

Semitropic Water Storage District

Combined Financial Statements

December 31, 2002 and 2001

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Independent Auditors' Report

Board of Directors
Semitropic Water Storage District
Wasco, California

We have audited the combined balance sheets of Semitropic Water Storage District as of December 31, 2002 and 2001, and the related combined statements of revenue and expenses, changes in retained earnings, 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 audit 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, 2002 and 2001, 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 April 8, 2003 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.

BARRICK LONGCREW HOOPER & KING

Bakersfield, California
April 8, 2003

Semitropic Water Storage District

*Combined Balance Sheets
December 31, 2002 and 2001*

<i>ASSETS</i>	<u>2002</u>	<u>2001</u>
<i>Current Assets</i>		
Cash and equivalents	\$ 5,041,406	\$ 7,609,980
Current portion of note receivable	1,514	1,371
Accrued interest receivable	43,380	102,603
General administrative and general project service charges receivable, less allowance for delinquency provision, 2002, \$184,512; 2001, \$194,512	3,515,554	3,695,870
Banking water receivable	-0-	2,374,505
Other prepaid expenses and deposits	<u>659,404</u>	<u>80,202</u>
	<u>9,261,258</u>	<u>13,864,531</u>
<i>Property, Plant and Equipment, at cost</i>		
Less accumulated depreciation	149,532,010	141,602,743
	<u>32,092,771</u>	<u>28,561,794</u>
	<u>117,439,239</u>	<u>113,040,949</u>
<i>Noncurrent Assets</i>		
Note receivable, long-term portion	136,688	138,174
Water rights, Poso Creek	1,980	1,980
Banked water inventory	3,371,116	3,371,116
Investment in Kern Water Bank Authority	<u>2,088,126</u>	<u>2,044,155</u>
	<u>5,597,910</u>	<u>5,555,425</u>
<i>Restricted Assets</i>		
	<u>1,676,054</u>	<u>2,845,442</u>
	<u>\$ 133,974,461</u>	<u>\$ 135,306,347</u>

See Notes to Combined Financial Statements.

Semitropic Water Storage District

*Combined Statements of Revenue and Expenses
Years Ended December 31, 2002 and 2001*

	<u>2002</u>	<u>2001</u>
<i>Operating revenue:</i>		
Contract water	\$ 4,002,429	\$ 2,176,161
Noncontract water	2,749,807	669,993
Ground water banking	7,729,999	12,766,731
Electrical hookup charges	335,629	430,355
Other charges	<u>277,040</u>	<u>2,763,837</u>
	<u>15,094,904</u>	<u>18,807,077</u>
<i>Operating expenses:</i>		
Source of supply	5,585,661	5,915,426
Transmission and distribution	5,277,938	4,715,265
Customer accounts	75,484	71,531
General and administrative	1,263,970	1,160,756
General plant maintenance	40,658	33,862
Other operating expenses	<u>3,570,972</u>	<u>3,298,326</u>
	<u>15,814,683</u>	<u>15,195,166</u>
Operating income (loss)	<u>(719,779)</u>	<u>3,611,911</u>
<i>Nonoperating revenue (expense):</i>		
Interest income	549,921	793,642
General administrative and general project service charges	2,378,898	2,215,653
Interest expense	(1,754,075)	(1,968,527)
Prior year adjustments	996,168	251,991
Other income	<u>66,356</u>	<u>299,890</u>
	<u>2,237,268</u>	<u>1,592,649</u>
Net income	<u>\$ 1,517,489</u>	<u>\$ 5,204,560</u>

See Notes to Combined Financial Statements.

Semitropic Water Storage District

*Combined Statements of Changes in Retained Earnings
Years Ended December 31, 2002 and 2001*

	<i><u>Unappropriated Retained Earnings</u></i>
<i>Balance, December 31, 2000</i>	\$ 92,971,268
Net income	<u>5,204,560</u>
<i>Balance, December 31, 2001</i>	98,175,828
Net income	<u>1,517,489</u>
<i>Balance, December 31, 2002</i>	<u><u>\$ 99,693,317</u></u>

See Notes to Combined Financial Statements.

Semitropic Water Storage District

*Combined Statements of Cash Flows
Years Ended December 31, 2002 and 2001*

	2002	2001
<i>Cash flows from operating activities:</i>		
Operating income (loss)	\$ (719,779)	\$ 3,611,911
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</i>		
Depreciation and amortization	3,553,177	3,259,850
General administrative and general project service charges	2,378,898	2,215,653
Prior year adjustments	996,168	251,991
Other income	66,356	299,890
Gain on sale of assets	-0-	42,208
(Increase) decrease in net general administrative and general project service charges receivable	2,554,821	(2,558,659)
Decrease in power reimbursement receivable	-0-	3,302,686
Increase in prepaid assets	(579,202)	(80,202)
Decrease in banked water inventory	-0-	1,009,145
Increase (decrease) in accounts payable and accrued liabilities	511,097	(4,447,581)
Increase (decrease) in refunds due on general project service charges	(88,566)	79,216
Decrease in advances on contract water	(48,107)	(233,210)
Decrease in other liabilities	(3,551)	(3,252)
Net cash provided by operating activities	8,621,312	6,749,646
<i>Cash flows from investing activities:</i>		
Payments for purchase of property and equipment	(7,035,279)	(8,610,864)
Payments received on note receivable	1,343	455
Interest income	609,144	979,715
Equity in (income) loss from investment in Kern Water Bank Authority	(43,971)	1,728
Net cash used in investing activities	(6,468,763)	(7,628,966)

See Notes to Combined Financial Statements.

	<u>2002</u>	<u>2001</u>
<i>Cash flows from noncapital financing activities:</i>		
Payments on long-term debt	\$ (16,540)	\$ (15,752)
Cash paid for interest on loans	<u>(16,540)</u>	<u>(15,752)</u>
Net cash used in noncapital financing activities	<u>(33,080)</u>	<u>(31,504)</u>
<i>Cash flows from capital and related financing activities:</i>		
Payments on long-term debt	(4,100,726)	(3,907,274)
Cash paid for interest on bonds and construction loans	<u>(1,756,705)</u>	<u>(1,955,168)</u>
Net cash used in capital financing activities	<u>(5,857,431)</u>	<u>(5,862,442)</u>
<i>Net decrease in cash and cash equivalents</i>	(3,737,962)	(6,773,266)
<i>Cash and cash equivalents at beginning of the year</i>	<u>10,455,422</u>	<u>17,228,688</u>
<i>Cash and cash equivalents at the end of the year</i>	<u>\$ 6,717,460</u>	<u>\$ 10,455,422</u>
<i>Reconciliation of cash and cash equivalents:</i>		
Unrestricted cash	\$ 5,041,406	\$ 7,609,980
Restricted cash	<u>1,676,054</u>	<u>2,845,442</u>
	<u>\$ 6,717,460</u>	<u>\$ 10,455,422</u>
<i>Noncash investing activities:</i>		
Long-term debt incurred to purchase land	<u>\$ 893,988</u>	<u>\$ -0-</u>
Note receivable issued for building sold	<u>\$ -0-</u>	<u>\$ 140,000</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 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 was formed on August 27, 1958. The District was organized under the provision of Division 14 of the California Water Code. Geographically, the District includes a land area of approximately 224,200 acres or 350 square miles in the northwestern portion of Kern County. At its meeting September 14, 1965 the Board adopted resolutions establishing two improvement districts within the Semitropic Water Storage District. The Buttonwillow Improvement District consists of approximately 80,000 acres and Pond-Poso Improvement District consists of approximately 82,000 acres. A majority of the land now under irrigation in the Semitropic Water Storage District is included in these two improvement districts. The two districts' activities are principally the importation and delivery of surface irrigation water to contract landowners within each respective district's boundaries for the purpose of halting the ground water overdraft and other problems listed in the Engineering Report In Support For Federal Loan Under Public Law 984 For Construction Of An Irrigation Distribution System.

On August 14, 1991, by Board resolution, the Semitropic Improvement District was formed for the purpose of pursuing certain improvements to the existing projects of Buttonwillow and Pond-Poso Improvement Districts, including water banking programs, energy development, water conservation and consolidation of administration activities to reduce costs. The boundaries are coterminous with the Buttonwillow and Pond-Poso Improvement Districts. Consolidation of administration and operations activities commenced in 1993, whereby the District acts as a designated agent for Buttonwillow and Pond-Poso Improvement Districts.

Notes to Combined Financial Statements

Although Buttonwillow Improvement District, Pond-Poso Improvement District and Semitropic 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.

In 2002, water supply activity included:

	<u><i>Acre-Feet</i></u>
2002 Contract entitlement water 70%	108,500
2001 Entitlement delivered in 2002	1,163
2002 Entitlement	(7,679)
2002 Turnback pool water	3,270
2002 Entitlement carried over into 2003	(3,356)
2002 Article 21 water	3,851
Banking water for storage used in-District	43,681
KCWA member unit entitlement transfer used in-district	17,290
Ground water extracted from Kern Fan Projects	9,674
Other sources	<u>6,474</u>
Subtotal - Available surface water	182,868
Ground water extracted from District/farmer wells	2,174
Ground water wheeled within District for farmers	15,152
2002 delivered into SWID via interconnection	<u>(2,136)</u>
Subtotal -Water available from all sources	198,058
2002 entitlement	1,264
2002 Article 21 water	<u>6,919</u>
Total water utilized in District	<u><u>206,241</u></u>

In 2001, water supply activity included:

2001 Contract entitlement water	2,626
2001 Interruptible entitlement water	1,961
2001 Turnback pool water	1,065
Banking Water	5,000
Other sources	<u>97,952</u>
Total water utilized by the District	<u><u>108,604</u></u>

Notes to Combined Financial Statements

Significant accounting policies are as follows:

Fund accounting:

Enterprise Funds are used to 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.

Revenue recognition:

Income is derived primarily from the sale of water and the levy of general administrative and general project service charges. Water revenue is recognized on the accrual basis as water is delivered.

General administrative and general project service charges are established and levied by the Board of Directors for the period January through December of each year. These service charges are reported as income to the District for the same January through December period. The general service charges are billed to the landowners on their county property tax statements.

Water banking:

The District has entered into several "water banking" relationships with other districts whereby the District banks water for other districts during times of surplus and returns water when requested. The District is paid an annual fee and earns revenue on a per acre-foot basis at the time water is stored and when water is returned to the respective districts.

Notes to Combined Financial Statements

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 annually by the Board of Directors.

Depreciation:

Depreciation of property, plant and equipment is computed principally on the straight-line method over the following estimated useful lives:

	<u><i>Years</i></u>
Source of supply	15-100
Transmission and distribution	15-100
General plant and equipment	3- 60

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.

Pension plan:

The Semitropic Water Storage District has a money purchase pension plan covering all eligible employees. The Plan consists of investments in mutual funds with Van Kampen American Capital Trust Company and optional life insurance purchased from Aetna Life Insurance and Annuity Company. Contributions to the Plan are accrued and funded annually based on a percentage of qualified wages.

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, 2002 and 2001, cash and cash equivalents include cash on hand and amounts deposited with banks, the County of Kern and the State Treasurer's office.

Notes to Combined Financial Statements

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.

Categories of deposit risk:

In accordance with the Governmental Accounting Standard Board Statement No. 3, the District's deposits are categorized to give an indication of the level of risk assumed by the District at December 31, 2002. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Notes to Combined Financial Statements

Category 3 - Uncollateralized (including \$2,612,431 bank balance that is collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the entity's name).

	<i>Category</i>			<i>Carrying Value</i>	<i>Market Value</i>
	<i>1</i>	<i>2</i>	<i>3</i>		
Cash and cash equivalents	<u>\$ 330,360</u>	<u>\$ -0-</u>	<u>\$ 1,762,066</u>	\$ 2,092,426	\$ 2,092,426
Investments in the State Treasurer's investment pool				715,034	715,034
Investments in the County of Kern Local Agency Investment Fund				<u>3,910,000</u>	<u>3,910,000</u>
Total cash and investments				<u>\$ 6,717,460</u>	<u>\$ 6,717,460</u>

As of December 31, 2002, the carrying amount of the investments was the same as the cost. At year end, the carrying amount of financial institution deposits was \$2,092,426 and the bank balance was \$2,612,431.

Notes to Combined Financial Statements

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. The District has a 6.67% interest in Kern Water Bank Authority. The District's equity in the earnings (losses) from this investment for the years ended December 31, 2002 and 2001 was \$43,971 and \$(1,728), respectively.

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.

Notes to Combined Financial Statements

Note 2. Restricted Assets

Reserve funds:

The District maintains several reserve funds under provisions of loan contracts and bond issuances. Funds are also restricted under a Board of Directors' resolution for major repairs and expenses. The amounts required for each fund are as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Amount Required</u>	<u>Amount on Deposit</u>	<u>Amount Required</u>	<u>Amount on Deposit</u>
Bond/loan reserve fund	\$ 2,219,444	\$ 2,338,105	\$ 2,161,738	\$ 2,239,920
Contingency reserve fund	-0-	1,089,620	-0-	1,057,940
General operating reserve fund	-0-	748,104	-0-	715,864
Pipe replacement reserve fund	-0-	109,588	-0-	65,000
Retirement trust fund	-0-	12,651	-0-	11,264
Banked water fund	-0-	(2,622,013)	-0-	(1,244,546)
	<u>\$ 2,219,444</u>	<u>\$ 1,676,055</u>	<u>\$ 2,161,738</u>	<u>\$ 2,845,442</u>

Notes to Combined Financial Statements

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 or until certain loan requirements are satisfied.

Contingency reserve fund:

The contingency reserve funds are established by the Board of Directors and are provided to build up funds in normal water years to be used in dry years. The funds may only be used upon 2/3 vote of the members of the Board of Directors under the following circumstances: 1) if the water to be received from the Kern County Water Agency is less than the water service contracts which the District has with the landowners; 2) to resolve cash flow problems on a temporary basis, in which case the funds must be replenished within one year; or 3) for extraordinary and unanticipated expenses.

General operating reserve fund:

In October 1988, the Board of Directors authorized the General Operating Reserve Account. This reserve is designated as a contingency, emergency, retirement, or sinking fund for the purpose of complying with Article XIII B, Section 5, of the California Constitution. The amount of this reserve is reviewed and adjusted annually by the Board of Directors. The Board authorized the use of general operating reserve funds for the years ended December 31, 2002 and 2001.

Pipe replacement reserve fund:

The pipe replacement reserve fund provided funds for the replacement or repair of pipeline in the Buttonwillow Improvement District. Replacement of the pipeline has been completed, and the funds are refunded to landowners as funds become available.

Retirement trust fund:

Semitropic Water Storage District funds a separate cash account for the money purchase pension plan. Contributions for investment in mutual funds and premiums for life insurance are paid from this account.

Notes to Combined Financial Statements

Bank water fund:

Semitropic Water Storage District has designed a long-term water storage project to recharge ground water and reduce overdraft, increase operational reliability and flexibility and optimize the distribution and use of available water resources with other water districts. Under the provisions of the contracts entered into with the other water districts, the District receives funds as water is stored for future extraction and return. These funds are to be used to construct Semitropic Banking Program Facilities consisting of conveyance and distribution facilities, ground water extraction facilities, and reverse-flow facilities as identified in Chapter 4 of the Environmental Impact Report of the Semitropic Ground Water Banking Project.

Note 3. Note Receivable

Note receivable at December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Note receivable, Desmond Wilson, 10%, secured by building, \$1,272 payable monthly including interest, remaining principal balance due August 2006	\$ 138,202	\$ 139,545
Less current maturities	<u>1,514</u>	<u>1,371</u>
Note receivable, less current maturities	<u>\$ 136,688</u>	<u>\$ 138,174</u>

Notes to Combined Financial Statements

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, 2002 and 2001:

	<i>Assets - At Cost</i>				<i>Balance 12/31/02</i>
	<i>Balance 12/31/01</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	
Land	\$ 3,217,549	\$ 898,064	\$ -0-	\$ 585,738	\$ 4,701,351
Source of supply	13,121,062	-0-	-0-	-0-	13,121,062
Transmission and distribution	111,953,788	-0-	-0-	8,989,382	120,943,170
General plant and equipment	3,457,923	7,822	-0-	4,353	3,470,098
Construction in progress	<u>9,852,421</u>	<u>7,023,381</u>	<u>-0-</u>	<u>(9,579,473)</u>	<u>7,296,329</u>
	<u>\$ 141,602,743</u>	<u>\$ 7,929,267</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 149,532,010</u>

	<i>Accumulated Depreciation</i>				<i>Balance 12/31/02</i>
	<i>Balance 12/31/01</i>	<i>Depreciation For Year</i>	<i>Retirements</i>	<i>Transfers</i>	
Source of supply	\$ 3,316,713	\$ 335,965	\$ -0-	\$ -0-	\$ 3,652,678
Transmission and distribution	23,542,032	3,059,079	-0-	-0-	26,601,111
General plant and equipment	<u>1,703,049</u>	<u>135,933</u>	<u>-0-</u>	<u>-0-</u>	<u>1,838,982</u>
	<u>\$ 28,561,794</u>	<u>\$ 3,530,977</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 32,092,771</u>

Assets - At Cost

	<u><i>Balance</i></u> <u><i>12/31/00</i></u>	<u><i>Acquisitions</i></u>	<u><i>Retirements</i></u>	<u><i>Transfers</i></u>	<u><i>Balance</i></u> <u><i>12/31/01</i></u>
Land	\$ 3,239,083	\$ -0-	\$ 21,534	\$ -0-	\$ 3,217,549
Source of supply	13,121,062	-0-	-0-	-0-	13,121,062
Transmission and distribution	107,256,008	-0-	-0-	4,697,780	111,953,788
General plant and equipment	3,628,928	11,804	383,667	200,858	3,457,923
Construction in progress	<u>6,151,999</u>	<u>8,599,060</u>	<u>-0-</u>	<u>(4,898,638)</u>	<u>9,852,421</u>
	<u>\$ 133,397,080</u>	<u>\$ 8,610,864</u>	<u>\$ 405,201</u>	<u>\$ -0-</u>	<u>\$ 141,602,743</u>

Accumulated Depreciation

	<u><i>Balance</i></u> <u><i>12/31/00</i></u>	<u><i>Depreciation</i></u> <u><i>For Year</i></u>	<u><i>Retirements</i></u>	<u><i>Transfers</i></u>	<u><i>Balance</i></u> <u><i>12/31/01</i></u>
Source of supply	\$ 2,980,748	\$ 335,965	\$ -0-	\$ -0-	\$ 3,316,713
Transmission and distribution	20,772,080	2,770,068	-0-	(116)	23,542,032
General plant and equipment	<u>1,794,309</u>	<u>131,617</u>	<u>222,993</u>	<u>116</u>	<u>1,703,049</u>
	<u>\$ 25,547,137</u>	<u>\$ 3,237,650</u>	<u>\$ 222,993</u>	<u>\$ -0-</u>	<u>\$ 28,561,794</u>

Notes to Combined Financial Statements

Note 5. Long-Term Debt

Long-term debt at December 31, 2002 and 2001 was as follows:

	2002	2001
Contract payable, State of California, 4.374%, unsecured, payable \$74,362 semiannually including interest, due January 1, 2014 (proceeds were used for construction of a water distribution system)	\$ 1,323,029	\$ 1,418,500
Contract payable, State of California, 4.374%, unsecured, payable \$23,310 semiannually including interest, due July 1, 2014 (proceeds were used for construction of a water distribution system)	429,830	459,218
Contract payable, State of California, 4.374%, unsecured, payable \$10,077 semiannually including interest, due November 1, 2015 (proceeds were used for construction of a water distribution system)	204,698	216,732
Contract payable, State of California, 4.0129%, unsecured, payable \$86,039 semiannually including interest, due April 1, 2015 (proceeds were used for lining canals)	1,678,528	1,780,155
Contract payable, State of California, 3.4375%, unsecured, payable \$33,734 semiannually including interest, due October 1, 2011 (proceeds were used for lining canals)	518,787	566,828

Notes to Combined Financial Statements

	<u>2002</u>	<u>2001</u>
Contract payable, State of California, 3.0286%, unsecured, payable \$167,572 semiannually including interest, due October 1, 2016 (proceeds were used for construction of the Water Conservation Element)	\$ 3,801,145	\$ 4,016,224
Contract payable, State of California, 2.8%, unsecured, payable \$45,059 semi-annually including interest, due October 1, 2015 (proceeds were used for construction of the Interconnection Pipeline)	978,288	1,039,975
Contract payable, Kern County Water Agency, 5%, unsecured, payable \$34,385 annually including interest, due January 1, 2017 (proceeds were used to purchase water during drought conditions)	340,364	356,904
1998 Bonds, 3.75% - 4.9%, collateralized by general project service charges, payable annually in increasing installments, interest payable semiannually, due June 1, 2012 (proceeds were used to retire 1992 bonds)	8,792,050	9,455,615
1998 Certificates of participation, 3.75% - 4.75%, collateralized by general project service charges, principal payable annually in variable installments, interest payable semiannually, due July 1, 2010 (proceeds were used to pay off notes payable, Wells Fargo Bank)	2,305,000	2,670,000

Notes to Combined Financial Statements

	2002	2001
<p>Note payable, Wells Fargo Bank, interest at variable rate based upon prime rate plus .19% (4.44% and 4.94% at December 31, 2002 and 2001, respectively), collateralized by future ground water banking revenue, payable annually in increasing installments, interest payable semi-annually, due December 5, 2003 proceeds were (used to pay off note payable, Union Bank of California)</p>	\$ 930,004	\$ 3,428,390
<p>Note payable, Wells Fargo Bank, interest at variable rate based upon prime rate plus .19% (4.44% and 4.94% at December 31, 2002 and 2001, respectively), collateralized by future ground water banking revenue, payable annually in increasing installments, interest payable semi-annually, due December 5, 2006(proceeds were used to finance certain improvements to the District's water banking facilities)</p>	10,000,000	10,000,000
<p>Note payable, Amos S. Cole, Jr., interest at 7%, secured by deed of trust, principal and interest of \$6,931 payable monthly, due June 28, 2022</p>	<u>883,540</u> 32,185,263	<u>-0-</u> 35,408,541
<p>Less discount on bonds, net of accumulated amortization 2002, \$22,200; 2001, \$22,200</p>	341,754	363,954
<p>Less current maturities</p>	<u>4,233,293</u>	<u>4,106,434</u>
<p>Long-term debt, less discount and current maturities</p>	<u>\$ 27,610,216</u>	<u>\$ 30,938,153</u>

Notes to Combined Financial Statements

The following is a summary of the long-term debt transactions for the years ended December 31, 2002 and 2001:

	<u>Payable</u> <u>12/31/01</u>	<i>Debt</i> <u>Incurred</u> <u>(Retired)</u>	<u>Payable</u> <u>12/31/02</u>
Bond principal	\$ 10,309,480	\$ (745,535)	\$ 9,563,945
Certificates of participation	2,670,000	(365,000)	2,305,000
Deferred loss on early retirement of bonds	(853,865)	81,970	(771,895)
Loans, State of California	9,497,632	(563,327)	8,934,305
KCWA loans	356,904	(16,540)	340,364
Loans, Wells Fargo Bank	13,428,390	(2,498,386)	10,930,004
Loan, Amos S. Cole, Jr.	<u>-0-</u>	<u>883,540</u>	<u>883,540</u>
	<u>\$ 35,408,541</u>	<u>\$ (3,223,278)</u>	<u>\$ 32,185,263</u>
		<i>Debt</i>	
	<u>Payable</u> <u>12/31/00</u>	<u>Incurred</u> <u>(Retired)</u>	<u>Payable</u> <u>12/31/01</u>
Bond principal	\$ 11,025,000	\$ (715,520)	\$ 10,309,480
Certificates of participation	3,025,000	(355,000)	2,670,000
Deferred loss on early retirement of bonds	(935,835)	81,970	(853,865)
Loans, State of California	10,042,989	(545,357)	9,497,632
KCWA loans	372,657	(15,753)	356,904
Loan, Wells Fargo Bank	<u>15,801,756</u>	<u>(2,373,366)</u>	<u>13,428,390</u>
	<u>\$ 39,331,567</u>	<u>\$ (3,923,026)</u>	<u>\$ 35,408,541</u>

Notes to Combined Financial Statements

The annual requirements to amortize all debt outstanding as of December 31, 2002 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2003	\$ 4,255,316	\$ 1,388,829	\$ 5,644,145
2004	4,515,295	1,192,439	5,707,734
2005	4,732,768	986,937	5,719,705
2006	4,614,550	770,722	5,385,272
2007	1,799,894	583,213	2,383,107
Thereafter	<u>12,267,440</u>	<u>2,075,104</u>	<u>14,342,544</u>
	<u>\$ 32,185,263</u>	<u>\$ 6,997,244</u>	<u>\$ 39,182,507</u>

Prime rate at December 31, 2002 and 2001 was 4.25% and 4.75%, respectively.

Note 6. Refunds Due on General Project Service Charges

Refunds due on general project service charges represent unpaid amounts for refund adjustments on the 1998-99 and 1997-98 general project service charges which were not adjusted on the tax rolls and unpaid amounts for prior adjustments on 1990-91 and 1984-85 general project service charges. Refunds due at December 31, 2002 and 2001 were \$478,375 and \$566,941, respectively.

Also included in these totals are refunds for water costs not incurred relative to undelivered water for the years 1980-81. These refunds will be distributed in the future as delinquencies are cleared on unpaid general project service charge accounts.

Notes to Combined Financial Statements

Note 7. Commitments and Contingencies

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</u>	
	<u>Self-Insurance</u>	<u>Excess Insurance</u>
General liability / automobile liability	\$10,000 - \$500,000	\$500,000 - \$49,500,000
Property insurance	\$1,000 - \$10,000	\$50,000 - \$100,000,000

Semitropic Water Storage 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 Districts.

Water conditions:

For the upcoming 2003 water year, the District anticipates a better than average year. The District anticipates increased water deliveries, including a 90% allocation from the Department of Water Resources.

Notes to Combined Financial Statements

Contract water:

Semitropic Improvement District has been appointed as agent to administer contracts on behalf of Buttonwillow Improvement District, Pond-Poso Improvement District, and Semitropic Water Storage District. The contracts entered into with the Kern County Water Agency totaled 183,100 acre-feet. In 2002, the District anticipates receiving approximately 60% of its contract Table 1 entitlement water (155,000 acre-feet). Upon adoption of the Monterey Agreement in 1997, the District's entitlement water was reduced from 158,000 acre-feet (reduction of 3,000 acre-feet in recognition of the District's participation in the Kern Water Bank Authority).

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, 2002 and 2001 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.

Notes to Combined Financial Statements

Note 8. Retirement Plan

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 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, 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Total payroll	<u>\$ 1,718,682</u>	<u>\$ 1,657,602</u>
Base salary for computing contributions	<u>\$ 1,590,000</u>	<u>\$ 1,523,210</u>
District contributions	<u>\$ 159,000</u>	<u>\$ 152,321</u>
Employee contributions	<u>\$ 63,232</u>	<u>\$ 60,928</u>

Note 9. Power Reimbursements

Due to rate calculation methodology changes implemented in 1996 by AB 1890, PG&E charged the District for power at a rate in excess of the frozen power rates during the summer of 2001. In late 2001, PG&E, in conjunction with its wholesale power provider New Energy, revised the rate calculation resulting in credits due to the District of \$3,302,686 at December 31, 2001. The credits offset the District's power costs by \$3,302,686 for the year ended December 31, 2001.



Independent Auditors' Report
on the Supplementary Information

Board of Directors
Semitropic Water Storage District
Wasco, California

The accompanying information shown on pages 25 - 26 is presented only for purposes of additional analysis and is not a required part of the basic combined financial statements.

Our December 31, 2002 and 2001 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 Longcier Hooper & King

Bakersfield, California
April 8, 2003

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Semitropic Water Storage District

*Combined Schedules of Operating Expenses
Years Ended December 31, 2002 and 2001*

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>
<i>Source of supply:</i>			
Salaries and wages	\$ 52,875	\$ 51,265	\$ 1,610
Employee benefits	23,977	17,010	6,967
Maintenance, structures	2,175	6,773	(4,598)
Water	7,475,430	5,840,378	1,635,052
Water credit	<u>(1,968,796)</u>	<u>-0-</u>	<u>(1,968,796)</u>
	<u>5,585,661</u>	<u>5,915,426</u>	<u>(329,765)</u>
<i>Transmission and distribution:</i>			
Salaries and wages	991,145	960,889	30,256
Employee benefits	319,943	313,451	6,492
Equipment maintenance	106,202	101,228	4,974
Equipment rent	97,055	93,195	3,860
Maintenance, structures	223,607	315,818	(92,211)
Shop services and supplies	10,034	11,043	(1,009)
Power	3,488,366	2,844,315	644,051
Operating supplies	<u>41,586</u>	<u>75,326</u>	<u>(33,740)</u>
	<u>5,277,938</u>	<u>4,715,265</u>	<u>562,673</u>
<i>Customer accounts:</i>			
Salaries and wages	56,173	54,526	1,647
Employee benefits	<u>19,311</u>	<u>17,005</u>	<u>2,306</u>
	<u>\$ 75,484</u>	<u>\$ 71,531</u>	<u>\$ 3,953</u>

	<u>2002</u>	<u>2001</u>	<i>Increase (Decrease)</i>
<i>General and administrative:</i>			
Salaries and wages	\$ 650,070	\$ 586,861	\$ 63,209
Employee benefits	148,509	138,499	10,010
Employee expense	44,045	54,408	(10,363)
Office	16,321	18,163	(1,842)
Insurance	83,085	96,090	(13,005)
Legal	174,214	51,197	123,017
Accounting and auditing	21,555	16,500	5,055
Dues	42,856	26,130	16,726
Directors' fees and expense	15,572	7,867	7,705
Financing and administration	29,130	120,886	(91,756)
Utilities	28,227	28,870	(643)
Building services	6,321	7,696	(1,375)
Advertising	1,468	2,513	(1,045)
Public relations	146	846	(700)
Equipment rent	<u>2,451</u>	<u>4,230</u>	<u>(1,779)</u>
	<u>1,263,970</u>	<u>1,160,756</u>	<u>103,214</u>
<i>General plant maintenance:</i>			
Operating supplies	340	526	(186)
Operating services	<u>40,318</u>	<u>33,336</u>	<u>6,982</u>
	<u>40,658</u>	<u>33,862</u>	<u>6,796</u>
<i>Other operating expenses:</i>			
Depreciation	3,530,977	3,237,650	293,327
Engineering	22,994	13,038	9,956
Damage claim recovery	(1,253)	41,037	(42,290)
Property taxes	<u>18,254</u>	<u>6,601</u>	<u>11,653</u>
	<u>\$ 3,570,972</u>	<u>\$ 3,298,326</u>	<u>\$ 272,646</u>

Semitropic Water Storage District

*Combined Schedule of Insurance Coverage
December 31, 2002*

	<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	4-01-02	4-01-03
Joint Powers Insurance Authority - Association of California Water Agencies General, Auto, Public Officials Liability	Self-Insured	10-01-02	10-01-03
<u>Bonds</u>			
Western Surety	6931113	4-17-03	4-17-07
Western Surety	22171083	4-17-03	4-17-07
Western Surety	22171084	4-17-03	4-17-07
Western Surety	69485775	4-17-03	4-17-07
Western Surety	22185935	3-31-01	4-01-05
Western Surety	68970435	3-31-01	3-31-05
Great American	7909111	4-12-01	4-12-05
Great American	FS7909190	4-10-01	4-10-05

Premium

Coverage

\$	15,646	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 \$10,246,600 basic property and equipment (\$1,000 deductible) - auto physical damage (\$500 deductible) \$100,000 - employee fidelity bond
	65,937	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
	170	\$5,000 - public official bond - Jeff Fabbri
	170	\$5,000 - public official bond - Lawrence W. Frey
	170	\$5,000 - public official bond - Theodore R. "Ted" Page
	170	\$5,000 - public official bond - Daniel Waterhouse
	340	\$5,000 - public official bond - Frederick Wegis
	340	\$5,000 - public official bond - James Crettol
	106	\$5,000 - public official bond - Phil W. Portwood
	888	\$50,000 - treasurer bond - Phil W. Portwood



Barbich
Longcrier
Hooper
& King
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, 2002, and have issued our report thereon dated April 8, 2003. We conducted our audit in accordance with 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.



Bakersfield, California
April 8, 2003