

Semitropic Water Storage District

Combined Financial Statements

December 31, 2007 and 2006

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Independent Auditors' Report

Board of Directors
Semitropic Water Storage District
Wasco, California

We have audited the combined statements of net assets of Semitropic Water Storage District as of December 31, 2007 and 2006, and the related combined statements of revenue and expenses, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with Government Auditing Standards, we have also issued a report dated March 26, 2008 on our consideration of the District's internal control over financial reporting and our assessment of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 - 9 and the supplementary information on pages 41 - 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

BARBACH LONGMIRE HOOPER & KIM ET

Bakersfield, California
March 26, 2008

Semitropic Water Storage District

Management's Discussion and Analysis

The following discussion and analyses of Semitropic Water Storage District financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2007 and 2006. 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 assets increased \$1.3 million or 1% over the course of the year's operations.

The District's operating revenue experienced a net increase of 15.2 million or 68% during the fiscal year ended December 31, 2007. The primary reason for the increase is from groundwater banking revenues of \$18.6 million over fiscal year ended December 31, 2006. Also in fiscal year ending December 31, 2007 there was a decrease of contract water revenue of \$3.2 million or 47%, and a decrease in noncontract water revenue of \$2.7 million or 49% over fiscal year ending December 31, 2006. This decrease was caused by a reduction in State entitlement water from 100% to 65% due to drought conditions within the State.

The District's operating expenses increased \$10.8 million or 47% during the fiscal year ended December 31, 2007. The majority of this increase was related to increased energy costs due to the District's groundwater banking program in the amount of \$7.3 million or 87%. Other increases in expenses were in source and supply in the amount of \$2.7 million or 34% due to purchasing miscellaneous water. Additionally, the District created a new division for well drilling and pulling operations. The expenses in fiscal year ending December 31, 2007 were \$.5 million over 2006. The remaining balance was an increase in general and administration of \$.2 million or 7% and an increase in Depreciation of \$.2 million or 5%.

The District's capital assets increased \$18.1 million or 10% during the fiscal year ended December 31, 2007 primarily due to the completion of the Stored Water Recovery Unit 7 ½ mile pipeline and the P-1030 Distribution project. See Note 10 for further description of these projects.

Overview of the Financial Statements

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

Required Financial Statements

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

Semitropic Water Storage District

Management's Discussion and Analysis

The Statement of Net Assets 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 assets. 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 Statement of Revenues and Expenses and Changes in Net Assets. 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 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.

Semitropic Water Storage District

Management's Discussion and Analysis

To begin our analysis, a summary of the District's Statements of Net Assets is presented in Table A.

Table A
Condensed Statements of Net Assets
December 31, 2007 and 2006
(millions)

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current Assets	\$ 29.2	\$ 19.4	\$ 9.8	51%
Noncurrent Capital Assets	199.5	181.4	18.1	10%
Noncurrent Other Assets	31.3	52.5	(21.2)	-40%
Total Assets	<u>260.0</u>	<u>253.3</u>	<u>6.7</u>	3%
Current Liabilities	11.7	11.7	-	0%
Long-Term Debt	<u>115.7</u>	<u>110.4</u>	<u>5.3</u>	5%
Total Liabilities	<u>127.4</u>	<u>122.1</u>	<u>5.3</u>	4%
Invested in Capital Assets, Net of Related Debt	86.4	94.8	(8.4)	-9%
Restricted	11.7	11.7	-	0%
Unrestricted	<u>34.4</u>	<u>24.7</u>	<u>9.7</u>	39%
Total Net Assets	<u>\$ 132.5</u>	<u>\$ 131.2</u>	<u>\$ 1.3</u>	1%

Semitropic Water Storage District

Management's Discussion and Analysis

As can be seen from the table above, total assets increased \$6.7 million to \$260 million at December 31, 2007, up from \$253.3 million at December 31, 2006. The increase in total assets of the District was primarily due to three reasons; current assets increased by \$9.8 million, which was derived from increased banking water revenues; noncurrent capital assets increased \$18.1 million due to the completion of a major construction project; and noncurrent other assets decreased by \$21.2 million, which is a result of using restricted cash and investments for the payment of projects in construction in progress and capital asset additions.

Total liabilities increased \$5.3 million to \$127.4 million at December 31, 2007, from \$122.1 million at December 31, 2006. The increase is primarily due to the issuance of long term debt of \$10 million, plus payment of principal of long-term debt of \$5.9 million.

Semitropic Water Storage District

Management's Discussion and Analysis

Table B

Condensed Statements of Revenues and Expenses and Changes in Net Assets

Years Ended December 31, 2007 and 2006

(millions)

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Contract water	\$ 3.6	\$ 6.8	\$ (3.2)	-47%
Noncontract water	2.8	5.5	(2.7)	-49%
Groundwater banking	27.5	8.9	18.6	209%
Electrical transfer & hookup	1.9	0.3	1.6	533%
Other revenue	1.8	0.9	0.9	100%
<i>Operating Revenues</i>	<u>37.6</u>	<u>22.4</u>	<u>15.2</u>	<u>68%</u>
Interest income	2.2	3.6	(1.4)	-39%
GA & GP service charges	0.0	0.9	(0.9)	0%
Prior year income, net	0.7	0.7	-	0%
<i>Nonoperating Revenues</i>	<u>2.9</u>	<u>5.2</u>	<u>(2.3)</u>	<u>-44%</u>
<i>Total Revenues</i>	<u>40.5</u>	<u>27.6</u>	<u>12.9</u>	<u>47%</u>
Source of supply	10.6	7.9	2.7	34%
Well operations	0.5	-	0.5	0%
Transmission & distribution	15.7	8.4	7.3	87%
General and administration	2.9	2.8	0.1	4%
Depreciation expense	4.1	3.9	0.2	5%
<i>Operating Expenses</i>	<u>33.8</u>	<u>23.0</u>	<u>10.8</u>	<u>47%</u>
Interest expense	5.5	4.3	1.2	28%
<i>Nonoperating Expenses</i>	<u>5.5</u>	<u>4.3</u>	<u>1.2</u>	<u>28%</u>
<i>Total Expenses</i>	<u>39.3</u>	<u>27.3</u>	<u>12.0</u>	<u>44%</u>
<i>Change in Net Assets</i>	<u>1.2</u>	<u>0.3</u>	<u>0.9</u>	<u>300%</u>
<i>Net Assets, beginning of year</i>	<u>131.3</u>	<u>131.0</u>	<u>0.3</u>	<u>0%</u>
<i>Net Assets, end of year</i>	<u>\$ 132.5</u>	<u>\$ 131.3</u>	<u>\$ 1.2</u>	<u>1%</u>

Semitropic Water Storage District

Management's Discussion and Analysis

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

The District's total revenues increased \$12.9 million to \$40.5 million during the fiscal year ended December 31, 2007, from \$27.6 million during the fiscal year ended December 31, 2006. The increase in revenue was primarily due to receiving banking revenue for the return of previous banked water made by the District's groundwater banking customers during the fiscal year 2007.

Total expenses increased \$12.0 million to \$39.3 million during the fiscal year ended December 31, 2007 from \$27.3 million during the fiscal year ended December 31, 2006. The increase in expenses is primarily due to increased energy charges associated with the return of water to banking partners and increased cost of water in fiscal year ended December 31, 2007.

Semitropic Water Storage District

Management's Discussion and Analysis

As of December 31, 2007, the District had invested \$199.2 million in capital assets as shown in Table C.

*Table C
Capital Assets
December 31, 2007 and 2006
(millions)*

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Land	\$ 5.0	\$ 4.9	\$ 0.10	0%
Source of Supply	13.1	13.1	-	0%
Transmission and Distribution	208.5	142.0	66.5	47%
General Plant and Equipment	1.9	1.8	0.1	6%
Communication equip.	0.02	0.010	-	0%
Autos and trucks	1.3	1.1	0.2	18%
Office equip.	0.6	0.6	-	0%
Field and misc. equip.	0.4	0.4	-	0%
Well drilling equip.	2.3	0.4	1.9	475%
Wells	0.3	-	0.3	100%
Construction in Progress	16.8	63.8	(47.0)	-74%
Total Gross Capital Assets	<u>250.2</u>	<u>228.1</u>	<u>22.1</u>	<u>0.1</u>
Less: Accumulated Depreciation	<u>50.7</u>	<u>46.7</u>	<u>4.0</u>	<u>9%</u>
Total Net Capital Assets	<u>\$ 199.5</u>	<u>\$ 181.4</u>	<u>\$ 18.1</u>	<u>10%</u>

As can be seen from the table above, total net capital assets increased \$18.1 million to \$199.5 million at December 31, 2007, from \$181.4 million at December 31, 2006. The increase is due to the net of two items: increase in total gross capital assets of \$22.1 million, which was primarily the net increase of capital assets of 68.8 million, and a decrease in construction in progress of \$47.0 million less depreciation of \$4 million.

The increase in capital assets of \$68.8 million is a result of the completion of construction of a 7 ½ mile, 120" pipeline that is connected to the State of California Aqueduct for \$50.5 million. It is part of the Stored Water Recovery Unit expansion of facility and capital project or which is commonly known as phase two of the District's water banking program.

Semitropic Water Storage District

Management's Discussion and Analysis

In addition, the P-1030 Distribution System with an approximate cost of \$14 million was completed. The District purchased a water well drilling rig with an approximate cost of \$1.9 million. Finally, several small distribution enhancement projects were completed for \$2.4 million. See Note 10 for more information.

Table D
Debt
December 31, 2007 and 2006
(millions)

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenue bonds	\$ 102.1	\$ 98.1	\$ 4.0	4%
Swap	3.3	3.3	-	0%
Other debt	<u>15.2</u>	<u>14.9</u>	<u>0.3</u>	2%
Total debt	<u>\$ 120.6</u>	<u>\$ 116.3</u>	<u>\$ 4.3</u>	4%

Revenue bonds are legally secured by the District's water banking revenue and District's general project and administrative charges. If this source of revenue is not sufficient to repay this debt, the District is not legally obligated to appropriate other funds for debt service payments toward this debt.

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

Total debt increased \$4.3 million to \$120.6 million during the fiscal year ended December 31, 2007 from \$116.3 million during the fiscal year ended December 31, 2006. The increase is due to issuing new debt of \$5.3 million less the combined cost of issuance and annual debt payments.

The District received an A-rating by Standard & Poors for the 2007 debt issued for capital projects to expand the District's existing water banking facilities.

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 Z, Wasco, CA 93280.

Semitropic Water Storage District

*Combined Statements of Net Assets
December 31, 2007 and 2006*

<i>ASSETS</i>	<u>2007</u>	<u>2006</u>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 12,028,043	\$ 14,161,892
Receivables		
Accounts receivable, trade	13,165,897	87,160
Accrued interest receivable	-	410,997
Other receivable	62,993	367,117
General administrative and general project service charges receivable, less allowance for delinquency provision, 2007; \$202,872 and 2006; \$205,000	3,843,761	3,987,621
	<u>17,072,651</u>	<u>4,852,895</u>
Other prepaid expenses and deposits	<u>87,845</u>	<u>405,608</u>
Total current assets	<u>29,188,539</u>	<u>19,420,395</u>
<i>Noncurrent Assets</i>		
Restricted assets		
Cash	11,106,776	14,660,292
Investments	8,149,021	26,713,479
Total restricted assets	<u>19,255,797</u>	<u>41,373,771</u>
Capital assets		
Property, plant and equipment, at cost	250,301,865	228,123,366
Less accumulated depreciation	50,771,654	46,706,706
Total capital assets, net	<u>199,530,211</u>	<u>181,416,660</u>
Other noncurrent assets		
Banked water inventory	6,010,153	8,244,256
Investment in Kern Water Bank Authority	2,314,539	2,284,640
Investment in Pioneer Project	792,629	629,804
Investment in Cross Valley Canal Project	2,852,334	-
Total other noncurrent assets	<u>11,969,655</u>	<u>11,158,700</u>
Total noncurrent assets	<u>230,755,663</u>	<u>233,949,131</u>
<i>Total Assets</i>	<u>\$ 259,944,202</u>	<u>\$ 253,369,526</u>

See Notes to Combined Financial Statements.

<i>LIABILITIES AND NET ASSETS</i>	<u>2007</u>	<u>2006</u>
<i>Current Liabilities</i>		
Current maturities of long-term debt	\$ 4,924,199	\$ 5,843,247
Trade accounts payable	3,486,210	3,703,740
Customer deposits payable	2,085,411	1,110,113
End of year payment due District landowners	325,441	392,599
Accrued interest	434,000	330,355
Accrued payroll liabilities	398,185	279,316
Accrued liabilities	43,935	-
Total current liabilities	<u>11,697,381</u>	<u>11,659,370</u>
<i>Long-Term Debt</i> , less discount and current maturities	<u>115,723,560</u>	<u>110,430,412</u>
<i>Total Liabilities</i>	<u>127,420,941</u>	<u>122,089,782</u>
<i>Commitments and Contingencies (see Note 10)</i>		
<i>Net Assets</i>		
Invested in capital assets, net of related debt	86,447,673	94,808,666
Restricted for:		
Debt service	11,616,831	11,662,099
Retirement trust fund	73,747	40,034
Unrestricted	<u>34,385,010</u>	<u>24,768,945</u>
<i>Total Net Assets</i>	<u>132,523,261</u>	<u>131,279,744</u>
 <i>Total Liabilities and Net Assets</i>	 <u>\$ 259,944,202</u>	 <u>\$ 253,369,526</u>

Semitropic Water Storage District

*Combined Statements of Revenue and Expenses
Years Ended December 31, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
<i>Operating revenue:</i>		
Contract water	\$ 3,623,293	\$ 6,814,726
Noncontract water	2,828,464	5,482,089
Groundwater banking	27,464,018	8,934,174
Electrical transfer and hookup charges	1,935,870	270,647
Other charges	1,848,891	916,952
	<u>37,700,536</u>	<u>22,418,588</u>
<i>Operating expenses:</i>		
Transmission and distribution	15,671,952	8,387,232
Well operations	531,683	-
Source of supply	10,593,342	7,863,284
General and administrative	2,955,980	2,772,289
Depreciation expense	4,064,948	3,950,754
	<u>33,817,905</u>	<u>22,973,559</u>
Operating income (loss)	<u>3,882,631</u>	<u>(554,971)</u>
<i>Nonoperating revenue (expense):</i>		
Interest income	2,189,748	3,563,694
General administrative and general project service income	9,446	957,637
Interest expense	(5,510,359)	(4,293,395)
Prior year income, net	672,051	654,225
Gain on disposal of fixed assets	-	3,800
	<u>(2,639,114)</u>	<u>885,961</u>
Change in net assets	<u>\$ 1,243,517</u>	<u>\$ 330,990</u>

See Notes to Combined Financial Statements.

Semitropic Water Storage District

*Combined Statement of Changes in Net Assets
Years Ended December 31, 2007 and 2006*

	<u><i>Net Assets</i></u>
<i>Balance, December 31, 2006</i>	\$ 130,948,754
Change in net assets	<u>330,990</u>
<i>Balance, December 31, 2006</i>	131,279,744
Change in net assets	<u>1,243,517</u>
<i>Balance, December 31, 2007</i>	<u><u>\$ 132,523,261</u></u>

See Notes to Combined Financial Statements.

Semitropic Water Storage District

*Combined Statements of Cash Flows
Years Ended December 31, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
<i>Cash flows from operating activities:</i>		
Receipts from customers	\$ 25,480,780	\$ 21,972,089
Payments to suppliers for goods and services	(23,717,139)	(17,229,572)
Payments to employees for services	(2,552,763)	(2,107,263)
Net cash provided by (used in) operating activities	<u>(789,122)</u>	<u>2,635,254</u>
<i>Cash flows from noncapital financing activities:</i>		
Payments on long-term debt	-	(304,763)
Cash paid for interest on loans	-	(17,060)
Net cash used in noncapital financing activities	<u>-</u>	<u>(321,823)</u>
<i>Cash flows from capital and related financing activities:</i>		
Payment for acquisition and construction of property, plant and equipment	(25,030,833)	(49,035,996)
Disposal of nondepreciable assets	-	14,782
Cash paid for interest on bonds and construction loans	(5,106,550)	(4,017,560)
Borrowings on long-term debt	10,001,312	33,268,116
Payments on long-term debt	(5,927,375)	(15,829,975)
Net cash used in capital and related financing activities	<u>(26,063,446)</u>	<u>(35,600,633)</u>
<i>Cash flows from investing activities:</i>		
Purchases of investments	-	(18,260,000)
Proceeds from sale of investments	18,564,458	36,961,431
Payments received on note receivable	-	135,424
Interest income	2,600,745	3,614,081
Net cash provided by investing activities	<u>21,165,203</u>	<u>22,450,936</u>
<i>Net decrease in cash and cash equivalents</i>	(5,687,365)	(10,836,266)
<i>Cash and cash equivalents at beginning of the year</i>	<u>28,822,184</u>	<u>39,658,450</u>
<i>Cash and cash equivalents at the end of the year</i>	<u>\$ 23,134,819</u>	<u>\$ 28,822,184</u>

See Notes to Combined Financial Statements.

	<u>2007</u>	<u>2006</u>
<i>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</i>		
Operating income (loss)	\$ 3,882,631	\$ (554,971)
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</i>		
Depreciation	4,064,948	3,950,754
Gain on disposal of assets	-	3,800
Earnings from investment in Kern Water Bank Authority	(29,899)	(63,166)
Earnings from investment in Pioneer Project	(162,825)	(56,140)
General administrative & general project service charges	9,446	957,637
Prior year income, net	672,050	654,224
(Increase) decrease in accounts receivable	(12,774,613)	2,238,409
(Increase) decrease in general administrative and general project service charges receivable	143,860	(1,852,125)
(Increase) decrease in other prepaid expenses & deposits	317,763	(63,061)
(Increase) decrease in banked water inventory	2,234,103	(823,091)
Increase (decrease) in accounts payable and accrued liabilities	920,572	(1,918,346)
Increase (decrease) in year end payment due District landowners	(67,158)	161,330
Net cash provided by (used in) operating activities	<u>\$ (789,122)</u>	<u>\$ 2,635,254</u>
<i>Current unrestricted cash</i>	\$ 12,028,043	\$ 14,161,892
<i>Noncurrent restricted cash</i>	<u>11,106,776</u>	<u>14,660,292</u>
	<u>\$ 23,134,819</u>	<u>\$ 28,822,184</u>
<i>Noncash investing and financing activities:</i>		
Bond issuance costs incurred from long term debt	<u>\$ -</u>	<u>\$ 1,286,772</u>

Semitropic Water Storage District

Notes to Combined Financial Statements

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:

Financial reporting:

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Notes to Combined Financial Statements

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and 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 assets component as the unspent proceeds.

Restricted net assets - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of “restricted assets” or “invested in capital assets, net of related debt.”

The District’s Board of Directors has designated certain reserves as a component of Unrestricted Net Assets. These balances are detailed as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Capital projects reserve fund	<u>\$ 7,000,000</u>	<u>\$ 7,000,000</u>

The capital projects reserve fund is earmarked by the Board of Directors for capital improvements to meet system reliability and future demand in the District.

Principles of presentation:

The District, utilizing GASB Statement No. 34 for enterprise funds, has the option to consistently follow pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. Unless FASB standards are specifically adopted by GASB, the District has not elected to follow FASB standards issued after that date.

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 has implemented Governmental Accounting Standards Board No. 40 (GASB Statement No. 40), *Deposits and Investments Risk Disclosures - an Amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed.

Notes to Combined Financial Statements

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.

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of cash payments or receipts.

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 mostly 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 districts. 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.

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, 2007 and 2006, \$4,063,394 and \$4,744,261, 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, 2007 and 2006, \$4,053,948 and \$3,786,624, respectively, was authorized as end of the year

Notes to Combined Financial Statements

discretionary payments by the District. Amounts due for the end of the year payment at December 31, 2007 and 2006 were \$325,441 and \$392,599, respectively. 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:

The allowance for delinquency provision for general administrative and general project service charges is based on a percentage of assessments levied. The percentage is determined by collections from previous years.

Accounts receivable:

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 losses on balances outstanding at year-end will be immaterial; accordingly, no allowance for doubtful accounts is required.

Reclassifications:

Certain reclassifications have been made to the December 31, 2006 financial statements in order to conform to the December 31, 2007 presentation.

Property, plant and equipment:

The District's property, plant and equipment 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:

	<u>Years</u>
Source of supply	15-60
Transmission and distribution	15-60
General plant and equipment	3-60
Communication equipment	5-60
Autos and trucks	5
Office equipment	3-10
Field and misc. equipment	5-10
Well drilling equipment	15-60
Wells	15-20

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

Notes to Combined Financial Statements

Deposits and investments

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, 2007 and 2006, cash and cash equivalents include cash on hand and amounts deposited with banks, the County of Kern 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 Assets as of December 31, 2007 and 2006.

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's Local Agency Investment Fund 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, reserves for principal and interest on outstanding bonds and payments of the District's 401(k) and payroll obligations. All remaining cash and investments are unrestricted.

Notes to Combined Financial Statements

Cash and investments as of December 31, 2007 and 2006 are classified in the accompanying financial statements as follows:

	<i>2007</i>	<i>2006</i>
Current assets - cash	\$ 12,028,043	\$ 14,161,892
Noncurrent assets - restricted cash	11,106,776	14,660,292
Noncurrent assets - restricted investments	8,149,021	26,713,479
	<u>\$ 31,283,840</u>	<u>\$ 55,535,663</u>

Cash and investments as of December 31, 2007 and 2006 consist of the following:

	<i>2007</i>	<i>2006</i>
Cash deposits	\$ 23,134,819	\$ 28,822,184
Investments	8,149,021	26,713,479
	<u>\$ 31,283,840</u>	<u>\$ 55,535,663</u>

Cash deposits:

The District's cash deposits at December 31, 2007 and 2006, were either entirely insured by appropriate federal depository insurance, partially insured up to the federal limit and the remainder collateralized, or fully collateralized with collateral held by the pledging financial institution's trust department or agent in the District's name in accordance with provisions of the California Government Code. The carrying amount and bank balance of the District's deposits at December 31, 2007 and 2006 are as follows:

	<i>2007</i>		<i>2006</i>	
	<i>Carrying Amount</i>	<i>Bank Balance</i>	<i>Carrying Amount</i>	<i>Bank Balance</i>
Insured	\$ 76,574	\$ 74,493	\$ 42,918	\$ 66,006
Partially insured & collateralized	11,525,604	13,164,996	14,862,414	15,664,182
Collateralized	11,532,641	11,532,242	13,916,852	13,916,451
	<u>\$ 23,134,819</u>	<u>\$ 24,771,731</u>	<u>\$ 28,822,184</u>	<u>\$ 29,646,639</u>

Notes to Combined Financial Statements

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 the LAIF, 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 Federal agency securities and U.S. Guarantees - GNMA's.

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, the District's investment policy, or debt agreement and the actual rating as of year-end for each investment type.

The minimum legal rating for the U.S. Government Agency Securities is A. The ratings for the District's U.S. Government Agency Securities at December 31, 2007 and 2006 are AAA.

As of December 31, 2007, the District had the following investments and maturities:

	<u>Fair Value</u>	<u>Investment maturities</u>		
		<u>Less Than 1 Year</u>	<u>1 Year to 5 Years</u>	<u>6 Years to 10 Years</u>
U.S. Govt. Agency Securities	<u>\$ 8,149,021</u>	<u>\$ 3,217,946</u>	<u>\$ 2,778,640</u>	<u>\$ 2,152,435</u>

Notes to Combined Financial Statements

As of December 31, 2006, the District had the following investments and maturities:

	<u>Fair Value</u>	<u>Investment maturities</u>		
		<u>Less Than 1 Year</u>	<u>1 Year to 5 Years</u>	<u>6 Years to 10 Years</u>
U.S. Govt. Agency Securities	<u>\$ 26,713,479</u>	<u>\$ 20,111,556</u>	<u>\$ 6,601,923</u>	<u>\$ -</u>

Investment in Kern Water Bank Authority:

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 the Authority's accrual basis income or loss. Upon adoption of the Monterey Agreement in 1997, the District obtained a 6.67% interest in Kern Water Bank Authority by reducing the District's annual entitlement water from 158,000 acre-feet to 155,000 acre-feet. The District's equity in the earnings from this investment for the years ended December 31, 2007 and 2006 was \$29,899 and \$63,166, respectively. The earnings from this investment are included in the other income category on the combined statements of revenue and expenses.

Investment in Pioneer Project:

The District's investment in the Pioneer Project is accounted for using the equity method. Under this method, the District recognizes its share of the project's accrual basis income or loss.

The Pioneer Project utilizes land that the Kern County Water Agency owns. The Pioneer Project Participation Agreement stipulates that certain member units have first priority utilizing the property for recharge and recovery. Recharge Participants are entitled to a first priority right of the stated recharge facilities, and Recovery Participants are entitled to a first priority right of the stated recovery facilities. The District is a Recovery Participant with a 14% allocation among this class of participants.

The District paid for the construction of three wells for this project during the year ended December 31, 2007 in the amount of \$106,685.

Investment in Cross Valley Canal Project:

The District's investment in the Cross Valley Canal Project is accounted for using the equity method. Under this method, the District recognizes its share of the project's accrual basis income or loss.

The Cross Valley Canal (CVC) serves as the Kern County Water Agency's primary conduit for water deliveries to and from the California Aqueduct. Construction has commenced on the CVC Expansion Project. The project is the largest component of the Phase II Grant Program and includes construction of the CVC/Friant-Kern Canal Intertie (Intertie). CVC conveyance capacity will be expanded from 922 cubic feet per second (cfs) to 1,422 cfs (an

Notes to Combined Financial Statements

increase of about 54 percent), plus an additional 500 cfs of capacity in the Intertie. Construction completion is scheduled for 2008.

Cash flows:

Governmental Accounting Standards Board No. 9 states for purposes of preparing the statement 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.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

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.

	<i>2007 (acre feet)</i>	<i>2006 (acre feet)</i>
<i>Water received</i>		
<u>Purchased from Kern County Water Agency</u>		
Entitlement		
Current year allocation (60% & 100%)	93,000	155,000
Add borrowing (carryover) to next year	(2,780)	(437)
Add carryover from prior year	437	(1,401)
Subtotal	90,657	153,162
Article 21	29,887	62,735
Other	751	3,960
Total Water Received – Purchased from Kern County Water Agency	121,295	219,857
<u>Received from Banking Partners</u>		
Santa Clara Valley WD	3,692	64,036
Alameda County WD	1,029	27,447
Poso Creek Water Co.	8,867	-
Zone 7 Water Agency	717	5,740
Deanza (Dudley Ridge)	3,000	5,000
City of Tracy	1,000	

Notes to Combined Financial Statements

	<i>2007 (acre feet)</i>	<i>2006 (acre feet)</i>
Total Water Received from Banking Partners	18,305	102,223
<u>Received from Other Water Agencies</u>		
Madera ID (purchase)	-	883
Lower River (purchase)	1,669	-
CVP Section 215	-	4,848
Buena Vista WSD (purchase)	4,693	8,521
Total Water Received - Received from Other Water Agencies	6,362	14,252
<u>In-District Ground Water Extraction</u>		
Pumping agreements with landowners	71,644	128
Total Water Received - Groundwater Extraction	71,644	128
<u>Out of District Ground Water (Kern Fan)</u>		
Kern Water Bank	56,355	-
Pioneer Project	32,607	-
<i>Total Water Received</i>	306,568	336,460
 <i>Water Delivered</i>		
<u>Delivered In-District</u>		
Contract	78,334	136,968
Non-contract	64,269	150,093
In District spreading & overdraft correction	966	1,655
Other	3,205	5,898
Total Water Delivered - In-District	146,774	294,614
<u>Recharge to Kern Fan Projects</u>	2,475	15,537
<u>Returned to Other Water Agencies</u>		
Shafter Wasco ID (sale)	4,606	2,114
Lost Hills WD to Buena Vista Exchange	10,165	-
<u>Returned to Banking Partners</u>	124,086	-
Total Water Delivered - Returned to Other Water Agencies	138,857	2,114
<i>Total Water Delivered</i>	288,106	312,265

Notes to Combined Financial Statements

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:

	<i>2007 Amount Required</i>	<i>2007 Amount on Deposit</i>	<i>2006 Amount Required</i>	<i>2006 Amount on Deposit</i>
Bond and loan reserve fund	\$ 19,182,050	\$ 19,182,050	\$ 41,333,737	\$ 41,333,737
Retirement trust fund	73,747	73,747	40,034	40,034
	\$ 19,255,797	\$ 19,255,797	\$ 41,373,771	\$ 41,373,771

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.

Retirement trust fund:

The District funds a separate cash account for the 401(k) pension plan. Contributions for investments in mutual funds are paid from this account.

Note 4. Property, Plant and Equipment

The following is a summary of changes in the District's property, plant and equipment for the years ended December 31, 2007 and 2006:

Notes to Combined Financial Statements

	<i>Assets-At Cost</i>				
	<i>Balance 12/31/06</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Reclass/ Transfers</i>	
<i>Capital Assets not being depreciated:</i>					
Land	\$ 4,933,369	\$ 77,150	\$ -	\$ -	\$ 5,010,519
Construction in progress	63,785,186	24,339,679	-	(71,268,376)	16,847,729
<i>Capital Assets being depreciated:</i>					
Source of supply	13,121,062	-	-	-	13,121,062
Transmission and distribution	141,998,703	144,345	-	66,367,500	208,510,548
Communication equipment	19,976	-	-	-	19,976
Autos and trucks	1,110,631	206,397	-	-	1,317,028
Office equipment	596,429	14,630	-	-	611,059
Field and misc. equip	354,311	-	-	34,254	388,565
Well drilling equip.	423,973	196,299	-	1,629,997	2,250,269
Wells	-	-	-	313,413	313,413
General plant and equipment	1,779,726	61,093	-	70,878	1,911,697
<i>Total Capital Assets</i>	<u>\$ 228,123,366</u>	<u>\$ 25,039,592</u>	<u>\$ -</u>	<u>\$ (2,852,334)</u>	<u>\$ 250,301,865</u>

	<i>Accumulated Depreciation</i>				
	<i>Balance 12/31/06</i>	<i>Depreciation Expense</i>	<i>Retirements</i>	<i>Reclass/ Transfers</i>	
Source of supply	\$ 4,935,518	\$ 333,096	\$ -	\$ -	\$ 5,268,614
Transmission and distribution	39,322,594	3,551,226	-	-	42,873,820
Communication equipment	19,850	-	-	-	19,850
Autos and trucks	1,015,465	36,466	-	-	1,051,931
Office equipment	466,679	30,118	-	-	496,797
Field and misc. equip	345,630	7,101	-	-	352,731
Well Drilling	-	56,034	-	-	56,034
General plant and equipment	600,970	50,907	-	-	651,877
<i>Total Accum. Depr.</i>	<u>\$ 46,706,706</u>	<u>\$ 4,064,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,771,654</u>

Notes to Combined Financial Statements

	<i>Assets-At Cost</i>				
	<i>Balance 12/31/05</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Reclass/ Transfers</i>	<i>Balance 12/31/06</i>
<i>Capital Assets not being depreciated:</i>					
Land	\$ 4,933,396	\$ -	\$ (27)	\$ -	\$ 4,933,369
Construction in progress	21,127,497	48,846,568	(14,724)	(6,174,155)	63,785,186
<i>Capital Assets being depreciated:</i>					
Source of supply	13,121,062	-	-	-	13,121,062
Transmission and distribution	136,153,705	63,078	-	5,781,920	141,998,703
Communication equipment	-	-	-	19,976	19,976
Autos and trucks	-	65,053	-	1,045,578	1,110,631
Office equipment	-	29,529	-	566,900	596,429
Field and misc. equip.	-	-	-	354,311	354,311
Well drilling equip.	-	31,738	-	392,235	423,973
General plant and equipment	3,766,490	-	-	(1,986,765)	1,779,726
<i>Total Capital Assets</i>	<u>\$ 179,102,150</u>	<u>\$ 49,035,966</u>	<u>\$ (14,751)</u>	<u>\$ -</u>	<u>\$ 228,123,366</u>

	<i>Accumulated Depreciation</i>				
	<i>Balance 12/31/05</i>	<i>Depreciation Expense</i>	<i>Retirements</i>	<i>Reclass/ Transfers</i>	<i>Balance 12/31/06</i>
Source of supply	\$ 4,602,375	\$ 333,143	\$ -	\$ -	\$ 4,935,518
Transmission and distribution	35,868,515	3,454,080	-	-	39,322,594
Communication equipment	-	-	-	19,850	19,850
Autos and trucks	-	33,398	-	982,067	1,015,465
Office equipment	-	76,391	-	390,288	466,679
Field and misc. equip.	-	2,567	-	343,063	345,630
General plant and equipment	2,285,063	51,175	-	(1,735,268)	600,970
<i>Total Accum. Depr.</i>	<u>\$ 42,755,953</u>	<u>\$ 3,950,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,706,706</u>

Notes to Combined Financial Statements

Note 5. Long-Term Debt

Long-term debt at December 31, 2007 and 2006 was as follows:

	<i>2007</i>	<i>2006</i>
Contract payable, State of California, 3.4375%, unsecured, payable \$33,735 semiannually including interest, due October 1, 2011 (proceeds were used for lining canals)	\$ 250,340	\$ 307,772
Contract payable, State of California, 3.0286%, unsecured, payable \$167,545 semiannually including interest, due October 1, 2016 (proceeds were used for construction of the Water Conservation Element)	2,623,107	2,873,143
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)	644,658	714,163
Contract payable, State of California, 2.8%, unsecured, payable \$124,725 semiannually including interest, due October 1, 2013 (proceeds were used to finance certain construction projects)	1,263,847	1,473,587
2005A Revenue Auction Bonds, variable interest rate via weekly modified Dutch auction, collateralized by the District's general fund, principal payable annually, interest payable weekly, due June 1, 2015 (proceeds were used to finance previous loans, finance District energy project and other projects, and fund reserve for the bonds)	19,000,000	21,175,000
2006A Water Banking Revenue Bonds, 4.25-4.78%, collateralized by future groundwater banking revenue, principal payable annually, interest payable semiannually, due December 1, 2035 (proceeds were used to refund 2003 bonds and fund a portion of second phase of Stored Water Recovery Unit)	31,515,000	32,955,000

Notes to Combined Financial Statements

	<u>2007</u>	<u>2006</u>
Note payable, Margaret A. Cooper, 5%, secured by deed of trust, payable \$10,079 quarterly including interest, due February 28, 2008 (proceeds were used to purchase land)	\$ 10,009	\$ 48,601
2004A Revenue Bonds, 2 - 5.5%, collateralized by future groundwater banking revenue, principal payable annually, interest payable semiannually, due December 1, 2035 (proceeds used to finance certain improvements of water banking project and fund reserve for the bonds)	46,660,000	47,840,000
Contract payable, State of California, 2.4%, unsecured, payable \$135,321 semiannually including interest, due May 2023 (proceeds used for construction of groundwater recharge project)	3,578,702	3,760,219
Contract payable, State of California, 2.6%, unsecured, payable \$55,052 semiannually including interest, due August 15, 2023 (proceeds used for construction of groundwater recharge project)	1,433,866	1,505,309
Contract payable, State of California, 2.6%, unsecured, payable \$161,076 quarterly including interest, due December 31, 2025 (proceeds used for construction of a water distribution system)	4,009,034	4,187,911
Contract payable, State of California, 2.4%, unsecured, payable \$159,792 semiannually including interest, due April 1, 2025 (proceeds used for construction of a water distribution system)	4,926,080	-
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)	5,000,000	-

Notes to Combined Financial Statements

	<u>2007</u>	<u>2006</u>
Total long term debt	120,914,642	116,840,705
2005 Interest Rate Swap, at cost (See Note 8)	3,327,000	3,327,000
Less deferred amount on advance refunding of 2003 bonds, net of accumulated amortization 2007, \$42,544; 2006, \$-0-	(1,233,762)	(1,276,306)
Less discount on bonds, net of accumulated amortization 2007, \$257,619; 2006, \$284,193	(2,360,121)	(2,617,740)
Less current maturities	(4,924,199)	(5,843,247)
Long term debt, less discount and current maturities	<u>\$ 115,723,560</u>	<u>\$ 110,430,412</u>

The following is a summary of the long-term debt transactions for the years ended December 31, 2007 and 2006:

	<u>Payable 12/31/06</u>	<u>Debt Incurred</u>	<u>Debt Retired</u>	<u>Payable 12/31/07</u>
Bond principal	\$101,970,000	\$ 5,000,000	\$ (4,795,000)	\$ 102,175,000
Loans, State of California	14,822,104	5,001,312	(1,093,783)	18,729,633
Loan, Margaret A. Cooper	48,601	-	(38,592)	10,009
	<u>\$116,840,705</u>	<u>\$ 10,001,312</u>	<u>\$ (5,927,375)</u>	<u>\$ 120,914,642</u>
	<u>Payable 12/31/05</u>	<u>Debt Incurred</u>	<u>Debt Retired</u>	<u>Payable 12/31/06</u>
Bond principal	\$ 83,760,000	\$ 32,955,000	\$(14,745,000)	\$101,970,000
Loans, State of California	13,222,529	2,647,836	(1,048,261)	14,822,104
KCWA loans	304,763	-	(304,763)	-
Loan, Margaret A. Cooper	85,315	-	(36,714)	48,601
	<u>\$ 97,372,607</u>	<u>\$ 35,602,836</u>	<u>\$(16,134,738)</u>	<u>\$116,840,705</u>

Notes to Combined Financial Statements

The annual requirements to amortize all debt outstanding as of December 31, 2007 are as follows:

<i>Years Ending December 31,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2008	\$ 4,924,199	\$ 4,432,478	\$ 9,356,677
2009	5,037,507	4,346,592	9,384,099
2010	5,211,222	4,251,620	9,462,842
2011	5,391,251	4,148,632	9,539,883
2012	5,503,698	4,040,810	9,544,508
2013-2017	23,318,936	18,442,381	41,761,317
2018-2022	15,615,151	15,332,095	30,947,246
2023-2027	18,202,678	11,715,962	29,918,640
2028-2032	21,445,000	7,286,006	28,731,006
2033-2037	16,265,000	1,635,775	17,900,775
	<u>\$ 120,914,642</u>	<u>\$ 75,632,352</u>	<u>\$ 196,546,993</u>

Note 6. 2006A Water Banking Revenue Bonds

The District issued the 2006A Water Banking Revenue Bonds on August 1, 2006, in the aggregate principal amount of \$32,955,000. From the proceeds of the bonds, the District paid \$11,113,300 to Wells Fargo Bank, as escrow agent, for deposit in an escrow fund pertaining to the advance refunding of the 2003 Revenue Bonds of the District; all in accordance with the terms of an escrow agreement between the District and the aforementioned bank. As a result, the 2003 Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets of the District at December 31, 2006.

The 2006A Water Banking Revenue Bond issue of \$32,955,000, with interest rates ranging from 4.25% to 4.78%, was issued by the District to advance refund \$10,700,000 of outstanding 2003 Revenue Bonds, with an interest rate ranging from 4% to 5%. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,276,306. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations as a component of interest expense through the year 2035 using the straight-line method.

Notes to Combined Financial Statements

Following is a summary of the advance refunding as recorded by the District as of December 31, 2006:

Reacquisition price (funds required to be deposited in escrow to refund 2003 bonds)		\$ 11,113,300
Net carrying amount of 2003 bonds:		
2003 bonds outstanding	\$ 10,700,000	
Unamortized bond discount	(863,006)	9,836,994
Deferred amount on refunding		\$ 1,276,306

Note 7. Interest Rate Swap, 2005

On October 27, 2005, the District entered into an off-market forward starting swap that was competitively bid in anticipation of a projected future issuance of variable rate bonds to synthetically advance refund the District's 2003 and 2004 Bonds. The swap will commence September 1, 2014, and is based on a 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), who was the highest bidder. This amount is recorded in the Balance Sheet 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.

The fixed swap rate of 5.12% that the District will pay represents the average interest rate of the District's existing coupons for the District's refunded bonds after the swap commencement date. The variable swap rate that the District will receive is equal to 69% of the 1 month LIBOR rate, which was calculated to estimate the District's future interest rate for its projected bond issuance. The swap's scheduled notional amounts are reduced until the swap's termination date of December 1, 2035, to mirror the existing principal reductions in the District's refunded bonds which the District estimates will approximate the principal reductions of the new variable rate bonds issued in the future.

Fair value

As of December 31, 2007, the swap had a negative fair value of \$4,374,573. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of the transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon method. The method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments were then discounted using the spot rates implied by the current yield

Notes to Combined Financial Statements

curve for hypothetical zero-coupon bonds on the date of each future net settlement on the swap.

Credit risk

Credit risk is the risk that SunTrust cannot fulfill the terms and obligations specified in the swap agreement. Since the swap had a negative fair value as of December 31, 2007, the District did not have exposure related to credit risk on its swap with SunTrust. However, the District would have exposure related to credit risk in the amount of the swap's positive fair value if interest rates increased to cause the fair value of the swap to become positive. This would occur at any time prior to the swap's termination of December 1, 2035. The credit ratings of SunTrust are Aa3, A+ and A+ by Moody's, S&P and Fitch, respectively. The swap agreement contains no collateral requirements for either party.

Basis risk

Basis risk, which the District is exposed to on its swap, is the risk when the variable interest rate paid by the District on its projected future variable rate bond issuance and the variable swap interest rate received from SunTrust differ. Specifically, the District is exposed to basis risk should the interest rate equal to 69% of the 1 month LIBOR rate 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 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 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.

Note 8. Interest Rate Swap, 2007

On April 24, 2007, the District entered into an off-market swap that was competitively bid 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 a notional amount of \$5,000,000. The pay-fixed, receive-variable swap will generate debt service savings over the life of the agreement from the counterparty, Wells Fargo Bank (Wells Fargo), who was the highest bidder.

Notes to Combined Financial Statements

The fixed swap rate of 3.586% that the District will pay represents the average interest rate of the District's existing coupons for the District's refunded bonds after the swap commencement date. The variable swap rate that the District will receive is equal to 67% of the 1 month LIBOR rate, which was calculated to estimate the District's future interest rate for its projected bond issuance. The swap's scheduled notional amounts are reduced until the swap's termination date of May 15, 2017, to mirror the existing principal reductions in the District's refunded bonds which the District estimates will approximate the principal reductions of the new variable rate bonds issued in the future.

Fair value

As of December 31, 2007, the swap had a negative fair value of \$172,982. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of the transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon method. The method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds on the date of each future net settlement on the swap.

Credit risk

Credit risk is the risk that Wells Fargo cannot fulfill the terms and obligations specified in the swap agreement. Since the swap had a negative fair value as of December 31, 2007, the District did not have exposure related to credit risk on its swap with Wells Fargo. However, the District would have exposure related to credit risk in the amount of the swap's positive fair value if interest rates increased to cause the fair value of the swap to become positive. This would occur at any time prior to the swap's termination of May 15, 2017. The credit ratings of Wells Fargo are Aa3, A+ and A+ by Moody's, S&P and Fitch, respectively. The swap agreement contains no collateral requirements for either party.

Basis risk

Basis risk, which the District is exposed to on its swap, is the risk when the variable interest rate paid by the District on its projected future variable rate bond issuance and the variable swap interest rate received from Wells Fargo differ. Specifically, the District is exposed to basis risk should the interest rate equal to 67% of the 1 month LIBOR rate 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 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 for a payment equal to the fair value of the swap. The additional

Notes to Combined Financial Statements

termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of Wells Fargo and the District.

Market-access risk

The District has issued variable rate debt to coincide with the commencement date of November 15, 2007. Market access risk addresses whether the District has the ability to efficiently issue variable rate debt at the time of commencement.

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:

<u>Type of Coverage</u>	<u>Limits per Occurrence Self-Insurance</u>	<u>Limits per Occurrence Excess Insurance</u>
General liability/automobile liability	\$10,000-\$500,000	\$500,000-49,500,000
Property insurance	\$1,000-\$50,000	\$10,000-100,000,000

The District is in a group with a \$10,000 retention level (deductible) per occurrence for auto and general liability, \$1,000 per occurrence for property, and \$500 per occurrence on licensed vehicles. 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 the Insurance Company of Pennsylvania, Lexington Insurance Company, and Appalachian Insurance Company 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 1,087,730 acre feet, through the State Water Project (SWP) through the year 2035.

Notes to Combined Financial Statements

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 Statement 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 \$8,208,274 and \$7,083,876 for the years ended December 31, 2007 and 2006, respectively.

The District expects a lower than average surface water supply in 2008 when compared to 2007. The District anticipates a 35% allocation of surface water entitlement from DWR in 2008. Accordingly, the Agency has provided the District with an estimate of both fixed and variable energy costs for 2008. A full entitlement, (155,000 acre feet) will be charged due to the depletion of the Ag Trust fund. The Agency estimates the District's 2008 water contract to be approximately \$7,836,000.

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. Exports dropped from 2,000 cfs to 1,500 cfs. Normally the SWP would pump about 8,000 cfs at this time of year. Unable to fill the San Luis Reservoir which precludes delivery of Article 21 water, DWR will have to start drawing down San Luis to meet SWP operational demands. DWR estimated water loss to the SWP through March 16, 2008 as a result of the Wanger Remedy Order to be about 465,000/AF. Approximately 140,000/AF of this amount is a reduction of Table A (current allocation of 35%) and is 325,000/AF of Article 21 water unable to be delivered.

Because of continuing possibility of water deliveries being maintained at reduced levels each year for water users, the District has developed several programs among which are the utilization of wells, banking programs and transfers of water from sources outside the District. The District continues to work on financial aspect of the problems in an attempt to reduce charges and increase the reliability of the water supply to water users, wherever possible.

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, 2007 and 2006 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.

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.

Notes to Combined Financial Statements

Joint Powers Authority

On August 30, 2007, the District formed a Joint Powers Authority by entering into a Joint Powers Agreement with Valley Mutual Water Company, LLC, and Rosamond Community Service District to create the Semitropic-Rosamond Water Bank Authority (SRWBA). The SRWBA consists of a new 1,400 acre water bank in the Antelope Valley that will provide 500,000 AF of Storage Capacity, 100,000 AF/year of Delivery Capacity, and 100,000 AF/year of Recovery and Return Capacity and will have an aggregate of 100,000 shares. In addition to the new Antelope Valley water bank, the District will provide a segment of its Stored Water Recovery Unit banking project that will provide 300,000 AF of Storage Capacity, 33,000 AF/year of Delivery Capacity, and 100,000 AF/year of Recovery and Return Capacity, and will also have an aggregate of 100,000 shares. It is anticipated that all documents to finalize the formation of the SRWBA will be completed in May of 2008.

Construction projects:

In fiscal year 2006, the District started to accumulate 2.25 quarter section of land to construct large recharge ponds. In April of 2008 the District completed phase 4 of 6 phases of the pond construction or approximately 1.25 quarter section of ponds. In fiscal year 2007, the Board of Directors approved bids for the construction of the P565 conveyance and distribution system for \$14,750,000. The P565 conveyance and distribution system will begin construction in fiscal year 2008. Also at the end of fiscal year 2007 the District began preliminary plans and obtaining easements for the Stored Water Recovery Unit Phase II & III. This project consists of the north-south conveyance and distribution system and the construction of a well field. Each year the District shuts down sections of canals for repairs and enhancements commonly known as Winter work. Winter work in 2008 is construction within various canal systems to enhance flow capacity. The following table shows the approximate budget, year to date, remaining construction costs, and estimated completion date:

<u>Construction Project</u>	<u>Budget</u>	<u>Paid to Date</u>	<u>Balance Remaining</u>	<u>Estimated Completion Date</u>
Recharge Pond Phase 1-3	\$ 13,278,068	\$ 12,987,334	\$ 290,734	April, 2008
P565 Distribution System	\$ 15,307,082	\$ 557,082	\$ 14,750,000	December, 2008
Stored Water Recovery Unit				
Phase II & III	\$ 50,000,000	\$ 442,209	\$ 49,557,791	August, 2009
Winter Work	\$ 17,000,000	\$ -	\$ 17,000,000	March, 2009

Note 11. Retirement Plan

In 2001, the District made certain modifications to its defined contribution pension plan, currently entitled "Semitropic Water Storage District 401(k) Plan," which is a 401(k) plan covering all eligible employees. The District administers this plan and can amend the Plan or its contributions at any time. The Plan consists of investments in mutual funds with WM Group of Funds and Van Kampen American Capital Trust Company. 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

Notes to Combined Financial Statements

month to receive District contributions. 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, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Total payroll	\$ 2,331,843	\$ 1,960,285
Base salary for computing contributions	\$ 2,123,358	\$ 1,800,250
District contributions	\$ 212,336	\$ 180,025
Employee contributions	\$ 86,953	\$ 72,010



Independent Auditors' Report on the Supplementary Information

Board of Directors
Semitropic Water Storage District
Wasco, California

The accompanying information shown on pages 41 - 44 is presented only for purposes of additional analysis and is not a required part of the basic combined financial statements.

Our December 31, 2007 and 2006 audits of the basic combined financial statements were made for the purpose of forming an opinion on those statements taken as a whole. The accompanying information has been subjected to the procedures applied in the audits of the basic combined financial statements.

In our opinion, the accompanying information is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Barbich Longcrier Hooper & King

Bakersfield, California
March 26, 2008

Semitropic Water Storage District

*Combined Schedules of Operating Expenses
Years Ended December 31, 2007 and 2006*

	<i>2007</i>	<i>2006</i>	<i>Increase (Decrease)</i>
<i>Transmission and distribution:</i>			
Power	\$ 9,731,321	\$ 5,057,099	\$ 4,674,222
Kern Water Bank and Pioneer Expenses	2,286,290	548,013	1,738,277
Salaries and wages	1,248,610	1,154,182	94,428
Repairs and maintenance	1,139,414	573,046	566,368
Employee benefits	785,610	689,179	96,431
Fuel and oil	201,217	174,210	27,007
Operating supplies	122,758	32,530	90,228
Payroll taxes	110,635	99,873	10,762
Equipment rent	31,705	45,011	(13,306)
Utilities	5,393	10,284	(4,891)
Answering Service	4,140	-	4,140
Liscenses and Fees	2,899	-	2,899
Miscellaneous	1,960	-	1,960
Equipment maintenance	-	3,805	(3,805)
	\$ 15,671,952	\$ 8,387,232	\$ 7,284,720
<i>Well operations:</i>			
Salaries	\$ 153,104	\$ -	\$ 153,104
Drilling consulting	112,739	-	112,739
Well abandonment	76,908	-	76,908
Employee benefits	62,122	-	62,122
Supplies	62,013	-	62,013
Repairs and maintenance	34,270	-	34,270
Payroll taxes	18,181	-	18,181
Security	8,510	-	8,510
Insurance	2,726	-	2,726
Licenses and fees	726	-	726
Equipment rent	384	-	384
	\$ 531,683	\$ -	\$ 531,683

	<u>2007</u>	<u>2006</u>	<i>Increase (Decrease)</i>
<i>Source of supply:</i>			
Water	\$ 10,593,342	\$ 7,863,284	\$ 2,730,058
<i>General and administrative:</i>			
Salaries and wages	\$ 900,074	\$ 687,340	\$ 212,734
Grant related costs	452,497	83,476	369,021
Employee benefits	364,647	262,028	102,619
Legal	174,397	163,330	11,067
Marketing	164,187	179,778	(15,591)
Insurance	146,347	45,509	100,838
Consulting and computer support	120,181	-	120,181
Repairs and maintenance	92,431	50,934	41,497
Financing and administration	89,132	76,012	13,120
Public relations	79,223	982	78,241
Dues	70,633	42,609	28,024
Payroll taxes	64,075	53,846	10,229
Travel	56,366	48,034	8,332
Office	23,667	61,842	(38,175)
Utilities	36,594	32,788	3,806
Accounting and auditing	25,740	28,945	(3,205)
Equipment rent	22,671	19,710	2,961
Engineering	18,943	886,030	(867,087)
Directors' fees and expense	15,500	16,082	(582)
Property taxes	14,150	14,033	117
Building services	12,514	16,660	(4,146)
Bank fees	12,011	-	12,011
Energy consulting	-	438	(438)
Damage claim cost	-	1,883	(1,883)
	<u>\$ 2,955,980</u>	<u>\$ 2,772,289</u>	<u>\$ 183,691</u>
<i>Depreciation expense</i>	<u>\$ 4,064,948</u>	<u>\$ 3,950,754</u>	<u>\$ 114,194</u>

Semitropic Water Storage District

*Combined Schedule of Insurance Coverage
December 31, 2007*

	<u><i>Policy No.</i></u>	<u><i>Effective Date</i></u>	<u><i>Expiration Date</i></u>
Joint Powers Insurance Authority - Association of California Water Agencies Property, Fidelity	Self-Insured	4/1/2007	4/1/2008
Joint Powers Insurance Authority - Association of California Water Agencies General, Auto, Public Officials Liability	Self-Insured	10/1/2007	10/1/2008
<u>Bonds</u>			
Western Surety	69311183	4/17/2007	4/17/2011
Western Surety	14558205	9/23/2007	9/23/2011
Western Surety	22171084	4/17/2007	4/17/2011
Western Surety	69485775	4/17/2007	4/17/2011
Western Surety	22185935	3/31/2005	4/12/2009
Western Surety	68970435	3/31/2005	3/31/2009
Great American	7909111	4/12/2005	4/12/2009
Great American	FS7909190	4/10/2005	4/10/2009

<i>Annual Premium</i>	<i>Coverage</i>
\$ 49,993	Property Insurance - all risk coverage \$1,000 - \$10,000 - combined single limit for each occurrence \$50,000 - \$100,000,000 - excess comprehensive liability - total insurance value \$28,914,062 basic property and equipment (\$1,000 deductible) - auto physical damage (\$500 deductible) \$100,000 - employee fidelity bond
\$ 98,983	Comprehensive Liability Insurance \$ 10,000 - \$500,000 - combined single limit for each occurrence \$ 500,000 - \$49,500,000 - excess comprehensive liability (\$10,000 deductible) includes prior year retrospective premiums
\$ 340	\$5,000 - public official bond - Jeff Fabbri
\$ 340	\$5,000 - public official bond - Todd Tracy
\$ 340	\$5,000 - public official bond - Theodore R. "Ted" Page
\$ 340	\$5,000 - public official bond - Daniel Waterhouse
\$ 340	\$5,000 - public official bond - Frederick Wegis
\$ 340	\$5,000 - public official bond - James Crettol
\$ 313	\$5,000 - public official bond - Philip W. Portwood
\$ 888	\$50,000 - treasurer bond - Philip W. Portwood



Barbich
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Accountancy Corporation

**Independent Auditors' Report on Compliance and on
Internal Control over Financial Reporting
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 the combined financial statements of Semitropic Water Storage District as of and for the year ended December 31, 2007 and 2006, and have issued our report thereon dated March 26, 2008. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Compliance

Compliance with laws, regulations, contracts and grants applicable to Semitropic Water Storage District is the responsibility of Semitropic Water Storage District's management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts and grants could cause the combined financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low and that it was not necessary to perform tests of the District's compliance with such provisions of laws, regulations, contracts and grants.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Semitropic Water Storage District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management, and the California State Controller's office. However, this report is a matter of public record and its distribution is not limited.

Barbara Lowmeyer Hester & King

Bakersfield, California
March 26, 2008