
	148,405,141	89,480,000	(84,826,920)	153,058,221	$ 5,582,504
Fair Value of interest rate swap	15,722,362	1,724,106	-	17,446,468	
	$ 164,127,503	$ 91,204,106	$ (84,826,920)	$ 170,504,689	

The annual requirements to amortize all debt outstanding as of December 31, 2013 are as follows:

Years Ending December 31,	*Principal*	*Interest*	*Interest Rate Swaps, net*	*Total Debt Service*
2014	$ 6,288,812	$ 6,738,914	$ 813,060	$ 13,840,786
2015	5,021,226	6,551,936	2,224,956	13,798,118
2016	5,314,637	6,381,878	2,159,841	13,856,356
2017	5,114,330	6,195,221	2,095,374	13,404,925
2018	5,221,827	6,018,778	2,031,363	13,271,968
2019-2023	30,221,713	27,262,210	9,178,585	66,662,508
2024-2028	31,062,555	20,829,961	7,047,919	58,940,435
2029-2033	41,005,000	13,020,850	4,063,631	58,089,481
2034-2038	29,670,000	3,292,050	546,218	33,508,268
	$ 158,920,100	$ 96,291,798	$ 30,160,947	$ 285,372,845

Note 8. Derivatives

The District accounts for derivatives under GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The objectives and terms of the District's hedging derivative instruments outstanding at December 31, 2013 are listed below:

	Type	*Objective*	*Notional Amount*	*Effective Date*	*Maturity Date*	*Terms*
Sun Trust Swap	Pay-fixed interest rate swap	Hedge of changes in interest rates of 2004 bonds and future bond issuances	$45,093,885	9/1/2014	12/1/2035	Pay 5.12%, receive 69% of LIBOR
Wells Fargo Swap	Pay-fixed interest rate swap	Hedge of changes in interest rates of the 2007 Revenue Bonds	$ 1,884,615	11/15/2007	5/15/2017	Pay 3.586%, receive LIBOR

	Fair Value	*Change in Fair Value Classification*	*Change in Fair Value*
Sun Trust Swap	$ (12,622,169)	Nonoperating Income (expense)	$ 4,629,657
Wells Fargo Swap	(116,248)	Deferred outflow of interest rate swap	$ 78,394
	$ (12,738,417)		

The objectives and terms of the District's hedging derivatives instruments at December 31, 2012 are listed below:

	Type	***Objective***	***Notional Amount***	***Effective Date***	***Maturity Date***	***Terms***
Sun Trust Swap	Pay-fixed interest rate swap	Hedge of changes in interest rates of 2004 bonds and future bond issuances	$45,093,885	9/1/2014	12/1/2035	Pay 5.12%, receive 69% of LIBOR
Wells Fargo Swap	Pay-fixed interest rate swap	Hedge of changes in interest rates of the 2007 Revenue Bonds	$ 2,413,851	11/15/2007	5/15/2017	Pay 3.586%, receive LIBOR

	Fair Value	***Change in Fair Value Classification***	***Change in Fair Value***
Sun Trust Swap	$ (17,251,826)	Deferred outflow of advanced refunding of bonds	$ (1,788,556)
Wells Fargo Swap	(194,642)	Deferred outflow of interest rate swap	$ 64,450
	$ (17,446,468)		

On October 27, 2005, the District entered into an off-market forward starting swap (2005 swap). The swap will commence September 1, 2014, and is based on an initial notional amount of $53,895,000. The pay-fixed, receive-variable swap generated debt service savings in the form of an upfront payment in the amount of $3,927,850, from the counterparty, SunTrust Bank (SunTrust). This amount is recorded in the combined statement of net position as long-term debt and is not adjusted to the fair value at each reporting date. During the year ended December 31, 2006, $600,850 of the swap upfront payment was paid back as part of the advance refunding of the 2003 Revenue Bonds of the District, leaving $3,327,000 to be amortized when the swap agreement commences. During the year ended December 31, 2012, the District issued the 2012 bonds which advanced refunded the 2004 bonds. In accordance with GASB 53, the District elected to include the Sun Trust swap as part of the defeasance of the 2004 bonds. The fair value of the Sun Trust swap of $17,251,826 at December 31, 2012 was included in the deferred loss of the defeasance of the 2004 and 2006 bonds and is included in the deferred outflow of advance refunding of bonds on the combined statements of net position. This amount will be amortized over the term of the 2012 bonds. Beginning in 2013, changes in fair value of the Sun Trust interest rate swap will be recognized in nonoperating income (expense) on the combined statements of revenues and expenses.

On April 24, 2007, the District entered into an off-market swap with Wells Fargo Bank (Wells Fargo) in anticipation of a projected future issuance of variable rate bonds to synthetically advance refund the District's 2007 Bonds. The swap commenced November 15, 2007, and is based on an initial notional amount of $5,000,000.

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

Risks

Credit Risk - Credit risk is the risk that Wells Fargo Bank or Sun Trust Bank cannot fulfill the terms and obligations specified in the swaps agreements. Because the swap had a negative fair value as of December 31, 2013, the District did not have exposure related to credit risk on its swaps with either bank. However, the District would have exposure related to credit risk in the amount of the swaps' positive fair value if interest rates increased to cause the fair value of the swaps to become positive. The credit ratings of Wells Fargo and SunTrust are A+ and BBB by Standard & Poors, respectively.

Basis Risk - The District is exposed to basis risk on its 2007 pay-fixed interest rate swap because the variable rate payments received are based on an index other than the interest rates the District pays on its 2007 Revenue bonds. As of December 31, 2013, the interest rate on the District's hedged bond was 3.586%, while the rate being received was LIBOR, 0.17%.

The District is exposed to basis risk on its 2005 pay-fixed interest rate swap because the variable rate payments received are equal to 69% of LIBOR, which could be lower than the actual variable bond rate the District pays on its projected future variable rate bond issuance. Based on the significance and extent of any basis risk exposure, the purpose of the swap to generate debt service savings may not be realized.

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

Market Access Risk - The District will likely need to issue variable rate debt to coincide with the commencement date of September 1, 2014. Market access risk addresses whether the District has the ability to efficiently issue variable rate debt at the time of commencement.

Rollover Risk - The District is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate, or in the case of termination option, if the counterparty exercises its option, the District will not realize the synthetic rate offered by the swaps on the underlying issues. The District is exposed to rollover risk on the 2007 swap should it be terminated prior to the maturity of the associated debt.

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

Note 9. Self-Insurance

The District is a member of the Association of California Water Agencies, Joint Powers Insurance Authority (JPIA). JPIA is a group of California Water Districts who have pooled funds to provide self-insurance coverage as follows:

Type of Coverage	Limits per Occurrence Self-Insurance	Limits per Occurrence Excess Insurance
General liability/ automobile liability/ public officials liability	$2,000,000	$2,000,000-$60,000,000
Fidelity insurance	$ 100,000	$100,000-$500,000
Property insurance	$ 100,000	$100,000-$100,000,000

The District is in a group with a $0 retention level (deductible) per occurrence for auto and general liability, $5,000 per occurrence for buildings, personal property, fixed equipment and mobile equipment, $500 per occurrence on licensed vehicles, $1,000 per occurrence for fidelity claims and $25,000 - $50,000 for machinery. Claims over the retention levels are insured by the group up to the self-insurance limits (see above) and by policies purchased by JPIA from Starr Indemnity and Liability Company, Evanston Insurance Company, Great American Assurance Company, Endurance Specialty Company and Allied World National Assurance Co. for the excess.

JPIA bills the District a deposit premium at the beginning of each policy year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are charged against the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the District is billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the District.

Note 10. Commitments and Contingencies

Water Supply Contract with Kern County Water Agency:

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

The District’s contract with the Agency provides for various separate charges, all of which are included in “source of supply” in operating expenses of the District’s combined statements of revenue and expenses. The “fixed charge” component of the contract is not necessarily reduced by annual water supply deficiencies as the District is obligated to pay 100% of the annual fixed costs billed by the Agency. Under certain circumstances, fixed charges could be reduced by the DWR when the District receives less than its full entitlement in years of low water supply. Source of supply costs attributable to this contract were $9,645,089 and $11,120,761 for the years ended December 31, 2013 and 2012, respectively.

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

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

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

During the year ending December 31, 2013, the DWR allocated 35% of entitlement to state water contractors, due to the lower snow pack and rain in the winter of 2012-2013. However, due to the pumping restrictions and extremely dry winter of 2013-2014, the District is projecting a 5% allocation for the 2014 water year.

Uncalled assessments:

The Improvement Districts have levied assessments in prior years which have not been called. The uncalled assessments in the Improvement Districts serve as security on construction financing for Project Unit One in the Pond-Poso Improvement District and the Project Units One and Two in the Buttonwillow Improvement District. Uncalled assessments at December 31, 2013 and 2012 were $4,059,411.

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

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

Note 11. Retirement Plan

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

The District's payroll and contributions for the years ended December 31, 2013 and 2012 were as follows:

	2013	***2012***
Total payroll	$ 2,951,598	$ 3,035,136
Base salary for computing contributions	$ 2,651,945	$ 2,776,726
District contributions	$ 265,195	$ 277,461
Employee contributions	$ 139,719	$ 144,616

Note 12. Change in Accounting Principle

For fiscal year 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements; deferred outflows of resources, outflows of resources, deferred inflows of resources, and inflows of resources. Concepts statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

As a result of applying GASB 65, the District reclassified the deferred loss associated with the advanced refunding of bonds from an offset to the long-term debt to deferred outflows of resources. The impact of this new accounting standard requires changing the classifications of $10,776,809 and $12,331,321 to deferred outflows of resources at December 31, 2013 and 2012, respectively.

In addition, the District was required to write-off all previously capitalized bond issuance costs, net of amortization. The impact of which was a decrease in net position of $2,777,425 and a corresponding decrease in deferred outflow of advanced refunding of bonds of $1,013,337 and an increase in long-term debt of $1,764,088.

Note 13. Subsequent Events

In March 2014, the District issued $19,955,000 of 2014 Revenue Bonds. The interest rates on the bonds range from 3% to 5% with annual principal and interest payments due through December 2024. The proceeds of the bonds are to be used for repayment of the 2013 warrants and other District projects.

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

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

Board of Directors
Semitropic Water Storage District
Wasco, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Semitropic Water Storage District as of and for the years ended December 31, 2013 and 2012, and the related notes to the combined financial statements, which collectively comprise Semitropic Water Storage District's basic financial statements, and have issued our report thereon dated May 14, 2014.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of Report

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

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
May 14, 2014

Semitropic Water Storage District

Combined Schedules of Operating Expenses
For the Years Ended December 31, 2013 and 2012

	2013	2012	Increase (Decrease)
Transmission and distribution:			
Power	$ 14,478,306	$ 4,789,967	$ 9,688,339
Kern Water Bank and Pioneer Expenses	3,984,412	4,889,091	(904,679)
Repairs and maintenance	3,021,158	1,327,949	1,693,209
Salaries and wages	1,514,871	1,456,144	58,727
Employee benefits	821,307	817,490	3,817
Fuel and oil	222,870	209,904	12,966
Payroll taxes	154,244	152,689	1,555
Operating supplies	56,891	43,662	13,229
Equipment rent	27,494	18,062	9,432
Utilities	18,918	20,335	(1,417)
Miscellaneous	3,435	2,402	1,033
Licenses and fees	1,597	1,157	440
Equipment maintenance	29	7,933	(7,904)
	$ 24,305,532	$ 13,736,785	$ 10,568,747
Well operations:			
Kern Water Bank wells	$ 111,331	$ 326,538	$ (215,207)
Employee benefits	79,682	90,191	(10,509)
Salaries	60,976	78,242	(17,266)
Payroll taxes	27,237	26,676	561
Repairs and maintenance	8,829	6,721	2,108
Insurance	4,617	4,510	107
Equipment rent	2,886	3,056	(170)
Supplies	1,638	-	1,638
Licenses and fees	575	-	575
	$ 297,771	$ 535,934	$ (238,163)

	2013	2012	Increase (Decrease)
Source of supply:			
Water	$ 11,893,042	$ 12,275,489	$ (382,447)
General and administrative:			
Salaries and wages	$ 1,020,089	$ 1,173,428	$ (153,339)
Consulting	750,009	464,981	285,028
Employee benefits	369,144	438,530	(69,386)
Dues	261,202	196,853	64,349
Legal	190,278	170,093	20,185
Public relations	155,000	155,500	(500)
Insurance	149,353	145,266	4,087
Utilities	52,099	50,025	2,074
Repairs and maintenance	52,048	49,578	2,470
Office	51,493	52,672	(1,179)
Payroll taxes	49,816	51,444	(1,628)
Accounting and auditing	40,070	40,600	(530)
Equipment rent	27,439	29,128	(1,689)
Financing and administration	23,165	24,831	(1,666)
Travel	19,328	28,501	(9,173)
Bank fees	17,022	13,976	3,046
Building services	15,160	19,270	(4,110)
Engineering	13,702	70,271	(56,569)
Directors' fees and expense	9,670	9,142	528
Damage claim cost	9,157	4,887	4,270
Marketing	3,390	2,540	850
Property taxes	1,986	6,268	(4,282)
	$ 3,280,620	$ 3,197,784	$ 82,836
Depreciation and amortization expense	$ 6,017,308	$ 6,806,656	$ (789,348)