Semitropic Water Storage District

Combined Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014, and the related notes to the combined financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Semitropic Water Storage District as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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. The combined schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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. Such 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 combined schedules of operating expenses are fairly stated in all material respects in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated June 8, 2016, on our consideration of Semitropic Water Storage District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Semitropic Water Storage District's internal control over financial reporting and compliance.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 8, 2016

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, 2015 and 2014. 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 increased $3.3 million or 2% over the course of the year's operations.

The District's total revenues experienced a net increase of $15.4 million or 30% during the year ended December 31, 2015. The primary reason for the net increase in total revenues was the increase of $12.8 million in groundwater banking revenue and increase of $5.5 million in the change in FMV of interest rate swap.

The District's total expenses increased $4.1 million, or 7%. The primary reason for the increase was due to an increase of $5.2 million in transmission and distribution expense.

The District's gross capital assets increased $19.1 million, or 6%, during the year ended December 31, 2015 due to the various construction projects in progress.

Overview of the Combined Financial Statements

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

Required Financial Statements

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

The combined 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, hydrology, 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, 2015 and 2014
(in millions)

	2015	*2014*	*Dollar Change*	*Percentage Change*
Current assets	$ 47.7	$ 39.7	$ 8.0	20%
Capital assets	256.6	243.6	13.0	5%
Noncurrent other assets	80.0	66.0	14.0	21%
Total assets	384.3	349.3	35.0	10%
Deferred outflows of resources	25.8	26.0	(0.2)	-1%
	$ 410.1	$ 375.3	$ 34.8	9%
Current liabilities	$ 27.9	$ 14.1	$ 13.8	98%
Long-term liabilities	212.7	195.0	17.7	9%
Total liabilities	240.6	209.1	31.5	15%
Invested in capital assets, net of related debt	80.0	86.0	(6.0)	-7%
Restricted	33.3	17.7	15.6	88%
Unrestricted	56.2	62.5	(6.3)	-10%
Total net position	169.5	166.2	3.3	2%
	$ 410.1	$ 375.3	$ 34.8	9%

As the net position table above indicates, total assets increased by $35 million to $384.3 million at December 31, 2015, from $349.3 million at December 31, 2014. The increase in the total assets of the District was primarily due to an increase in noncurrent assets of $14 million and capital assets of $13 million, specifically unrestricted cash and accounts receivable.

Total liabilities increased by $31.5 million to $240.6 million at December 31, 2015, from $209.1 million at December 31, 2014. The increase is mostly due to the net of the issuance of the 2015 bonds and increase in deferred revenue.

Table B
Condensed Statements of Revenues and Expenses and Changes in Net Position
For the Years Ended December 31, 2015 and 2014
(in millions)

	2015	2014	Dollar Change	Percentage Change
Operating revenues:				
Contract water	$ 3.0	$ 1.9	$ 1.1	58%
Noncontract water	1.2	0.4	0.8	200%
Groundwater banking	34.3	21.5	12.8	60%
Electrical transfer & hookup	4.1	4.0	0.1	3%
Other charges	3.8	7.6	(3.8)	-50%
	46.4	35.4	11.0	31%
Nonoperating income:				
Interest income	1.3	1.3	-	0%
GA & GP service charges	18.6	18.3	0.3	2%
Prior year income, net	(0.1)	2.0	(2.1)	-105%
Change in FMV of interest rate swap	0.4	(5.1)	5.5	-108%
	20.2	16.5	3.7	22%
Total revenues	66.6	51.9	14.7	28%
Operating expenses:				
Transmission & distribution	29.0	24.5	4.5	18%
Source of supply	11.3	12.0	(0.7)	-6%
General and administrative	4.0	3.5	0.5	14%
Depreciation and amortization	6.2	6.1	0.1	2%
	50.5	46.1	4.4	10%
Nonoperating expenses:				
Interest expense	10.6	8.7	1.9	22%
Other expenses	2.2	5.1	(2.9)	-57%
	12.8	13.8	(1.0)	-7%
Total expenses	63.3	59.9	3.4	6%
Change in net position	3.3	(8.0)	11.3	-141%
Net position, beginning of year	166.2	174.2	(8.0)	-5%
Net position, end of year	$ 169.5	$ 166.2	$ 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 $14.7 million to $66.6 million during the year ended December 31, 2015, from $51.9 million during the year ended December 31, 2014. 2015 was a water recovery year, or dry year. In 2015, the allocation from the State Water Project (SWP) increased to 20%, from 5% in 2014. Due to the 20% water allocation, several of the Districts banking partners requested recovery from their stored water accounts. Furthermore, the 20% allocation resulted in the increase in groundwater banking revenues of $12.8 million from 2014. Water banking revenues includes the recovery fee charged per acre-foot of water recovered, the energy cost for returning the water requested, water treatment costs and the capital fee received from a new banking agreement entered into during the year. Another reason for the increase in total revenue was the increase in the change in FMV of interest rate swap of $5.5 million.

Total expenses increased $3.4 million to $63.3 million during the year ended December 31, 2015 from $59.9 million during the year ended December 31, 2014. This increase was primarily due to the increase in transmission and distribution expenses (increase of $4.5 million from 2014) 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.

As of December 31, 2015, the District had invested $354.9 million in capital assets as shown in Table C.

Table C
Capital Assets
December 31, 2015 and 2014
(in millions)

	2015	*2014*	*Dollar Change*	*Percentage Change*
Land	$ 54.1	$ 54.1	$ -	0%
Transmission and distribution	249.0	244.0	5.0	2%
Communication equipment	0.01	0.01	-	0%
Autos and trucks	1.5	1.5	-	0%
Office equipment	0.6	0.6	-	0%
Field and miscellaneous equipment	1.0	0.6	0.4	67%
Well drilling equipment	3.0	3.0	-	0%
Wells	5.0	5.0	-	0%
General plant and equipment	3.1	3.1	-	0%
Capacity rights	4.5	4.5	-	0%
Construction in progress	33.1	19.4	13.7	71%
Total capital assets	354.9	335.8	19.1	6%
Less accumulated depreciation	98.3	92.2	6.1	7%
Total net capital assets	$ 256.6	$ 243.6	$ 13.0	5%

As can be seen from the table above, total capital assets increased $19.1 million to $354.9 million at December 31, 2015, from $335.8 million at December 31, 2014. The increase is mainly due to the construction of new District projects, specifically the Pond Road electrical substation ($4.8 million), reverse flow improvement project ($5.6 million), raw water treatment expansion project ($2.9 million) and drilling and/or equipping several wells ($3.8 million).

Table D
Debt
December 31, 2015 and 2014
(in millions)

	2015	2014	Dollar Change	Percentage Change
Revenue bonds	$ 177.9	$ 161.0	$ 16.9	10%
Swap	17.3	17.7	(0.4)	-2%
State loans	8.9	10.2	(1.3)	-13%
Total debt	$ 204.1	$ 188.9	$ 15.2	8%

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 $15.2 million to $204.1 million during the year ended December 31, 2015 from $188.9 million during the year ended December 31, 2014. The increase is due to the issuance of the 2015 bonds, which were used for capital projects and a partial refunding of prior bonds.

The District received an A+/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.

The District received an A/Stable rating by Standard & Poor's for the 2015A revenue bonds issued for capital projects and a partial refunding of prior bonds.

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2014 against actual.

Table E
Budget vs. Actual Comparison
For the Year Ended December 31, 2015
(in millions)

	Actual	*Budget*	*Change*	*Percentage Change*
Operating revenues:				
Contract water	$ 3.0	$ 3.4	$ (0.4)	-12%
Noncontract water	1.2	1.0	0.2	20%
Groundwater banking	34.3	38.7	(4.4)	-11%
Electrical transfer & hookup	4.1	3.5	0.6	17%
Other charges	3.8	10.0	(6.2)	-62%
	46.4	56.6	(10.2)	-18%
Nonoperating income:				
Interest income	1.3	0.2	1.1	550%
GA & GP service charges	18.6	17.2	1.4	8%
Prior year income, net	(0.1)	0.9	(1.0)	-111%
Change in FMV of interest rate swap	0.4	-	0.4	100%
	20.2	18.3	1.9	10%
Total revenues	66.6	74.9	(8.3)	-11%
Operating expenses:				
Transmission & distribution	29.0	18.4	10.6	58%
Source of supply	11.3	15.4	(4.1)	-27%
General and administrative	4.0	10.6	(6.6)	-62%
Depreciation and amortization	6.2	6.1	0.1	2%
	50.5	50.5	-	0%
Nonoperating expenses:				
Interest expense	10.6	10.3	0.3	3%
Other expenses	2.2	-	2.2	100%
	12.8	10.3	2.5	24%
Total expenses	63.3	60.8	2.5	4%
Change in net position	$ 3.3	$ 14.1	$ (10.8)	-77%

Total revenue was below budgeted revenues for 2015 mainly due to the decreased amount of groundwater banking revenues and other charges. Groundwater banking revenues were lower than budget due to the decrease in the amount of water recovered by our banking partners during the year. Budgeted other charges included $5 million in miscellaneous water sales that the District did not have.

Total expenses came out above budgeted expenses by $2.5 million. This was mostly due to the amount for an ag lease of $1.6 million. For budget purposes, this amount was included in general and administrative.

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, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***2015***	***2014***
Current Assets		
Cash and cash equivalents	$ 18,508,711	$ 12,662,340
Receivables		
Accounts receivable, trade	19,229,126	11,374,079
Interest receivable	255,277	202,704
General administrative and general project service charges receivable	8,324,127	14,177,577
Current portion of notes receivable	848,340	798,147
Other prepaid expenses and deposits	561,530	507,545
Total current assets	47,727,111	39,722,392
Noncurrent Assets		
Restricted assets		
Cash	22,624,208	7,086,107
Investments	10,713,213	10,598,405
Total restricted assets	33,337,421	17,684,512
Capital assets, net of accumulated depreciation	256,579,765	243,601,818
Other noncurrent assets		
Notes receivable, less current portion	15,889,398	16,737,738
Banked water inventory	7,283,988	7,442,398
Investment in Semitropic-Rosamond Water Bank Authority	20,290,393	21,366,776
Investment in Kern Water Bank Authority	3,134,404	2,689,660
Total other noncurrent assets	46,598,183	48,236,572
Total noncurrent assets	336,515,369	309,522,902
Total Assets	384,242,480	349,245,294
Deferred Outflows of Resources		
Deferred outflow of interest rate swap	23,548	60,936
Deferred outflow of advance refunding of bonds	25,804,189	25,951,735
Total deferred outflows of resources	25,827,737	26,012,671
	$ 410,070,217	$ 375,257,965

See Notes to Combined Financial Statements.

LIABILITIES AND NET POSITION	*2015*	*2014*
Current Liabilities		
Current maturities of long-term debt	$ 7,039,637	$ 6,330,935
Trade accounts payable	7,520,916	3,884,849
Customer deposits	2,687,607	1,803,359
Accrued liabilities	1,239,746	1,099,373
Deferred revenue	9,441,428	991,428
Total current liabilities	27,929,334	14,109,944
Long-Term Liabilities		
Long-term debt, less current maturities	195,391,637	177,242,682
Obligations under interest rate swap	17,270,159	17,747,142
	212,661,796	194,989,824
Total Liabilities	240,591,130	209,099,768
Net Position		
Invested in capital assets, net of related debt	79,952,680	85,979,936
Restricted for:		
Debt service	33,282,549	17,635,596
Cafeteria plan	54,872	48,916
Unrestricted	56,188,986	62,493,749
	169,479,087	166,158,197
	$ 410,070,217	$ 375,257,965

Semitropic Water Storage District

Combined Statements of Revenues and Expenses
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenue:		
Contract water	$ 3,007,548	$ 1,948,488
Noncontract water	1,192,152	368,119
Groundwater banking	34,328,480	21,459,731
Electrical transfer and hookup charges	4,149,798	4,032,323
Other charges	3,750,116	7,614,883
	46,428,094	35,423,544
Operating expenses:		
Transmission and distribution	28,960,860	24,509,546
Source of supply	11,289,697	11,974,068
General and administrative	3,985,781	3,518,210
Depreciation and amortization expense	6,252,906	6,083,650
	50,489,244	46,085,474
Operating loss	(4,061,150)	(10,661,930)
Nonoperating income (expense):		
Interest income	1,335,496	1,328,653
General administrative service charges	246,268	249,914
General project service charges	18,341,949	18,028,000
Interest expense	(10,597,762)	(8,723,566)
Equity in loss from investments	(430,802)	(882,685)
Other expense, net	(1,842,366)	(4,332,149)
Prior year income, net	(120,547)	2,020,252
Gain on disposal of assets	10,208	13,699
Change in fair value of interest rate swap	439,596	(5,064,038)
	7,382,040	2,638,080
Change in net position	$ 3,320,890	$ (8,023,850)

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Changes in Net Position
For the Years Ended December 31, 2015 and 2014

Balance, December 31, 2013	$ 174,182,047
Change in net position	(8,023,850)
Balance, December 31, 2014	166,158,197
Change in net position	3,320,890
Balance, December 31, 2015	$ 169,479,087

See Notes to Combined Financial Statements.

Semitropic Water Storage District

Combined Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers	$ 70,386,049	$ 39,423,730
Payments to suppliers for goods and services	(36,831,001)	(36,292,813)
Payments to employees for services	(3,589,029)	(3,369,315)
Net cash provided by (used in) operating activities	29,966,019	(238,398)
Cash flows from capital and related financing activities:		
Payment for acquisition and construction of capital assets	(19,237,545)	(13,869,759)
Proceeds from sale of capital assets	16,900	25,165
Payments for interest on bonds and construction loans	(10,315,626)	(8,035,336)
Proceeds from issuance of long term debt	25,378,804	22,520,870
Payments on long-term debt	(6,591,179)	(7,729,357)
Net cash used in capital and related financing activities	(10,748,646)	(7,088,417)
Cash flows from investing activities:		
Net sales (purchases) of investments	(114,808)	514,382
Proceeds from receipts on note receivable	798,147	708,454
Distributions received from investment	200,837	190,194
Interest income	1,282,923	1,076,116
Net cash provided by investing activities	2,167,099	2,489,146
Net increase (decrease) in cash and cash equivalents	21,384,472	(4,837,669)
Cash and cash equivalents at beginning of the year	19,748,447	24,586,116
Cash and cash equivalents at the end of the year	$ 41,132,919	$ 19,748,447
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 18,508,711	$ 12,662,340
Restricted cash	22,624,208	7,086,107
	$ 41,132,919	$ 19,748,447

See Notes to Combined Financial Statements.

	2015	2014
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (4,061,150)	$ (10,661,930)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,252,906	6,083,650
General administrative and general project service charges	18,588,217	18,277,914
Prior year income, net	(120,547)	2,020,252
Other expense, net	(1,842,366)	(4,332,149)
Changes in operating assets and liabilities:		
Receivables and general administrative and general project service charges receivable	(2,001,597)	(11,810,476)
Other prepaid expenses and deposits	(53,985)	(397,090)
Banked water inventory	158,410	1,369,311
Accounts payable and accrued liabilities	4,596,131	(866,336)
Deferred revenue	8,450,000	78,456
Net cash provided by (used in) operating activities	$ 29,966,019	$ (238,398)
Noncash investing and financing activities:		
Change in fair value of interest rate swaps	$ 476,983	$ (5,008,725)
Equity in loss from investments	$ 430,802	$ 882,685
Amortization of deferred outflow of advanced refundings included in interest expense	$ 1,260,535	$ 1,292,726
Advanced refunding of 2009 bonds through 2015 bond issuance	$ 11,892,123	$ -

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 combined 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, some customers 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 groundwater banking program and earns revenue on a per acre-foot basis at the time water is stored and when water is returned to the respective Banking Partner. The District also receives revenue toward energy 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, 2015 and 2014, the District held 639,846 and 780,580 acre-feet (AF), respectively, of water in storage for future delivery to banking partners.

Lastly, the District receives revenue from general administrative and general project service charges for landowners receiving benefit from District services. These charges are established by the Board of Directors for the period January through December of each year and are levied to landowners within the District on their county property tax statements based on uniform rates per acre. For the years ended December 31, 2015 and 2014, $18,588,217 and $18,277,914, 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014.

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, 2015, 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, 2015 and 2014 are classified in the accompanying combined financial statements as follows:

	2015	*2014*
Current assets - cash and cash equivalents	$ 18,508,711	$ 12,662,340
Noncurrent assets - restricted cash	22,624,208	7,086,107
Noncurrent assets - restricted investments	10,713,213	10,598,405
	$ 51,846,132	$ 30,346,852

Cash and investments as of December 31, 2015 and 2014 consisted of the following:

	2015	*2014*
Cash deposits with financial institutions	$ 40,468,756	$ 18,083,792
Deposits with Kern County	567,888	806,841
Deposits with LAIF	96,275	857,814
Investments with financial institutions	10,713,213	10,598,405
	$ 51,846,132	$ 30,346,852

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	BBB	Unrated
Corporate & Municipal Bonds	$ 4,912,541	A	$ 2,284,950	$ 2,199,414	$ 74,375	$ 353,802

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

As of December 31, 2015, 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	$ 5,800,672	$ 2,298,557	$ 3,502,115	$ -
Corporate & Municipal Bonds	4,912,541	2,291,025	2,531,649	89,867
	$ 10,713,213	$ 4,589,582	$ 6,033,764	$ 89,867

As of December 31, 2014, 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	$ 4,354,759	$ 1,378,166	$ 2,976,593	$ -
Corporate & Municipal Bonds	6,143,961	3,251,244	2,892,717	-
U.S. Govt. Agency Securities	99,685	-	99,685	-
	$ 10,598,405	$ 4,629,410	$ 5,968,995	$ -

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, 2014 combined financial statements in order to conform to the December 31, 2015 presentation.

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	***2015 (acre-feet)***	***2014 (acre-feet)***
Purchased from Kern County Water Agency		
Entitlement		
Current year allocation (20% and 5%)	31,000	7,750
Add borrowing (carryover) to next year	(8,035)	(740)
Add borrowing (carryover) from prior year	-	-
Subtotal	22,965	7,010
Other	1,916	2,063
Total water received - Kern County Water Agency	24,881	9,073
Total water received from Banking Partners	1,000	-
Total water received from other water agencies	1,147	2,000
In-District Ground Water Extraction		
District wells pumped	89,749	82,221
Pumping agreement with landowners	74,161	57,860
	163,910	140,081
Out of District Ground Water		
Kern Water Bank	9,943	12,242
Pioneer Project	6,345	10,184
	16,288	22,426
Total Water Received	207,226	173,580

	2015 (acre-feet)	2014 (acre-feet)
Water Delivered		
Delivered In-District		
Contract	27,204	20,387
Noncontract	11,493	4,483
Supplemental Ag water	10,042	9,874
Other	972	2,784
Total Water Delivered - In-District	49,711	37,528
Returned to other water agencies	1,147	-
Returned to Landowners	3,126	1,837
Returned to Banking Partners	134,308	122,509
Returned to Banking Partners exchange	9,000	-
	146,434	124,346
Losses	9,934	11,706
Total Water Delivered	207,226	173,580

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:

	2015		2014	
	Amount Required	Amount on Deposit	Amount Required	Amount on Deposit
Bond and loan reserve fund	$ 33,282,549	$ 33,282,549	$ 17,635,596	$ 17,635,596
Cafeteria plan	54,872	54,872	48,916	48,916
	$ 33,337,421	$ 33,337,421	$ 17,684,512	$ 17,684,512

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 from this investment for the years ended December 31, 2015 and 2014 was $444,744 and $3,525, respectively. The earnings from this investment are included in equity in loss from investments on the combined statements of revenues 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 was to consist of a "First Priority Right" to the following interests in the District's Stored Water Recovery Unit (SWRU) banking project that will provide: (1) 33,333 AF/year of SWRU Delivery Capacity, (2) 300,000 AF of SWRU Storage Capacity, and (3) 100,000 AF/year of SWRU Recovery and Return Capacity, together with rights to certain unused capacities in the SWRU and other elements of the Semitropic Water Bank, and the following rights in the Antelope Valley Water Bank (AVWB): (1) 100,000 AF/year of AVWB Delivery Capacity, (2) 500,000 AF of AVWB Storage Capacity, and (3) 100,000 AF/year of AVWB Recovery and Return Capacity. As part of the agreement, the District recorded an investment in the amount of $20,000,000, which represents the District's equity ownership in SWRBA.

In 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.

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 loss from this investment for the years ended December 31, 2015 and 2014 was $(875,546) and $(886,210), respectively. The earnings from this investment are included in equity in loss from investments on the combined statements of revenue and expenses.

Note 5. Notes Receivable

Notes receivable consist of the following at December 31, 2015 and 2014:

	2015	2014
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	$ 12,096,331	$ 12,894,478
Note receivable, Homer, LLC, 5.5%, secured by letter of credit in favor of the District for 30% of outstanding balance, $2,000,000 due in 2013 with graduated principal and interest payments due annually beginning January 1, 2014, due January 2023	4,641,407	4,641,407
	16,737,738	17,535,885
Less current portion	(848,340)	(798,147)
	$ 15,889,398	$ 16,737,738

Note 6. Capital Assets

The following is a summary of changes in the District's capital assets for the years ended December 31, 2015 and 2014:

	Assets-At Cost				
	Balance 12/31/14	***Acquisitions***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/15***
Capital Assets not being depreciated:					
Land	$ 54,083,304	$ 2,575	$ -	$ -	$ 54,085,879
Construction in progress	19,439,789	18,543,094	-	(4,888,356)	33,094,527
Capital Assets being depreciated:					
Transmission and distribution	243,928,016	111,253	-	4,879,283	248,918,552
Communication equipment	14,749	-	-	-	14,749
Autos and trucks	1,528,029	72,226	(90,527)	-	1,509,728
Office equipment	615,543	50,662	(114,921)	-	551,284
Field and misc. equip.	599,685	441,749	-	-	1,041,434
Well drilling equipment	2,948,376	1,849	-	-	2,950,225
Wells	5,025,107	-	-	9,073	5,034,180
General plant and equipment	3,132,999	-	-	-	3,132,999
Capacity rights	4,489,405	14,137	-	-	4,503,542
	$ 335,805,002	$ 19,237,545	$ (205,448)	$ -	354,837,099

	Accumulated Depreciation				
	Balance 12/31/14	***Depreciation Expense***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/15***
Transmission and distribution	$ 86,384,952	$ 5,457,307	$ -	$ -	$ 91,842,259
Communication equipment	3,926	1,325	-	-	5,251
Autos and trucks	1,409,994	40,847	(89,901)	-	1,360,940
Office equipment	486,315	56,268	(108,855)	-	433,728
Field and misc. equip.	420,580	92,870	-	-	513,450
Well drilling equipment	1,440,701	124,930	-	-	1,565,631
Wells	323,852	204,138	-	-	527,990
General plant and equipment	1,148,676	80,012	-	-	1,228,688
Capacity rights	584,188	195,209	-	-	779,397
	$ 92,203,184	$ 6,252,906	$ (198,756)	$ -	$ 98,257,334

	Assets-At Cost				
	Balance 12/31/13	***Acquisitions***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/14***
Capital Assets not being depreciated:					
Land	$ 35,010,388	$ 9,309,026	$ -	$ 9,763,890	$ 54,083,304
Construction in progress	13,801,495	2,197,249	-	3,441,045	19,439,789
Capital Assets being depreciated:					
Transmission and distribution	258,435,589	712,130	-	(15,219,703)	243,928,016
Communication equipment	14,749	-	-	-	14,749
Autos and trucks	1,490,436	58,997	(21,404)	-	1,528,029
Office equipment	583,427	32,116	-	-	615,543
Field and misc. equip.	404,079	195,606	-	-	599,685
Well drilling equipment	2,944,436	24,990	(21,050)	-	2,948,376
Wells	1,670,694	1,339,645	-	2,014,768	5,025,107
General plant and equipment	3,132,999	-	-	-	3,132,999
Capacity rights	4,489,405	-	-	-	4,489,405
	$ 321,977,697	$ 13,869,759	$ (42,454)	$ -	$ 335,805,002

	Accumulated Depreciation				
	Balance 12/31/13	***Depreciation Expense***	***Retirements***	***Reclass/ Transfers***	***Balance 12/31/14***
Transmission and distribution	$ 80,986,610	$ 5,398,342	$ -	$ -	$ 86,384,952
Communication equipment	2,600	1,326	-	-	3,926
Autos and trucks	1,356,803	63,129	(9,938)	-	1,409,994
Office equipment	434,016	52,299	-	-	486,315
Field and misc. equip.	396,756	23,824	-	-	420,580
Well drilling equipment	1,315,059	146,692	(21,050)	-	1,440,701
Wells	202,606	121,246	-	-	323,852
General plant and equipment	1,067,093	81,583	-	-	1,148,676
Capacity rights	388,979	195,209	-	-	584,188
	$ 86,150,522	$ 6,083,650	$ (30,988)	$ -	$ 92,203,184

Note 7. Long-Term Debt

Long-term debt at December 31, 2015 and 2014 was as follows:

	2015	***2014***
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)	$ 327,697	$ 645,703
Contract payable, State of California, 2.8%, unsecured, payable $45,059 semiannually including interest, paid in full (proceeds were used for construction of the Interconnection Pipeline)	-	89,920
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)	1,959,590	2,179,278
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)	790,751	878,595
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)	2,714,865	2,963,781
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)	3,161,775	3,401,164

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) *	814,886	1,352,302
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)	35,325,000	46,545,000
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)	74,685,000	74,910,000
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)	8,605,000	9,400,000
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)	7,980,000	8,825,000

2014A Revenue Bonds, interest rates vary over life of bonds between 3% - 5%, collateralized by the District's general project service charges, principal payable annually, interest payable semi-annually, due December 1, 2024 (proceeds used to finance certain construction projects)	18,285,000	19,955,000
2015A 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, 2045 (proceeds used to fund a portion of the 2009 bonds and will be used to purchase land)	32,165,000	-
	186,814,564	171,145,743
2005 Interest Rate Swap, at cost (See Note 8)	2,883,400	3,216,100
Plus premiums, discount, and costs of issuance on bonds, net of accumulated amortization 2015, $1,940,029; 2014, $1,384,975	12,733,310	9,211,774
Less current maturities	(7,039,637)	(6,330,935)
Long term debt, less discount and current maturities	$ 195,391,637	$ 177,242,682

* 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. The District was in compliance with the above covenants at December 31, 2015.

The following is a summary of the long-term debt transactions for the years ended December 31, 2015 and 2014:

	Payable 12/31/14	*Additions*	*Deletions*	*Payable 12/31/15*	*Due within One Year*
Bond principal	$ 160,987,302	$ 32,425,000	$ (15,552,416)	$ 177,859,886	$ 5,896,552
Loans, State of California	10,158,441	-	(1,203,763)	8,954,678	1,143,085
	171,145,743	32,425,000	(16,756,179)	186,814,564	$ 7,039,637
Fair Value of interest rate swap	17,747,142	(476,983)	-	17,270,159	
	$ 188,892,885	$ 31,948,017	$ (16,756,179)	$ 204,084,723	

	Payable 12/31/13	*Additions*	*Deletions*	*Payable 12/31/14*	*Due within One Year*
Bond principal	$ 145,790,611	$ 19,955,000	$ (4,758,309)	$ 160,987,302	$ 5,127,416
Warrants	1,800,000	-	(1,800,000)	-	-
Loans, State of California	11,329,489	-	(1,171,048)	10,158,441	1,203,519
	158,920,100	19,955,000	(7,729,357)	171,145,743	$ 6,330,935
Fair Value of interest rate swap	12,738,417	5,008,725	-	17,747,142	
	$ 171,658,517	$ 24,963,725	$ (7,729,357)	$ 188,892,885	

The annual requirements to amortize all debt outstanding as of December 31, 2015 are as follows:

Years Ending December 31,	*Principal*	*Interest*	*Interest Rate Swaps, net*	*Total Debt Service*
2016	$ 7,039,637	$ 8,213,591	$ 2,102,807	$ 17,356,035
2017	6,909,331	7,971,112	2,040,180	16,920,623
2018	7,101,827	7,715,195	1,977,950	16,794,972
2019	7,538,269	7,466,002	1,920,743	16,925,014
2020	8,150,179	7,193,493	1,858,957	17,202,629
2021-2025	42,359,460	30,553,833	8,193,261	81,106,554
2026-2030	37,175,861	21,945,943	5,812,234	64,934,038
2031-2035	50,475,000	12,347,124	2,503,285	65,325,409
2036-2040	13,955,000	3,200,250	-	17,155,250
2041-2045	6,110,000	946,500	-	7,056,500
	$ 186,814,564	$ 107,553,043	$ 26,409,417	$ 320,777,024

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, 2015 are listed below:

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

	Fair Value	*Notional Amount*	*Change in Fair Value*	*Change in Fair Value*
Sun Trust Swap	$ (17,246,611)	$42,668,608	Nonoperating income (expense)	$ 439,596
Wells Fargo Swap	(23,548)	$ 813,890	Deferred outflow of interest rate swap	$ 37,387
	$ (17,270,159)			

The objectives and terms of the District's hedging derivatives instruments at December 31, 2014 are listed below:

	Fair Value	*Notional Amount*	*Change in Fair Value*	*Change in Fair Value*
Sun Trust Swap	$ (17,686,207)	$43,615,989	Nonoperating income (expense)	$ (5,064,038)
Wells Fargo Swap	(60,935)	$ 1,351,306	Deferred outflow of interest rate swap	$ 55,313
	$ (17,747,142)			

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

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, 2014, 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 AA- and A- 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, 2015, the interest rate on the District's hedged bond was 3.586%, while the rate being received was LIBOR, 0.43%.

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 is currently not hedging any outstanding variable interest debt. Based on the significance and extent of any basis risk exposure, the purpose of the swap to generate debt service savings is not being realized.

Termination Risk - Under certain terms of the respective contracts, either the District or 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 – At this time, the District will most likely not issue variable rate debt to coincide with the Sun Trust Swap.

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-$600,000
Property insurance	$ 100,000	$100,000-$150,000,000

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 Evanston Insurance Company, Great American Insurance Co. of New York, Great American Insurance Company, Allied Public Risk/ Allied World Assurance Co., XL Insurance America, Inc., Hartford Fire Insurance Co. and Endurance Risk Solutions Assurance 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 998,731 acre feet, through the State Water Project (SWP) through the year 2035.

The District's contract with the Agency provides for various separate charges, all of which are included in "source of supply" in operating expenses of the District's combined statements of revenues and expenses. The "fixed charge" component of the contract is not necessarily reduced by annual water supply deficiencies as the District is obligated to pay 100% of the annual fixed costs billed by the Agency. Under certain circumstances, fixed charges could be reduced by the DWR when the District receives less than its full entitlement in years of low water supply. Source of supply costs attributable to this contract were $9,660,084 and $6,983,691 for the years ended December 31, 2015 and 2014, 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 ended December 31, 2015, the DWR allocated 20% of entitlement to state water contractors, due to the lower snow pack and rain in the winter of 2014-2015. Due to the continued pumping restrictions, despite average snow and rain activity during the winter of 2015-16, the DWR has issued a 60% allocation for the 2016 water year as of the date of this report.

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, 2015 and 2014 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 contributes to the Semitropic Water Storage District 401(k) Plan, a defined contribution pension plan. The District administers the Plan, which covers all eligible employees, and can amend the Plan or its contributions at any time. The Plan consists of investments in mutual funds with John Hancock, 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, 2015 and 2014 were as follows:

	2015	***2014***
Total payroll	$ 3,451,245	$ 3,276,702
Base salary for computing contributions	$ 3,055,222	$ 2,770,463
District contributions	$ 290,386	$ 277,004
Employee contributions	$ 180,945	$ 151,046

Note 12. Subsequent Events

Effective February 10, 2016, the District, after certifying the results of a Proposition 218 majority protest proceeding, established a SWP water charge and additional water use charge for Contract water users. The SWP water charge will be set each year based on a percentage of the fixed portion of costs to the District to import supplies through the District's contract with the KCWA. The Additional Water Use charge will be charged based on the acre-feet delivered to each Contract water user. The SWP water charge will provide the District a constant amount of Contract water revenue, regardless of the allocation from DWR.

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

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

Board of Directors
Semitropic Water Storage District
Wasco, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Semitropic Water Storage District as of and for the years ended December 31, 2015 and 2014, 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 June 8, 2016.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a material weakness.

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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*.

Semitropic Water Storage District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we express no opinion on it.

Purpose of Report

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

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 8, 2016

Semitropic Water Storage District

Schedule of Findings
Year Ended December 31, 2015

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Semitropic Water Storage District.
2. No instances of noncompliance material to the financial statements of Semitropic Water Storage District were disclosed during the audit.

Findings Financial Statement Audit

Material Weaknesses

<u>Finding 1</u>

The District did not prepare accurate bank reconciliations for two reserve accounts for the month of December 31, 2015.

<u>Observation</u>

We noted as part of the audit that there was a bank account that was not properly reconciled with the general ledger and another bank account that was not being reconciled or included on the general ledger of the District.

<u>Recommendation</u>

We recommend that this process be performed monthly for all reserve accounts. The process should include reconciling transactions that occur on the bank statement with the general ledger and following up on any unknown transactions.

<u>Response</u>

The accounts were not reconciled for December 31, 2015 due to the transitioning of District staff. The transition has been completed and all accounts are being reconciled and reviewed according to District policy.

Semitropic Water Storage District

Combined Schedules of Operating Expenses
For the Years Ended December 31, 2015 and 2014

	2015	***2014***	***Increase (Decrease)***
Transmission and distribution:			
Power	$ 19,319,639	$ 16,026,329	$ 3,293,310
Repairs and maintenance	3,933,841	2,507,634	1,426,207
Kern Water Bank and Pioneer Expenses	2,798,297	2,924,916	(126,619)
Salaries and wages	1,595,234	1,566,375	28,859
Employee benefits	874,375	828,051	46,324
Fuel and oil	185,584	345,558	(159,974)
Payroll taxes	159,083	154,335	4,748
Operating supplies	44,808	49,189	(4,381)
Equipment rent	22,624	76,418	(53,794)
Utilities	18,770	18,464	306
Licenses and fees	4,786	9,784	(4,998)
Miscellaneous	2,296	1,968	328
Equipment maintenance	1,523	525	998
	$ 28,960,860	$ 24,509,546	$ 4,451,314
Source of supply:			
State Water Project table 1 entitlement	$ 9,660,084	$ 6,983,691	$ 2,676,393
Other	1,629,613	4,990,377	(3,360,764)
	$ 11,289,697	$ 11,974,068	$ (684,371)

	2015	2014	Increase (Decrease)
General and administrative:			
Salaries and wages	$ 1,497,324	$ 1,405,634	$ 91,690
Consulting	828,547	821,905	6,642
Employee benefits	525,506	463,153	62,353
Repairs and maintenance	289,537	248,752	40,785
Dues	284,838	304,251	(19,413)
Legal	261,458	237,074	24,384
Public relations	165,000	155,310	9,690
Insurance	145,388	157,445	(12,057)
Payroll taxes	103,838	99,487	4,351
Office	87,511	48,305	39,206
Engineering	58,870	151,063	(92,193)
Accounting and auditing	40,625	39,160	1,465
Utilities	38,223	45,676	(7,453)
Travel	34,991	22,563	12,428
Building services	16,636	16,130	506
Equipment rent	14,536	16,804	(2,268)
Financing and administration	14,535	24,622	(10,087)
Bank fees	11,050	12,033	(983)
Directors' fees and expense	10,651	11,068	(417)
Marketing	3,741	4,395	(654)
Property taxes	2,118	5,009	(2,891)
Damage claim cost	-	5,446	(5,446)
Allocation of G&A costs to capital assets	(449,142)	(777,075)	327,933
	$ 3,985,781	$ 3,518,210	$ 467,571
Depreciation and amortization expense	$ 6,252,906	$ 6,083,650	$ 169,256