

**KERN COUNTY WATER AGENCY
BAKERSFIELD, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**KERN COUNTY WATER AGENCY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Transmittal letter	i-xiv
Board of Directors/Management	xv
Organizational chart	xvi
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1-2
Management's Discussion and Analysis.....	3-6
<u>Basic Financial Statements:</u>	
Balance sheets	7
Statements of revenues, expenses and changes in net assets	8
Statements of cash flows.....	9
Notes to the basic financial statements	10-29
<u>Supplementary Information:</u>	
Schedules of functional expenses	30-31
Combining balance sheets	32-36
Combining statements of revenues, expenses and changes in net assets	37-41
<u>Other Reports:</u>	
Independent Auditor's 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	42-43

INTRODUCTORY SECTION



March 31, 2009

Directors:

Fred L. Starrh
Division 1

Terry Rogers
Division 2

Peter Frick
President
Division 3

Michael Radon
Division 4

Adrienne J. Mathews
Vice President
Division 5

William W. Van Skike
Division 6

Gene A. Lundquist
Division 7

James M. Beck
General Manager

Amelia T. Minaberrigarai
General Counsel

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

RE: Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2008

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Kern County Water Agency (Agency) for the fiscal year ended June 30, 2008. The purpose of the CAFR is to provide the Board of Directors, the Member Units and other interested parties with reliable financial information about the Agency. The Agency's Accounting and Finance Department has prepared the CAFR in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Agency management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of the operation of the Agency. The report is presented in two parts:

1. **Introductory Section** – includes the Transmittal letter with the Agency's Organizational Chart, and a listing of the Agency's principal officials, as well as other relevant information to assist the reader in understanding the Agency's management structure, operations and financial condition.
2. **Financial Section** – includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Agency's Financial Statements for the Fiscal Years ended June 30, 2008 and 2007 and explanatory footnotes. Other Supplemental Information by fund and Additional Information is also presented in this section.

REPORTING ENTITY

The Agency is accounted for as an enterprise fund. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses, in which the purpose is to conserve and add to basic resources, while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continual basis and that are financed substantially by revenues derived from user charges. As an enterprise fund, the Agency uses the accrual basis of accounting; revenues are recognized when they become measurable and available, and expenditures are recognized as they are incurred.

(661) 634-1400

Mailing Address

P.O. Box 58
Bakersfield, CA 93302-0058

Street Address

3200 Rio Mirada Dr.
Bakersfield, CA 93308

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

The Agency's policy requires that an independent certified public accounting firm, selected by the Agency's Board of Directors, audit its financial statements on an annual basis. The independent auditor's report for the Fiscal Years ended June 30, 2008 and 2007 is presented in the Financial Section of this report.

DISTRICT FORMATION AND ORGANIZATION

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

The Agency is the second largest participant in the SWP. The SWP extends for more than 600 miles (two-thirds of the length of California) and was planned, built, and is operated by the California Department of Water Resources (DWR). The Agency has contracted to receive a maximum annual amount of 998,730 acre-feet (af) of Table A water. Of that amount, 119,000 af are designated for municipal and industrial use, and 879,730 af are designated for agricultural use.

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

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

The Kern River supplies water for agriculture, industry and hydroelectric power generation, with flows averaging about 700,000 af annually. The Kern River originates in two forks near Mt. Whitney in the southern Sierra Nevada mountain range. Isabella Reservoir impounds Kern River water behind a 185-foot-high earthen dam, which has a capacity of 570,000 af. The Kern River is the largest local source of surface water in Kern County.

Kern County is the fourth most productive agricultural county in the state and relies on an adequate water supply to maintain its economy. A vast underground water basin supplies about 43 percent of the water used for domestic and agricultural purposes, in addition to the surface water sources: the Kern River (22 percent), the SWP (23 percent), and the Friant-Kern Canal (11 percent), for a combined annual supply from all sources of about 3,453,000 af. Annual precipitation in the San Joaquin Valley portion of the county averages about 6.5 inches and makes up less than one percent of the county's total supply.

Total annual municipal and industrial water use in Kern County is approximately 181,800 af, most of which occurs in the Bakersfield area. With such limited annual precipitation, careful water management practices have been developed by both the urban and agricultural sectors. Kern County farmers are among the most skilled water managers in the world through the use of highly efficient irrigation methods. It is estimated that 78 percent of the water applied to local crops is used to meet actual crop requirements.

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

Urban areas of Kern County are also committed to the wise use of water. The Improvement District No. 4 (ID4) purveyors California Water Service Company; East Niles Community Services District; North of the River Municipal Water District, which wholesales water to Oildale Mutual Water Company; and the City of Bakersfield help support the Agency's water conservation school education program and its many public water conservation outreach efforts. In 1992, the Agency signed the Memorandum of Understanding Regarding Urban Water Conservation in California and became a member of the California Urban Water Conservation Council. Cost-effective water conservation "best management practices" are emphasized in the service areas of the Agency and the urban purveyors. The Agency is also a member of the Agricultural Water Management Council, which pursues implementation of agricultural best management practices.

MEMBER UNITS

The Agency has long-term contracts for SWP water with 13 local water districts, called "Member Units."

Since 1968, the Member Units have received almost 32 million af of SWP water. Under the terms of the Monterey Amendment, which was implemented in 1995, the Member Units and Dudley Ridge Water District agreed to permanently retire 45,000 af of SWP Entitlement in exchange for transferring the Kern Water Bank (KWB) property from DWR to local control. In addition, the Agency agreed to allow up to 130,000 af of Table A water to be permanently sold to urban contractors on a willing buyer-willing seller basis. By the end of 2004, contract amendments had been executed to permanently transfer 114,000 af to other SWP Contractors, leaving 16,000 af remaining for transfer.

Below is a table listing the Member Units and the entitlement transfers (in acre-feet) completed as of June 30, 2008. Also shown are permanent transfers that have occurred between Member Units.

Member Unit	SWP Maximum Annual Entitlement as of 1996	Retired for the KWB in 1996-97	Transferred in 1998	Transferred in 2000	Transferred in 2001	Transferred in 2004	SWP Maximum Annual Entitlement 2004 - 2035 [1]
1. Berrenda Mesa WD (AG)	155,100		-25,000 (Mojave WA)	-7,000 (Alameda, Zone 7)	-8,000 (KCWA)	-6,500 (West Kern WD)	108,600
2. Lost Hills WD (AG)	140,400	-6,290 (On behalf of Westside Mutual)		-15,000 (Alameda, Zone 7)			119,110
3. Belridge WSD (AG)	163,000	-15,335 (On behalf of Westside Mutual)	-157 (Tejon Castac WD)	-4,000 (Palmdale WA)	-10,000 (Alameda, Zone 7) -9,781 (Napa & Solano)	-2,219 (Alameda, Zone 7)	121,508
4. Semitropic WSD (AG)	158,000	-3,000					155,000
5. Cawelo WD (AG)	38,200						38,200
6. Rosedale-Rio Bravo WSD (AG)	29,900						29,900
7. Buena Vista WSD (AG)	21,300						21,300

8. Kern Delta WD (AG)	25,500						25,500
9. Henry Miller WD (AG)	35,500						35,500
10. West Kern WD (M&I)	25,000						25,000
West Kern WD (AG)						6,500	6,500
11. Wheeler Ridge-Maricopa WSD	248,903	-10,815		-41,000 (Castaic WA)			197,088
12. Tehachapi Cummings CWD (AG)	4,300						4,300
Tehachapi Cummings CWD (M&I)	15,000						15,000
13. Tejon Castac WD (AG)	4,021	-900	157				3,278
Tejon Castac WD (M&I)	2,000						2,000
KCWA Improvement District No. 4 (M&I)	77,000						77,000
KCWA Improvement District No. 4 (AG)	10,276	-4,330					5,946
KCWA (AG)					8,000		8,000

Subtotal (AG)	1,034,400	-40,670	-25,000	-67,000	-19,781	-2,219	879,730
Subtotal (M&I)	119,000						119,000
Total	1,153,400	-40,670 [2]	-25,000	-67,000	-19,781	-2,219	998,730

[1] Of the 130,000 af transferable under the Monterey Amendment, 16,000 af remain for transfer.

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

ECONOMIC CONDITIONS AND OUTLOOK

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

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

Kern County produces over 250 different crops: over 30 types of fruits and nuts, over 40 types of vegetables, and over 20 field crops, not to mention lumber, nursery stock, livestock, poultry and dairy products. The total value of these agricultural products annually exceeds \$1.5 billion. A breakdown of the top 20 crops for 2007 is provided below.

Kern County alone outranks the agricultural production of 20 states. Furthermore, the benefits of a strong agricultural community far outweigh just the gross receipts of the producers. A single dollar generated by agricultural production results in three to four dollars in the county's gross domestic product. One out of every ten jobs throughout the state is directly linked to agriculture. In the county, agriculture provides over 17 percent of all employment and is the second largest employer.

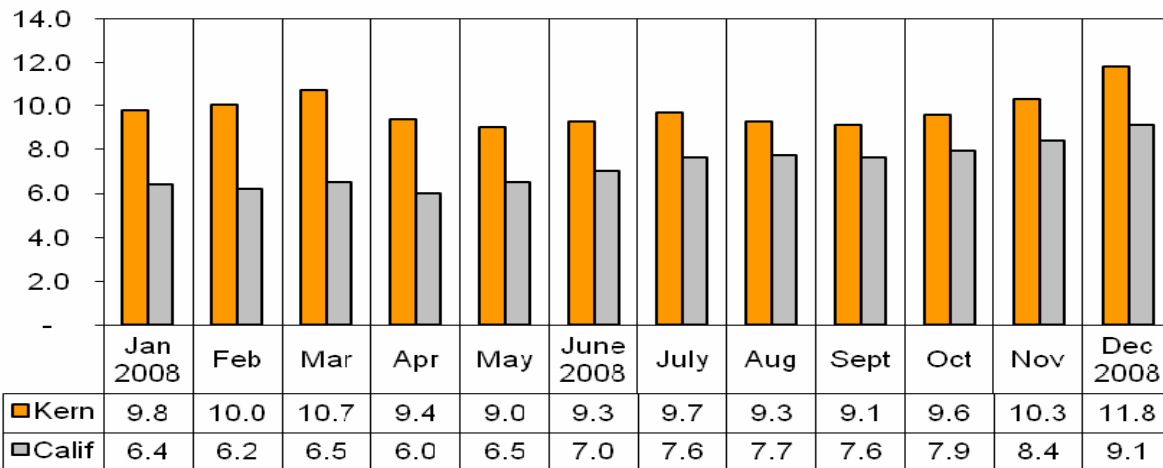
Kern County’s rich agricultural heritage can be traced back to a century ago. When the first settlers came to the area, they found swampland that provided breeding grounds for encephalitis and malaria-carrying mosquitoes. By harnessing the uncontrolled flow of water from the Kern River, this dangerous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

Kern County 2007 Crop Report

COMMODITY	VALUE	2006 RANKING
1. Milk, Market & Manufacturing	\$ 692,173,000	3
2. Grapes, All	579,378,000	2
3. Citrus, All	449,962,000	5
4. Almonds, Including By-Products	441,532,000	1
5. Carrots, Fresh & Processing	315,849,000	4
6. Pistachios	274,440,000	7
7. Hay, Alfalfa	225,386,000	8
8. Cattle & Calves	219,247,000	6
9. Cotton, Including Processed Cottonseed	161,685,000	9
10. Silage & Forage	61,219,000	11
11. Potatoes, All	59,559,300	10
12. Nursery Fruit and Nut Trees & Vines	48,765,000	12
13. Wheat	48,423,000	17
14. Tomatoes, Fresh & Processing	45,075,000	15
15. Bell Peppers, Fresh & Processing	42,383,000	16
16. Apiary Products	39,547,000	14
17. Eggs	39,172,000	18
18. Roses	36,692,000	13
19. Pomegranates, Fresh & Processing	33,721,000	21
20. Onions, Fresh & Dehydrator	24,025,000	24

According to California Department of Finance population estimates, Kern County's population is expected to grow over the next 50 years from 665,519 in 2000 to 2,106,024 in 2050. The estimated increase of 1,440,550 or 216% puts Kern County 5th on the list of fastest growing counties based on numerical change and 4th on the list of fastest growing counties based on percent change for the years 2000-2050. Kern County is estimated to grow an average of 26% every 10 years. Kern County is expected to be one of the 10 largest counties in California by 2050. Kern was number fourteen (14) on the list of largest counties in California in 2000 but is expected to be number eight (8) in 2050. In addition to population growth, the civilian labor force increased to 288,200 in 2007, a 2.5 percent increase from the previous year. The civilian labor force increased by 200 from 2007 to 2008. Agriculturally-oriented counties like Kern tend to have greater seasonal variations on employment and higher unemployment rates. Growth at similar rates is expected to continue for the next few years.

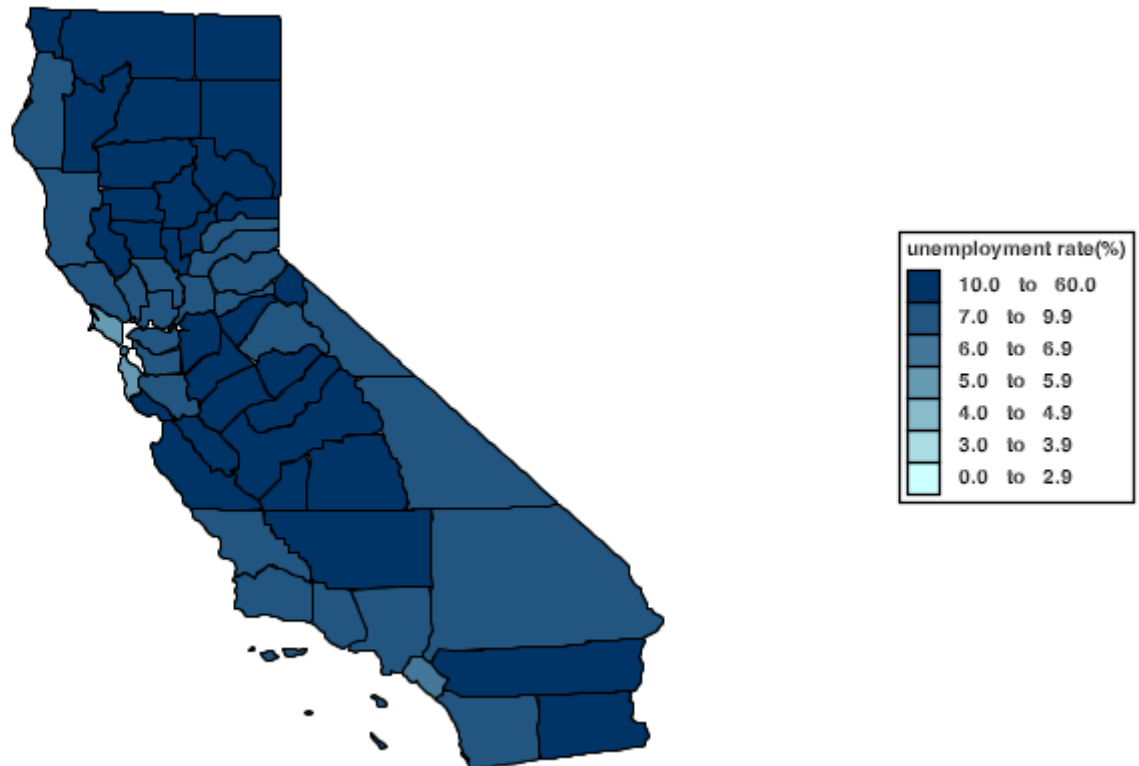
Kern County Unemployment Rates



Source: California Employment Development Department

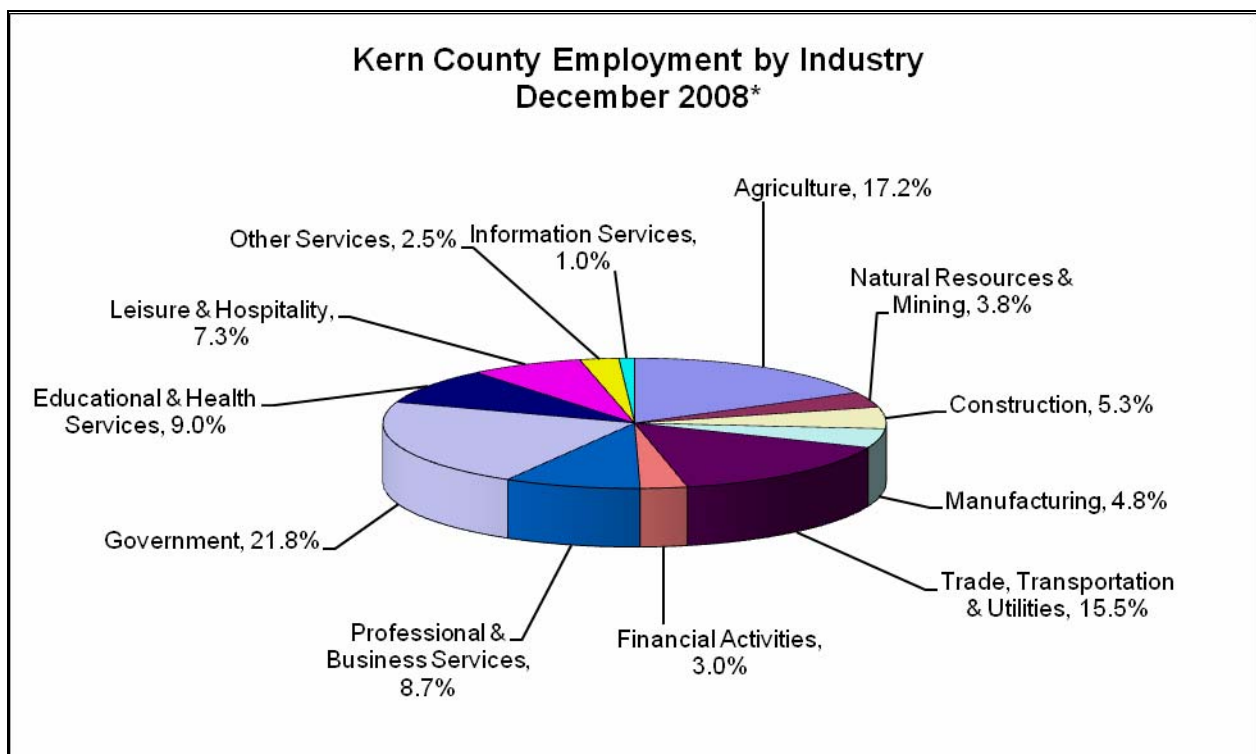
Data not seasonally adjusted

Unemployment rates by county, not seasonally adjusted, California December 2008



Map Title: Unemployment rates by county, not seasonally adjusted
Map Type: California county Map
Month/Year: December/2008
County/Rate: Kern/11.8%

As of December 2008, government, agriculture, trade, transportation, and utilities comprised a large part of the county's employment sectors. Together, these industries account for 54.5 percent of the total employment in the county. Government made up the largest share with 21.8 percent. Trade, transportation and utilities, and agriculture account for 15.5 and 17.2 percent, respectively. There were more than 25,000 jobs in professional and business services, while educational and health services provided 25,900 jobs.



*Total Employment December 2008: 288,400

ACCOMPLISHMENTS DURING FISCAL YEAR 2007-08

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

Cross Valley Canal Expansion Project

The CVC serves as the Agency's primary conduit for water deliveries from and to the Aqueduct. The \$74 million CVC Expansion Project is the largest component of the Proposition 13 Phase II Grant Program and also includes construction of the CVC/Friant-Kern Canal Intertie (Intertie). The outcome will be expanded CVC conveyance capacity from 922 cubic feet per second (cfs) to 1,422 cfs, an increase of about 54 percent, and 500 cfs of capacity in the Intertie. This represents a significant milestone in the development of Kern County's water conveyance infrastructure.

In early 2007, construction commenced on these projects, and work continues into 2009. The bulk of the construction is expected to be completed near the end of 2009, with the remainder scheduled for completion in early 2010.

Other Proposition 13 – Phase II Projects

Improvements to the Pioneer Project groundwater banking facility and the Proposed Cross River Pipeline Project (from the Carrier Canal to the Calloway Canal), a joint project between ID4 and Kern Delta Water District, are also included in the Phase II program. The Cross River Pipeline was placed on hold pending permit approval, and work continues on the Pioneer Project improvements.

Improvement District No. 4 Projects

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

Treated Water Capacity Expansion Project

In response to increasing demands for treated water, Agency staff developed the Treated Water Capacity Expansion Project (TWCEP), which includes expanding treated water deliveries from the current level of 25,000 af per year to 53,000 af per year during a 30-year ramp-up period. New and enhanced water treatment, pumping and transmission facilities will be required to produce and deliver the water contracted by the project participants (California Water Service Company, the City of Bakersfield, East Niles Community Services District and North of the River Municipal Water District). The TWCEP includes the expansion of the existing Henry C. Garnett Water Purification Plant, the North Feeder Facility, the East Feeder Facility and the construction of the Northwest Feeder Facility. On September 21, 2005 the Agency executed the Treated Water Contracts with the project participants. On May 6, 2008 the Agency received approximately \$121 million in financing to construct the various components of the TWCEP.

Henry C. Garnett Water Purification Plant Expansion Project

To accomplish increased water deliveries, the peaking capacity of the Henry C. Garnett Water Purification Plant will be expanded from 45 million gallons per day (mgd) to 72 mgd. Bids for the construction of the Henry C. Garnett Water Purification Plant Expansion Project (Expansion Project) were publicly opened on February 12, 2008. On May 20, 2008, staff issued the Notice to Proceed to SSC Construction, Inc. (SSC) for the Expansion Project. In July 2008, SSC mobilized to the site and began construction. The Expansion Project is scheduled to be completed during the month of August 2010 with an overall estimated project cost of about \$78 million.

North Feeder Expansion Project

ID4 will expand pumping capacity and modify transmission facilities for the existing North Feeder Facility, which serves the North of the River Municipal Water District. The project was bid under two separate contracts: 1) the construction of the Parallel North Pipeline; and

2) the construction of a 21 mgd pump station. On May 23, 2008 bids for the construction of the Parallel North Pipeline were opened. On July 24, 2008, Agency staff issued the Notice to Proceed to Emmett's Excavation and construction began in September 2008. Both contracts are scheduled to be completed by August 2009 with an overall estimated project cost of \$5.3 million.

East Feeder Expansion Project

ID4 will expand pumping capacity and modify water transmission facilities for the existing East Feeder Facility, which serves California Water Service Company and East Niles Community Services District. The four-part project includes: (1) the expansion of the East Feeder Facility; (2) the Oswell Bypass Project, which consists of: (a) the Oswell Facility Bypass Pipeline; and (b) the 6.8 Million Gallon Reservoir modifications; (3) the modifications to the 23 Corner Tank Facility; and (4) the relocation of the State Route 178 pipeline crossing. All projects are scheduled to be completed by September 2009 with an overall estimated project cost of \$9.2 million. A status of the project's components is as follows: (1) Expansion of the East Feeder Facility: bids were opened in December 2007 and the Notice of Award was issued to Nicholas Construction (Nicholas) in January 2008. Nicholas completed construction in September 2008; (2) Oswell Facility Bypass Pipeline Project: bids were publicly opened in October 2008; (3) 6.8 Million Gallon Reservoir Project: contract Notice to Proceed was issued in March 2007, and construction was completed in December 2007; (4) 23 Corner Tank Facility Project: contract bidding documents are nearing the final stages of development; and (5) State Route 178 Relocation Project: the contract was awarded in March, and the construction contract completed October 2007.

Northwest Feeder Pipeline Project

ID4 has been developing 32 mgd of treated water capacity to the west side of ID4 through the construction of a Northwest Pump Station (NWPS) and a Northwest Pipeline (NWPL), collectively called the Northwest Feeder Project (NWFP), with an overall project cost of about \$15 million. Construction had commenced in Fiscal Year 2005-06, and by the end of Fiscal Year 2006-07, the notice of completion had been filed for both contracts. The project participants are in the construction phase of the NWPL interties to their respective distribution systems. The first deliveries of treated water through the NWPL was in December 2008.

Henry C. Garnett Water Purification Plant Solar Development Project

During the year, ID4 began developing a plan to construct a 1 Megawatt Alternating Current of California Energy Commission-rated ground-mount solar photovoltaic (PV) power system to offset increasing unit rate power costs for the treatment and pumping processes used at the Henry C. Garnett Water Purification Plant. The project will provide approximately \$450,000 of average annual energy savings over the life of the project with an estimated annual electrical escalation rate of 5 percent. The project was completed during 2008, with an overall estimated net project cost of \$8.8 million. The project was awarded a 2007 California Solar Initiative Grant through Pacific Gas and Electric Company for \$4.5 million. During Fiscal Year 2007-08, the project was bid and awarded. Construction of the project has been completed and the facility began generating electricity for the Henry C. Garnett Water Purification Plant.

Rosedale-Rio Bravo Water Storage District/ID4 Joint Use Groundwater Recovery Program

The Rosedale-Rio Bravo Water Storage District (Rosedale) and ID4 Joint Use Groundwater Recovery Program includes development of additional capacity as follows: 45 cfs of water well recovery capacity, 60 cfs of transmission pipeline capacity and 60 cfs of CVC turn-in capacity.

Rosedale paid for the construction of wells, pipelines and turn-in facilities to the CVC, and ID4 is operating and maintaining the wells as part of its expanded Allen Road Well Field. Construction of the \$8.5 million project was completed in fall 2007. The project is operational and the wells have been used to recover banked water for Rosedale in 2008.

ID4 Monitoring Well Project

ID4 is currently in the process of developing monitoring well sites for ID4's groundwater monitoring program. Historically, Agency staff has used a number of wells to monitor groundwater levels within its boundaries. These wells have been a combination of water production wells, standby wells and monitoring wells. Over the past several years, a number of wells used for monitoring purposes have been destroyed by landowners, so the lands occupied by the wells could be used for other purposes. This activity has reduced the number of wells ID4 staff can use to monitor groundwater levels. For this reason, staff has begun the process of contacting landowners of existing wells in order to preserve the wells for monitoring purposes before the wells are destroyed. The Agency will construct three monitoring wells located northeast of the Rosedale-Rio Bravo Water Storage District and ID4 Joint Use Groundwater Recovery Project. The wells will be constructed to depths of 300, 600 and 800 feet. This project opened for public bid in October 2008 with an overall estimated cost of \$280,000.

Henry C. Garnett Water Purification Plant Electrical Service Entrance Project

The expansion of the water purification and pumping facilities at the Henry C. Garnett Water Purification Plant will increase the electrical load at the site. ID4 currently utilizes one electrical Pacific Gas and Electric Company substation to supply power to the Henry C. Garnett Water Purification Plant's existing electrical load. The existing 5.25 megavolt-ampere (MVA) substation will be replaced by an ID4-owned 12.4 MVA substation. This will allow ID4 to move from primary electrical services to transmission level services, which will save the Agency approximately \$260,000 during the first year of operation. The Notice to Proceed was issued to the Ryan Company, Inc. on August 10, 2007 for construction of the project. Construction progressed through Fiscal Year 2007-08 and the Henry C. Garnett Electrical Service Entrance Project is scheduled to be completed in April 2009, with an overall cost of \$13 million.

Other Accomplishments

In addition to capital improvement project efforts, the Agency was engaged in a number of local policy areas, including working with the U.S. Army Corps of Engineers to resolve the issues with Isabella Reservoir.

At the state level, staff was actively involved in a number of processes that affect the ability of the SWP to meet its project goals, including efforts to optimize energy/power activities. Other areas of emphasis included contributing to the Phase 8 settlement negotiations, participating in the ongoing CALFED effort to resolve a variety of issues in the Delta and contributing to the development of a Bay-Delta Conservation Plan

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

THE AGENCY'S FUTURE

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

- Continue to participate in the Monterey Agreement environmental documentation process.
- Continue implementation of the electronic/digital records management system.
- Continue to participate in the resolution of Isabella Reservoir issues.
- Continue to participate in the efforts to define a solution for conveyance around the Delta.
- Continue to participate in the Bay-Delta Conservation Plan efforts.
- Continue to work with other SWP contractors and DWR to increase the efficiency and reliability of the SWP, including focusing attention on energy/power maximization efforts.
- Continue efforts to address policy issues related to the enhancement and development of Kern County groundwater banking programs.
- Continue efforts to complete capital projects underway.

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

ACCOUNTING SYSTEM

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

INTERNAL CONTROLS

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

BUDGETARY CONTROLS

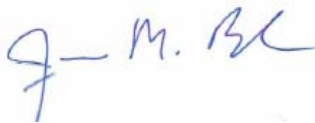
The Agency is required to prepare an annual budget. State law requires that the Kern County Board of Supervisors approve or reject the Agency's budget in total. The Kern County Board of Supervisors is not authorized to have line item control over the Agency's budget. Some operations and projects included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

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "J-M. Beck".

James M. Beck
General Manager

A handwritten signature in blue ink, appearing to read "Donald M. Leonard".

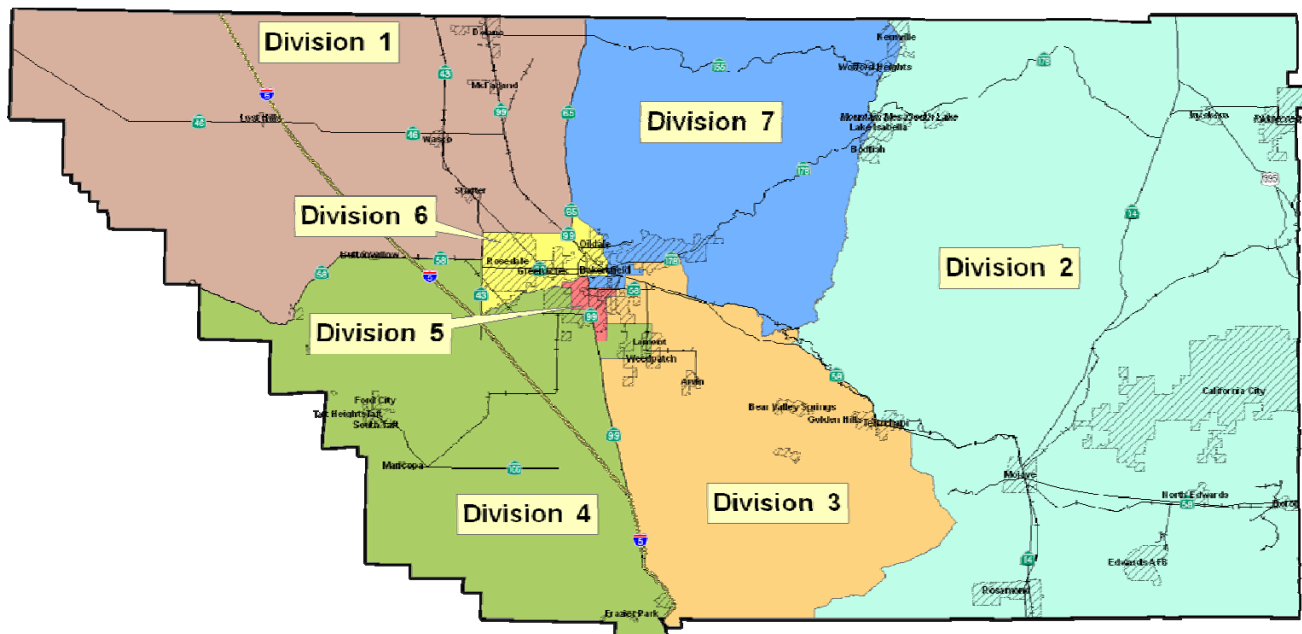
Donald M. Leonard
Controller

BOARD OF DIRECTORS/MANAGEMENT

Directors

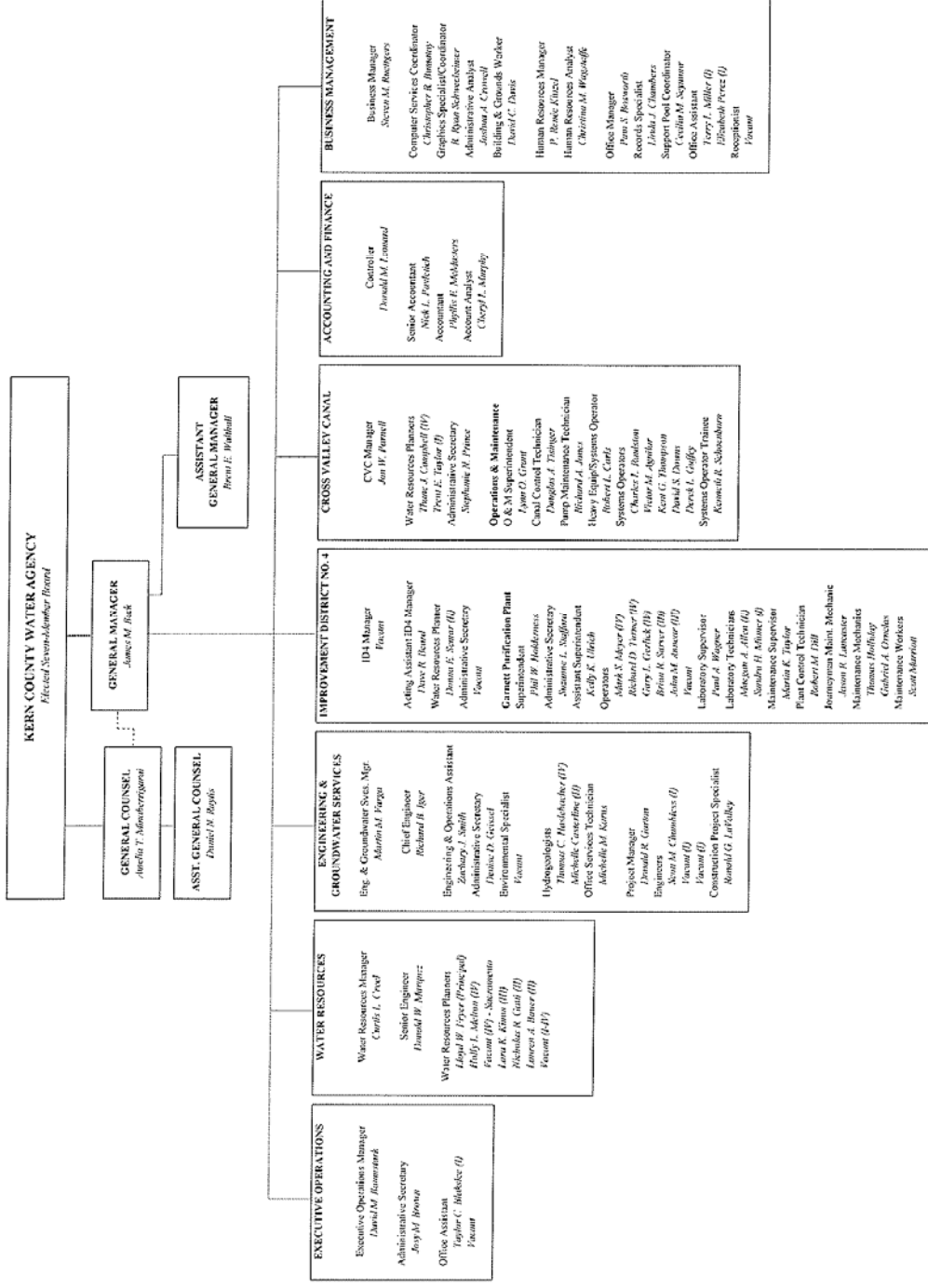
Peter Frick, President		Division 3	
Adrienne J. Mathews, Vice President		Division 5	
Fred L. Starrh	Division 1	Terry Rogers	Division 2
S. Michael Radon	Division 4	William W. Van Skike	Division 6
Gene A. Lundquist		Division 7	

Director Division Map



Management

James M. Beck, General Manager	Amelia T. Minaberrigarai, General Counsel
Brent E. Walthall, Assistant General Manager	Daniel N. Raytis, Assistant General Counsel
Donald M. Leonard, Accounting and Finance	Steven M. Ruettggers, Business Management
Jon W. Parnell, Cross Valley Canal	Martin M. Varga, Engineering and Groundwater Services
David M Baumstark, Executive Operations	Vacant, Improvement District No. 4
Curtis L. Creel, Water Resources	



FINANCIAL SECTION



Certified Public Accountants
Business & Personal Consultants

Member of the McGladrey Network

Member of AICPA Division for Firms
Private Companies Practice Section

NANCY C. BELTON

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of **Kern County Water Agency** as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Kern County Water Agency** as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009 on our consideration of the **Kern County Water Agency's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the accompanying table of contents is not a required part of the Agency's basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the **Kern County Water Agency's** basic financial statements. The combining financial statements and schedule of functional expenses, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on it.

Daniella, Phillips, Vaughan & Rock

Bakersfield, California
March 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) issued an accounting standard referred to as GASB Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB Statement Number 34 establishes financial reporting standards for state and local governments, including states, cities, villages and special purpose governments such as school districts and public utilities. This section of the Kern County Water Agency Comprehensive Annual Financial Report presents management's discussion and analysis of the Agency's financial performance during the Fiscal Years ended June 30, 2008 and 2007. Please read it in conjunction with the Transmittal Letter at the front of this report and the Agency's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

In the fiscal years ended June 30, 2008 and 2007, the Agency's total net assets were \$417.6 and \$236.6 million, respectively. Current and Other Assets totaled \$222.2 million at June 30, 2008 and \$120.6 million at June 30, 2007. Capital Assets increased to a total of \$195.4 million due to Improvement District No 4 and Cross Valley Canal expansion projects. Current Liabilities totaled \$57.3 and \$70.0 million as of June 30, 2008 and 2007, respectively. Noncurrent liabilities equaled \$148.7 and \$30.9 million at June 30, 2008 and 2007, respectively.

Kern County Water Agency's Net Assets

(in millions)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current and Other Assets	\$ 222.2	\$ 120.6
Capital Assets (Net of Depreciation)	195.4	116.0
Total Assets	<u>\$ 417.6</u>	<u>\$ 236.6</u>
Current Liabilities	\$ 57.3	\$ 70.0
Noncurrent Liabilities	148.7	30.9
Total Liabilities	<u>\$ 206.0</u>	<u>\$ 100.9</u>
Invested in Capital Assets, Net of Related Debt	\$ 124.5	\$ 83.5
Restricted	8.3	7.4
Unrestricted	78.8	44.8
Total Net Assets	<u>\$ 211.6</u>	<u>\$ 135.7</u>
Total Liabilities and Net Assets	<u>\$ 417.6</u>	<u>\$ 236.6</u>

Total revenues as reported on the Statements of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2008 and 2007, were \$200.7 and \$141.5 million which includes total operating revenues of \$130.0 and \$107.2 million and non-operating revenues of \$70.7 and \$34.3 million, respectively, which includes taxes and interest income.

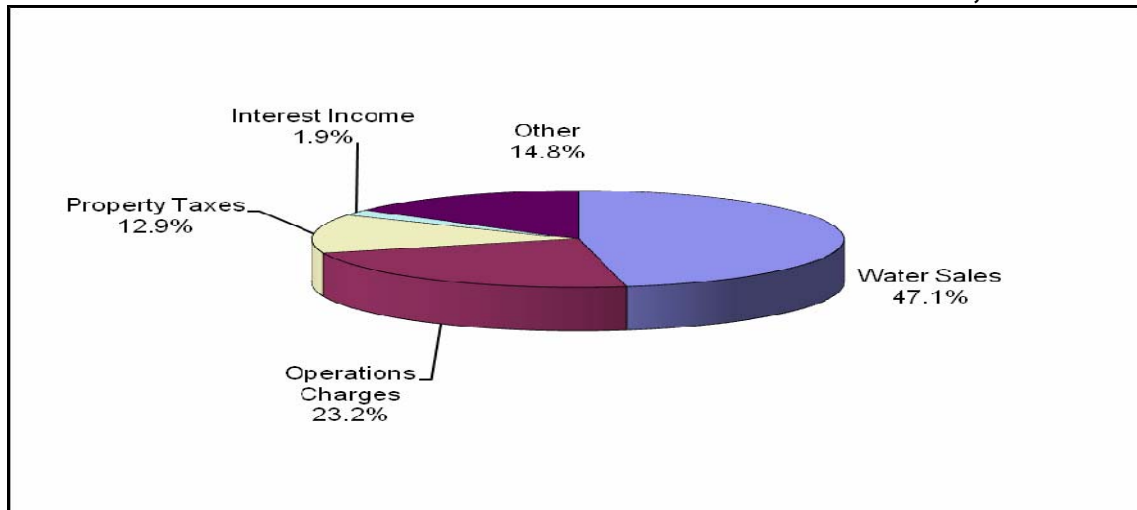
Total operating and non-operating expenses for fiscal years ended June 30, 2008 and 2007 were \$124.8 and \$120.9 million, respectively (includes non-operating expenses, interest and other expenditures). Operating costs were \$123.3 and \$119.0 million including depreciation and amortization expenses of \$2.3 and \$1.8 million, and non-operating expenses were \$1.5 and \$1.9 million, for the fiscal years ended June 30, 2008 and 2007, respectively.

Kern County Water Agency's Increase in Net Assets

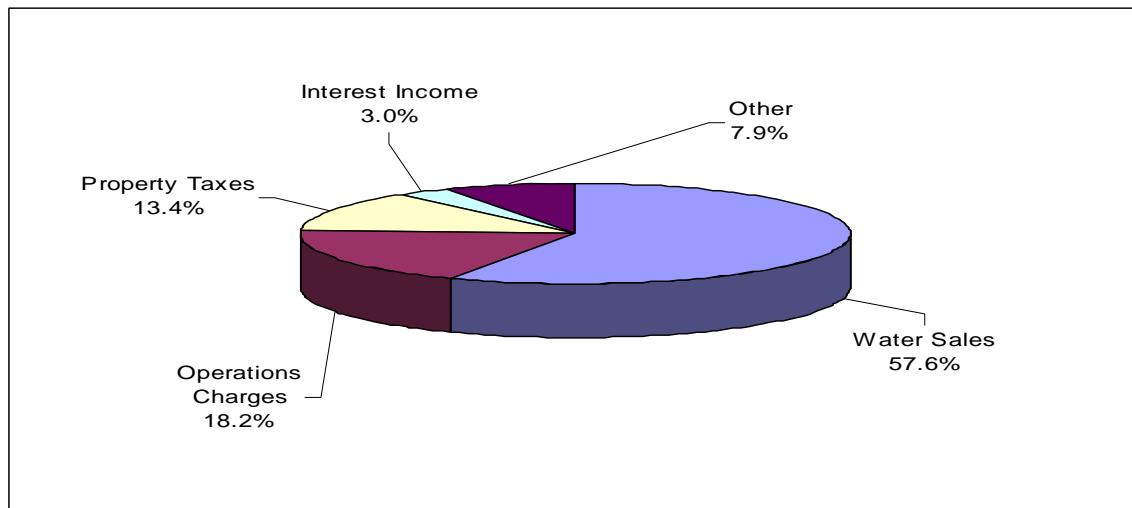
(in millions)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating Revenues	\$ 130.0	\$ 107.2
Operating Expenses	123.3	119.0
Operating Income (Loss)	<u>6.7</u>	<u>(11.8)</u>
Non-operating Revenues	70.7	34.3
Non-operating Expenses	1.5	1.9
Non-operating Income (Loss)	<u>69.2</u>	<u>32.4</u>
Increase in Net Assets	<u>\$ 75.9</u>	<u>\$ 20.6</u>

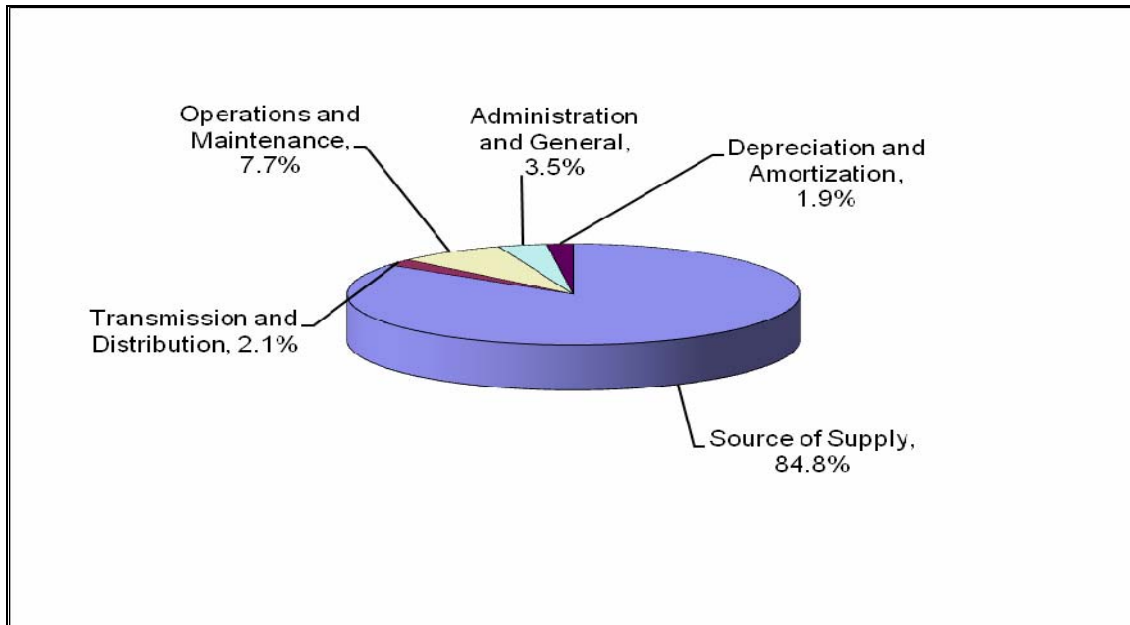
Sources of Revenue for Fiscal Year Ended June 30, 2008



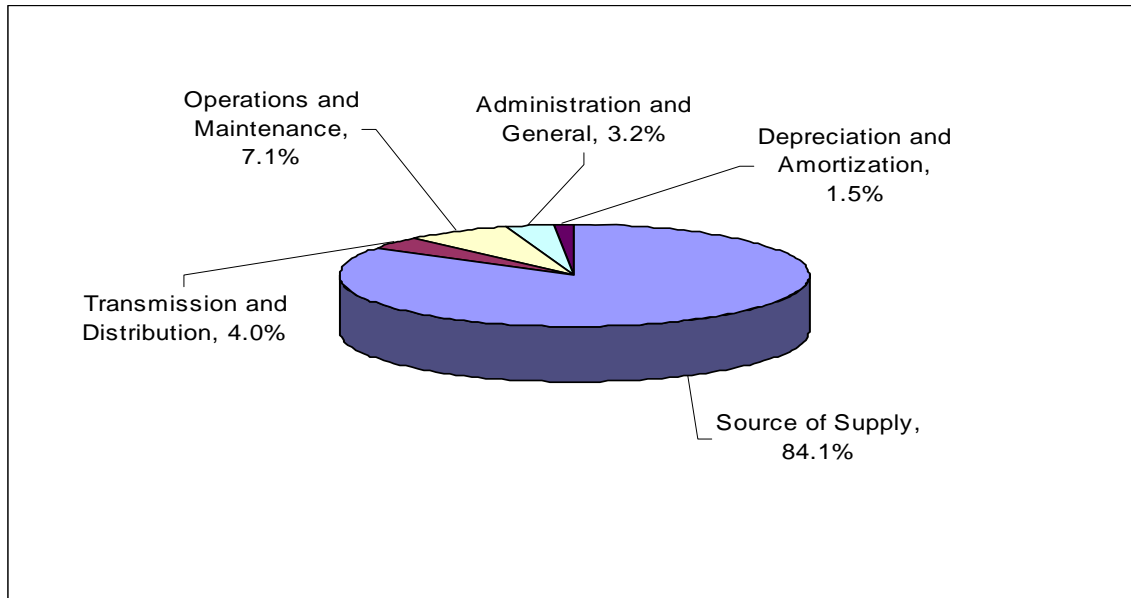
Sources of Revenue for Fiscal Year Ended June 30, 2007



Functional Expenses for Fiscal Year Ended June 30, 2008



Functional Expenses for Fiscal Year Ended June 30, 2007



CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM

The Agency's Fiscal Year 2007-2008 capital assets were \$233.8 million net of \$38.4 million accumulated depreciation for a net book value of \$195.4 million. Included in the total reported on the Statements of Net Assets is \$122.1 million in construction in progress reflecting capital projects in various stages of completion.

The Agency's Fiscal Year 2006-2007 capital assets were \$152.2 million net of \$36.2 million accumulated depreciation for a net book value of \$116.0 million. Included in the total reported on the Statements of Net Assets is \$44.9 million in construction in progress reflecting capital projects in various stages of completion.

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

LONG-TERM DEBT

For the fiscal years ended June 30, 2008 and 2007, the Agency had approximately \$151.5 and \$31.8 million, respectively, in bonds, notes and certificates of participations outstanding, an increase of \$119.7 million from the prior year. The increase was mainly due to Improvement District No 4 issuing approximately \$121 million in new certificates of participation to fund the expansion of the Henry C Garnett Water Purification Plant, distribution lines and other related projects. More detailed information about the Agency's long-term debts are presented in Notes 6 & 7 to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The Agency's budget for the 2008-09 does not include any consideration for ERAF III since the fiscal year 2005-06 was the second and final year of the ERAF III legislation. The 2008-09 budget was prepared with the 10% ERAF take considered.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

--

KERN COUNTY WATER AGENCY

BALANCE SHEETS

June 30, 2008 and June 30, 2007

	2008	2007
ASSETS		
Current Assets		
Cash and investments (Note 2)	\$ 104,576,525	\$ 67,266,153
Receivables:		
Accounts receivable	14,104,792	9,000,313
Taxes receivable	598,369	196,117
Interest receivable	1,260,847	781,997
Prepaid Expenses	276,504	1,182,962
Inventories (Note 3)	6,977,806	7,230,857
Total current assets	127,794,843	85,658,399
Restricted cash and investments (Note 2)	91,126,134	31,570,971
Property and equipment (Note 4)	195,379,840	115,993,183
Investment in Kern Water Bank (Note 5)	3,343,691	3,343,691
Total assets	\$ 417,644,508	\$ 236,566,244
LIABILITIES AND NET ASSETS		
Current Liabilities		
Outstanding checks in excess of bank balance	\$ -	\$ 8,144,372
Current portion of long-term debt (Note 6)	2,778,897	951,812
Accounts payable	8,047,526	12,024,737
Accrued expenses	12,418,703	11,417,639
Deferred revenue	34,069,349	37,401,461
Total current liabilities	57,314,475	69,940,021
Long-term Debt (Note 6)	148,719,835	30,892,019
Net Assets		
Invested in capital assets, net of related debt	124,515,487	83,500,863
Restricted for State Water Contract	8,324,017	7,392,488
Unrestricted	78,770,694	44,840,853
Total net assets	211,610,198	135,734,204
Total liabilities and net assets	\$ 417,644,508	\$ 236,566,244

See Notes to Financial Statements.

KERN COUNTY WATER AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2008 and June 30, 2007

	2008	2007
Operating Revenue		
Charges for untreated water	\$ 86,631,809	\$ 75,375,359
Charges for treated water	4,798,099	3,606,960
Ground water charges	3,058,536	2,962,221
Charges for operations and maintenance	13,138,463	7,652,017
Charges for power	6,533,684	5,169,027
Exchange and conveyance fees	560,373	1,774,954
Other user charges	631,016	407,017
Refunds and credits	4,880,398	8,904,696
Reimbursements	9,745,331	1,302,466
	129,977,709	107,154,717
Operating Expenses		
Source of supply	104,543,567	100,286,170
Transmission and distribution	2,580,431	4,775,641
Operations and maintenance	9,513,348	8,494,692
Administration and general	4,322,793	3,587,542
Depreciation	2,338,586	1,816,608
	123,298,725	118,960,653
Operating income (loss)	6,678,984	(11,805,936)
Non-operating Revenues (Expenses)		
Property taxes:		
General purpose distribution	5,918,499	5,165,642
Voter approved	19,956,649	13,799,819
Grant income	15,189,724	978,506
Cost sharing income	24,241,855	9,609,860
Interest income	3,921,629	4,222,827
Gain (loss) on sale of assets	6,984	(36,500)
County collection charges	(117,797)	(100,056)
Interest expense	(1,341,867)	(1,794,682)
Other	1,421,333	561,564
	69,197,009	32,406,980
Change in net assets	75,875,992	20,601,044
Net assets, beginning (Note 13)	135,734,204	115,133,160
Net assets, ending	\$ 211,610,196	\$ 135,734,204

See Notes to Financial Statements.

KERN COUNTY WATER AGENCY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and June 30, 2007

	2008	2007
Cash Flows From Operating Activities		
Receipts from users	\$ 121,541,119	\$ 89,545,644
Source of supply purchases	(104,290,516)	(84,785,774)
Payments for administration services	(3,416,334)	(4,173,420)
Payments for suppliers for goods and services	(15,069,928)	(15,791,880)
Net cash (used in) operating activities	(1,235,659)	(15,205,430)
Cash Flows From Investing Activities		
Purchases of property and equipment	(81,687,825)	(33,802,112)
Proceeds from sale of property and equipment	6,984	-
Interest received	3,442,780	4,222,827
Net cash (used in) investing activities	(78,238,061)	(29,579,285)
Cash Flows From Financing Activities		
Outstanding checks in excess of bank balance	(8,144,372)	4,973,026
Principal (payments) on long term-debt	(974,950)	(901,944)
Proceeds from long-term debt, net of costs of issuance	120,599,422	-
Receipt of cost sharing income	24,241,855	9,609,860
Receipt of grant income	13,670,752	978,506
Proceeds for property taxes	25,472,896	18,965,461
Interest payments, net of capitalized interest of \$1,175,621 in 2008	(260,165)	(1,794,682)
Other non-operating income	1,733,817	500,533
Increase in restricted cash and investments	(59,555,163)	(13,442,384)
Net cash provided by financing activities	116,784,092	18,888,376
Net increase (decrease) in cash and investments	37,310,372	(25,896,339)
Cash and investments		
Beginning	67,266,153	93,162,492
Ending	\$ 104,576,525	\$ 67,266,153

See Notes to Financial Statements.

	2008	2007
Reconciliation of operating income (loss) to net cash (used in) operating activities		
Operating income (loss)	\$ 6,678,985	\$ (11,805,936)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation	2,338,585	1,816,608
Changes in working capital components:		
Decrease (increase) in:		
Accounts receivable	(5,104,479)	681,094
Taxes and interest receivable	-	232,569
Prepaid expenses	906,458	(889,061)
Inventories	253,051	(508,126)
Increase (decrease) in:		
Accounts payable	(3,977,211)	9,381,901
Accrued expenses	1,001,064	5,405,439
Deferred revenue	(3,332,112)	(19,519,918)
Net cash (used in) operating activities	\$ (1,235,659)	\$ (15,205,430)

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Agency

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

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates with respect to the Agency's financial statements include amounts receivable from the State of California with respect to various contracts.

Reporting Entity

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

Basis of Presentation

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

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

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

Under GASB 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", enterprise funds, such as the Agency, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Agency has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by the Governmental Accounting Standards Board (GASB).

Cash and Short-Term Investments

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

Restricted Cash

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

Inventories

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

Property and Equipment

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

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

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

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

Deferred revenue

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

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

Long-Term Obligations

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

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

Net Assets/Fund Equity

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

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

Compensated Absences

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

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

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

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

Property Taxes

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

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

Budgets and Budgetary Accounting

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

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

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

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

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

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation, with no effect on the change in net assets.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as follows:

	2008	2007
Cash and investments:		
Cash in bank and on hand	\$ 3,314,918	\$ 3,067,176
Cash in Local Agency Investment Fund	10,873,082	40,000,000
Investments in County Treasury	90,388,524	24,198,977
	<u>104,576,524</u>	<u>67,266,153</u>
Restricted cash and investments:		
Cash in bank and on hand	4,160,928	4,011,751
Cash with fiscal agent-Notes payable	435,501	399,633
Cash with fiscal agent-2008 Bonds	80,591,355	10,760,125
Ag rate management trust	2,542,833	12,752,203
Investments	3,395,517	3,647,259
	<u>91,126,134</u>	<u>31,570,971</u>
Total cash and investments	<u>\$ 195,702,658</u>	<u>\$ 98,837,124</u>

Deposits are carried at cost plus accrued interest. The bank balances that are not covered by depository insurance are detailed as follows:

	2008	2007
Uninsured, collateral held by Agency's agent in Agency's name	<u>\$ 14,280,208</u>	<u>\$ 2,383,178</u>

For all cash on hand and on deposit at June 30, 2008 and 2007 amortized cost approximates fair market value.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events had a significant adverse impact on investment portfolios. As a result, the Agency's investments have likely incurred a significant decline in fair value since June 30, 2008.

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

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

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	None	None
Commerical Paper	270 days	None	None
Negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	None	None
Medium Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass- Through Securites	8 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate

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

Disclosures Relating to Credit Risk

Generally credit risk is the risk that an issuer of an investment will fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency is required to disclose the rating for all investments. Cash invested in the Local Agency Investment Fund (LAIF) and the Kern County Treasury are considered "exempt from disclosure" under GASB No. 40. The investments held in cash with fiscal agent are federal treasury obligations and rated AAA at June 30, 2008 and 2007.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held be a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

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

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008

Investments in State Investment Pool

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

NOTE 3 – INVENTORIES

Inventories consist of the following:

	2008	2007
Improvement district No. 4:		
Chemicals	\$ 61,997	\$ 57,535
Banked water	3,384,066	3,384,066
Total Improvement District No. 4	3,446,063	3,441,601
Ground Water Banking:		
Banked water	3,531,743	3,789,256
Total Inventory	<u>\$ 6,977,806</u>	<u>\$ 7,230,857</u>

Changes in banked water inventory were as follows:

	Acre-Feet	Valuation
Ground Water Banking		
Balance at June 30, 2006	136,270	\$ 3,631,186
Transfers	3,205	158,070
Balance at June 30, 2007	139,475	3,789,256
Transfers	(5,341)	(257,513)
Balance at June 30, 2008	<u>134,134</u>	<u>\$ 3,531,743</u>
Improvement District No. 4:		
Balance at June 30, 2006	373,807	\$ 3,021,408
Additions	29,104	362,658
Balance at June 30, 2007 and 2008	<u>402,911</u>	<u>\$ 3,384,066</u>

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 4 - PROPERTY AND EQUIPMENT

Capital assets activity for the years ended June 30, 2008 and 2007 was as follows:

	Balance 7/1/2007	Additions	Deletions	Transfers	Balance 6/30/2008
Land	\$ 15,035,540	\$ -	\$ -	\$ -	\$ 15,035,540
Water Rights	19,797,647	-	-	1,504,884	21,302,531
Construction in Progress	44,886,110	81,193,000	-	(3,954,169)	122,124,941
Subtotal	79,719,297	81,193,000	-	(2,449,285)	158,463,012
Structure & Improvements	56,523,531	-	-	2,449,285	58,972,816
Equipment	6,126,787	337,826	(143,711)	-	6,320,902
Wells	9,852,063	157,000	-	-	10,009,063
Subtotal	72,502,381	494,826	(143,711)	2,449,285	75,302,781
Accumulated depreciation:					
Structure & Improvements	32,102,827	1,474,556	-	-	33,577,383
Equipment	3,372,501	404,193	(143,711)	-	3,632,983
Wells	753,167	422,420	-	-	1,175,587
Subtotal	36,228,495	2,301,169	(143,711)	-	38,385,953
Net Depreciable Capital Assets	36,273,886	(1,806,343)	-	2,449,285	36,916,828
Total Capital Assets	\$ 115,993,183	\$ 79,386,657	\$ -	\$ -	\$ 195,379,840

	Balance 7/1/2006	Additions	Deletions	Transfers	Balance 6/30/2007
Land	\$ 15,035,540	\$ -	\$ -	\$ -	\$ 15,035,540
Water Rights	3,099,704	-	-	16,697,943	19,797,647
Construction in Progress	28,983,771	36,366,760	(39,113)	(20,425,308)	44,886,110
Subtotal	47,119,015	36,366,760	(39,113)	(3,727,365)	79,719,297
Structure & Improvements	53,740,484	202,371	-	2,580,676	56,523,531
Equipment	4,988,804	256,667	(265,373)	1,146,689	6,126,787
Wells	9,852,063	-	-	-	9,852,063
Subtotal	68,581,351	459,038	(265,373)	3,727,365	72,502,381
Accumulated depreciation:					
Structure & Improvements	15,319,765	16,783,062	-	-	32,102,827
Equipment	3,280,311	317,854	(225,664)	-	3,372,501
Wells	632,895	120,272	-	-	753,167
Subtotal	19,232,971	17,221,188	(225,664)	-	36,228,495
Net Depreciable Capital Assets	49,348,380	(16,762,150)	(39,709)	3,727,365	36,273,886
Total Capital Assets	\$ 96,467,395	\$ 19,604,610	\$ (78,822)	\$ -	\$ 115,993,183

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 5 - INVESTMENT IN KERN WATER BANK

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

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

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

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

The Agency's Improvement District No. 4 investment in the Kern Water Bank of \$3,343,691 at June 30, 2008 and 2007, represents its share of amounts paid to or on behalf of the Kern Water Bank Authority for the construction of the Kern Water Bank project.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 6 - LONG-TERM DEBT

The following is a summary of the long-term debt activity for the year ended June 30, 2008:

	Balance 7/1/2007	Additions	Deletions	Balance 6/30/2008	Amount Due in One Year
General Obligation Bonds:					
2006 Certificates of Participation	\$ 27,150,000	\$ -	\$ 620,000	\$ 26,530,000	\$ 650,000
Discount on COPs - 2006	(18,687)	-	648	(18,039)	(648)
Costs of issuance - 2006	(648,489)	-	22,491	(625,998)	(22,491)
2008 Certificates of Participation	-	120,920,000	-	120,920,000	1,830,000
Premium on COPs - 2008	-	1,358,386	(7,546)	1,350,840	45,280
Costs of issuance - 2008	-	(2,670,906)	14,838	(2,656,068)	(89,031)
	26,482,824	119,607,480	650,431	145,500,735	2,413,110
Notes Payable:					
California Dept. of Water Resources - KCWA/BMWD	1,604,719	-	131,077	1,473,642	135,430
California Dept. of Water Resources - Pioneer Project	3,756,288	-	223,873	3,532,415	230,357
California Dept. of Water Resources SRF-ID4 Operations	-	991,941	-	991,941	-
	<u>\$ 31,843,831</u>	<u>\$ 120,599,421</u>	<u>\$ 1,005,381</u>	<u>\$ 151,498,733</u>	<u>\$ 2,778,897</u>

The following is a summary of the long-term debt activity for the year ended June 30, 2007:

	Balance 7/1/2006	Additions	Deletions	Balance 6/30/07	Amount Due in One Year
General Obligation Bonds:					
2006 Certificates of Participation	\$ 27,700,000	\$ -	\$ 550,000	\$ 27,150,000	\$ 620,000
Discount on COPs - 2006	(19,335)	-	648	(18,687)	(648)
Costs of issuance - 2006	(670,978)	-	22,489	(648,489)	(22,489)
	27,009,687	-	573,137	26,482,824	596,863
Notes Payable:					
California Dept. of Water Resources - KCWA/BMWD	1,739,165	-	134,446	1,604,719	131,077
California Dept. of Water Resources - Pioneer Project	3,974,433	-	218,145	3,756,288	223,872
	<u>\$ 32,723,285</u>	<u>\$ -</u>	<u>\$ 925,728</u>	<u>\$ 31,843,831</u>	<u>\$ 951,812</u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 7 - CERTIFICATES OF PARTICIPATION AND NOTES PAYABLE

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

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

Year Ending June 30,	Interest	Principal	Total Debt Service
2006 A Series:			
2009	\$ 691,724	\$ 495,000	\$ 1,186,724
2010	670,686	515,000	1,185,686
2011	648,798	535,000	1,183,798
2012	627,398	560,000	1,187,398
2013	604,999	580,000	1,184,999
2014-2018	2,656,794	3,275,000	5,931,794
2019-2023	1,958,194	3,105,000	5,063,194
2024-2028	1,429,494	2,290,000	3,719,494
2029-2033	870,680	2,850,000	3,720,680
2034-2036	190,439	2,040,000	2,230,439
	<u>10,349,206</u>	<u>16,245,000</u>	<u>26,594,206</u>
2006 B Series:			
2009	601,673	155,000	756,673
2010	592,605	155,000	747,605
2011	583,538	170,000	753,538
2012	573,593	175,000	748,593
2013	563,355	195,000	758,355
2014-2018	2,633,085	1,145,000	3,778,085
2019-2023	2,257,223	1,520,000	3,777,223
2024-2028	1,756,755	2,030,000	3,786,755
2029-2033	1,087,808	2,710,000	3,797,808
2034-2036	241,897	2,030,000	2,271,897
	<u>10,891,532</u>	<u>10,285,000</u>	<u>21,176,532</u>
Total 2006 COP's	<u>\$ 21,240,738</u>	<u>\$ 26,530,000</u>	<u>\$ 47,770,738</u>

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008

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

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

Year Ending June 30,	Interest	Principal	Total Debt Service
2008 A Series:			
2009	\$ 3,978,613	\$ 1,375,000	\$ 5,353,613
2010	3,993,400	1,445,000	5,438,400
2011	3,935,600	1,495,000	5,430,600
2012	3,875,800	1,560,000	5,435,800
2013	3,813,400	1,620,000	5,433,400
2014-2018	17,988,650	9,170,000	27,158,650
2019-2023	15,825,850	11,315,000	27,140,850
2024-2028	12,722,750	14,445,000	27,167,750
2029-2033	8,731,500	18,425,000	27,156,500
2034-2038	3,641,500	23,515,000	27,156,500
	<u>78,507,063</u>	<u>84,365,000</u>	<u>162,872,063</u>
2008 B Series:			
2009	2,325,250	455,000	2,780,250
2010	2,335,988	485,000	2,820,988
2011	2,312,523	510,000	2,822,523
2012	2,287,849	535,000	2,822,849
2013	2,261,966	560,000	2,821,966
2014-2018	10,811,684	3,290,000	14,101,684
2019-2023	9,659,335	4,450,000	14,109,335
2024-2028	7,970,156	6,135,000	14,105,156
2029-2033	5,641,344	8,460,000	14,101,344
2034-2038	2,428,548	11,675,000	14,103,548
	<u>48,034,643</u>	<u>36,555,000</u>	<u>84,589,643</u>
Total 2008 COP's	<u>\$ 126,541,706</u>	<u>\$ 120,920,000</u>	<u>\$ 247,461,706</u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

Advance Refunding

In April 2006, the Agency defeased its 2000 Certificates of Participation by placing \$5,345,000 of the proceeds of the 2006 Certificates of Participation in an irrevocable trust to provide for all future debt service payments on the old certificates of participation. Accordingly, the trust's assets and liability for the 2000 certificates of participation are not included in the Agency's financial statements. At June 30, 2008 and 2007, \$4,828,965 and \$5,127,247, respectively, remains in the trust for future debt service payments.

California Department of Water Resources - KCWA/BMWD

On November 13, 1992, the Agency entered into a contract with the California Department of Water Resources (DWR) to borrow \$2,687,000 under the Water Conservation and Water Quality Bond Law of 1986. The loan proceeds were used for developing recharge facilities on land owned by Berrenda Mesa Water District. The loan has an interest rate of 3.148% and is payable in semi-annual installments over a period of 20 years. As of June 30, 2008 and 2007, the Agency had borrowings of \$1,473,641 and \$1,604,719, respectively, against the loan. Under the terms of the agreement, the Agency is responsible for interest and principal payments on April 1 and October 1 of each year. According to the contract, the payments remaining at June 30, 2008 are due as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2009	\$ 45,243	\$ 135,430	\$ 180,673
2010	41,041	139,632	180,673
2011	36,611	144,062	180,673
2012	32,103	148,570	180,673
2013	27,268	153,405	180,673
2014-2018	60,483	752,542	813,025
Total	<u>\$ 242,749</u>	<u>\$ 1,473,641</u>	<u>\$ 1,716,390</u>

California Department of Water Resources - Pioneer Project

On November 18, 1999, the Agency entered into a contract with the California DWR to borrow up to \$5 million under the Department's Prop 204 groundwater recharge construction loan program. The loan proceeds were used to construct new groundwater recovery wells and rehabilitate existing wells all located on the Agency's Pioneer property. The loan has an interest rate of 2.7% and is payable in semi-annual installments over a period of 20 years from the Pioneer Project budget. As of June 30, 2008 and 2007, the Agency had borrowings against the loan totaling \$3,532,415 and \$3,756,287, respectively. The Agency is responsible for interest and principal payments on April 1 and October 1 of each year.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

According to the contract, the payments remaining at June 30, 2008 are due as follows:

California Department of Water Resources - Pioneer Project

Year Ending June 30,	Interest	Principal	Total Debt Service
2009	\$ 93,641	\$ 230,357	\$ 323,998
2010	87,576	236,422	323,998
2011	81,150	242,848	323,998
2012	74,698	249,300	323,998
2013	67,630	256,368	323,998
2014-2018	230,515	1,389,476	1,619,991
2019-2021	44,351	927,644	971,995
Total	<u>\$ 679,561</u>	<u>\$ 3,532,415</u>	<u>\$ 4,211,976</u>

California Department of Water Resources SRF Loan – ID4 Operations

During fiscal year 2008, the Agency entered into a contract with the California DWR to borrow up to \$2,825,780 under the Department's Safe Drinking Water State Revolving Fund loan program. The loan proceeds will be used to construct infrastructure which will enable the Agency to continue to meet safe drinking water standards of the State of California. The loan has an interest rate of 2.39% and is payable in semi-annual installments over a period of 20 years beginning six months from completion of the project, which is expected to be June 30, 2009. Interest payments are to begin January 1, 2009. As of June 30, 2008, the Agency had borrowings against the loan totaling \$991,941. The Agency is responsible for interest and principal payments on April 1 and October 1 of each year. According to the contract, the payments remaining at June 30, 2008 are due as follows:

California Department of Water Resources - ID4 Operations

Year Ending June 30,	Interest	Principal	Total Debt Service
2009	\$ 11,920	\$ -	\$ 11,920
2010	23,708	19,487	43,195
2011	23,006	39,676	62,682
2012	22,052	40,630	62,682
2013	21,075	41,607	62,682
2014-2018	89,882	223,527	313,409
2019-2023	61,687	251,722	313,409
2024-2028	29,936	283,473	313,409
2029-2030	2,203	91,819	94,022
Total	<u>\$ 285,469</u>	<u>\$ 991,941</u>	<u>\$ 1,277,410</u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 8 - RETIREMENT PLANS

Kern County Employees Retirement Plan

Plan Description and Provisions

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

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

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

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

All of the Kern County Water Agency's 69 full-time general employees participate in the KCERA. The payroll for employees covered by the KCERA for the years ended June 30, 2008 and 2007 was \$5,733,005 and \$5,013,098, respectively. The Agency's total payroll for the years ended June 30, 2008 and 2007 was \$6,086,635 and \$5,437,472, respectively.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

Group	
Retirees and beneficiaries currently receiving benefits	50
Vested terminated employees	7
Active employees:	
Fully vested	49
Non-vested	24

Basis of Accounting

KCERA follows the accounting principles and reporting guidelines as set forth in Statement 25 of the Governmental Accounting Standards Board, and AICPA industry audit guide "Audit of Employee Benefit Plans" issued May 1996. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of KCERA. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of the plan.

Method Used to Value Investments

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

Funding Policy

The County, Special Districts, and all covered employees make contributions to the plan at rates calculated by an actuary to cover both normal cost and the prior service costs such that any unfunded liability will be funded over an initial 30 year period. In accordance with the County Employees' Retirement Law of 1937, covered employees with less than five years of service are required to pay a percentage of their salaries, depending upon their age at date of entry into the system. The County must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes. The County's contribution rates for the year ended June 30, 2008 are based on the Projected Unit Credit Method with the unfunded liability amortized over 25 years.

A schedule of the annual required employer contributions and the percentage contributed for the fiscal years 2003 through 2007 is presented as follows:

Fiscal Year	Annual Required Contribution	Percentage Contributed
2007	\$128,134,672	100%
2006	\$100,734,230	100%
2005	\$60,268,141	100%
2004	\$48,759,946	100%
2003	\$58,246,723	682%

Covered employees are required by KCERA to contribute a percentage of their salaries depending upon their age at date of entry into the system. The Agency is required by KCERA to contribute at actuarially determined rates on an annual basis. A rate of 31.96% and 33.87% of covered employees' payroll was paid by the Agency for the years ended June 30, 2008 and 2007, respectively.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

The Agency contribution information for the year ended June 30, 2008 is as follows:

Years Ended June,30	Total Number of Employees Covered	Current Employee Contributions	Employer Contributions	Annual Covered Payroll	Employee Contributions as a Percentage of Covered Payroll	Employer Contributions as a Percentage of Covered Payroll
2008	69	\$67,887	\$1,832,269	\$5,733,005	1.2%	31.96%
2007	71	\$43,733	\$1,697,489	\$5,013,098	0.9%	33.87%
2006	66	\$24,419	\$1,401,447	\$4,921,882	0.5%	28.47%

Funding Status

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

The pension benefit obligation was computed as part of an actuarial valuation performed as of December 31, 2007. Net assets available to pay pension benefits were valued as of the same date. Economic assumptions were unchanged since the last valuation and included: an 8% investment rate of return, projected salary increases of 4.0% per year, and a 3.5% annual increase in Consumer Price Index. The annual increase in system benefits is capped at 2.5%.

Ten-year historical data showing KCERA's progress in accumulating sufficient assets to pay benefits when due is available from the Association. A three year schedule of the funding progress of the County retirement system for the years ended December 31, is presented as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded (Underfunded) AAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll	Unfunded AAL as % of Covered Payroll
12/31/2007	\$2,589,817	\$3,355,755	(\$765,938)	77.2%	\$453,412	(168.9%)
12/31/2006	\$2,352,028	\$3,109,038	(\$757,010)	75.7%	\$417,351	(181.4%)
12/31/2005	\$2,164,304	\$2,861,872	(\$697,568)	75.6%	\$391,381	(178.2%)

Deferred Compensation

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

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Litigation

The County of Kern is involved in litigation regarding protested tax assessments. The contested assessments at June 30, 2008 and 2007 totaled approximately \$758,000 and \$314,000, respectively. In the opinion of legal counsel for the County of Kern, a large majority of the appeals will be withdrawn by the applicant or settled by a stipulation of value, and the County Tax Assessor will prevail in the majority of appeals. Accordingly, liabilities have not been recorded for these amounts.

Construction Commitments

The Agency has entered into several construction contracts for its facilities. At June 30, 2008, the total outstanding commitments were \$103,568,693.

NOTE 10 - JOINT VENTURES

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

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

Condensed financial information for the year ended September 30, 2007 (the most recent data available) is as follows:

Total Assets	\$ 52,197,499
Total Liabilities	<u>34,825,868</u>
Designated Fund Balance	<u>\$ 17,371,631</u>
Total Revenues	\$ 19,877,403
Total Expenses	<u>17,904,549</u>
Net Increase in Fund Equity	<u>\$ 1,972,854</u>

The JPIA had no outstanding debt at September 30, 2007. The Agency's share of year-end assets, liabilities and fund equity has not been computed.

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

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

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008

Condensed financial information for the year ended December 31, 2007 (the most recent data available) is as follows:

Total Assets	\$ 72,364,862
Total Liabilities	(37,664,125)
Total Contributed Capital	<u>(31,423,772)</u>
	<u>\$ 3,276,965</u>
 Total Revenues	 \$ 13,230,612
Total Expenses	12,782,343
Increase in Net Assets	<u>\$ 448,269</u>

The KWBA had an outstanding loan in the amount of \$26,557,977 at December 31, 2007. The Agency's share of year-end assets, liabilities and retained earnings has not been computed.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension plan, the Agency provides health care benefits, in accordance with Agency policy, to qualified retirees and their spouses. The qualification requirements for these benefits are (1) the sum of the years of service and age must equal 70 or more, (2) the retiree must have at least ten years of service, and (3) the retiree must be at least 50 years old. At June 30, 2008, 37 retirees and surviving spouses met those eligibility requirements. The Agency currently contributes the full cost of coverage for retirees and their spouses in accordance with agreements reached with the respective employees' bargaining units. Covered retirees are responsible for personal deductibles and co-payments. The Agency pays for post-retirement health care benefits on a pay-as-you-go basis in accordance with accounting principles prescribed by the GASB. For the year ended June 30, 2008 and 2007, the Agency's post-retirement health care benefit expenditures were \$293,828 and \$265,745, respectively.

NOTE 12 - AUTHORITATIVE PRONOUNCEMENT NOT YET ADOPTED

In June 2004 the Governmental Accounting Standards Board issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions." This statement will be effective for the District for its year ended June 30, 2009. It establishes standards of accounting and financial reporting for other post-employment benefits (OPEB) expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information in the financial reports of state and local government employers. Generally, an employer will recognize OPEB liabilities or assets on the accrual basis for government-wide financial statements, and on the modified accrual basis for governmental fund financial statements. The District is currently evaluating the impact that implementing this standard will have on its financial statements.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2008**

NOTE 13 –CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

Net assets at June 30, 2006, were restated as follows in order to reflect a change in accounting principle from a general government presentation to an enterprise fund presentation, as required by the Uniform System of Accounts for Special Districts prescribed by the Controller of the State of California:

Net assets, beginning, as previously reported in the government-wide statement of net assets at June 30, 2006	\$ 115,627,919
Net assets, beginning, as previously reported in the combining balance sheet for agency funds at June 30, 2006	<u>14,133,035</u>
Total net assets previously reported at June 30, 2006	129,760,954
Prior Period Adjustments:	
To capitalize capital outlay previously reported in agency fund	1,150,000
To record accumulated depreciation on fixed assets previously reported as general fixed assets	(15,404,579)
To record infrastructure assets not yet on books	2,789,986
To record deferred compensation assets held in trust for others as a liability	<u>(3,163,201)</u>
Net assets, beginning of year, as restated at July 1, 2006	<u><u>\$ 115,133,160</u></u>

BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION

KERN COUNTY WATER AGENCY

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008

	Source of Supply	Transmission and Distribution	Operations and Maintenance	Administration and General	Total
Water purchases	\$ 84,951,013	\$ -	\$ -	\$ -	\$ 84,951,013
Salaries and wages	2,123,125	1,250,465	2,840,467	3,120,200	9,334,257
Power	1,694,984	545,905	5,476,524	-	7,717,413
Refunds and credits	4,880,398	-	-	62,324	4,942,722
Professional fees	4,193,292	-	-	202,559	4,395,851
Other	3,473,591	-	101,494	232,265	3,807,350
Other administrative	1,028,163	15,164	111,223	-	1,154,550
Association and membership fees	858,974	1,834	33,227	94,792	988,827
Operations	71,433	233,940	657,783	25,063	988,219
Maintenance	46,379	86,436	143,119	113,046	388,980
Exchange and conveyance fees	351,120	384,055	-	-	735,175
Recharge and recovery fees	610,342	-	-	-	610,342
Meeting and travel	180,080	3,467	50,269	164,141	397,957
Insurance	52,498	42,757	91,827	84,375	271,457
Telephone and utilities	28,175	11,757	-	130,986	170,918
Director fees	-	4,651	7,415	93,042	105,108
	<u>\$ 104,543,567</u>	<u>\$ 2,580,431</u>	<u>\$ 9,513,348</u>	<u>\$ 4,322,793</u>	<u>\$ 120,960,139</u>

KERN COUNTY WATER AGENCY

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2007

	Source of Supply	Transmission and Distribution	Operations and Maintenance	Administration and General	Total
Water purchases	\$ 83,738,226	\$ -	\$ -	\$ -	\$ 83,738,226
Refunds and credits	8,904,696	-	-	69,801	8,974,497
Salaries and wages	2,065,831	1,151,364	2,790,658	2,444,596	8,452,449
Power	749,401	1,513,908	3,964,940	-	6,228,249
Professional fees	2,711,793	46,856	107,900	262,789	3,129,338
Other	302,025	874,616	120,058	63,757	1,360,456
Exchange and conveyance fees	346,079	684,813	-	-	1,030,892
Association and membership fees	918,709	9,177	18,968	56,753	1,003,607
Operations	77,525	211,560	619,240	19,505	927,830
Maintenance	37,698	205,051	343,326	84,169	670,244
Meeting and travel	186,248	4,325	50,828	112,566	353,967
Other administrative	28,597	10,430	101,729	181,360	322,116
Capital outlays	-	1,938	266,335	28,351	296,624
Insurance	47,199	34,376	80,171	67,668	229,414
Telephone and utilities	41,306	21,068	22,975	96,533	181,882
Recharge and recovery fees	130,221	-	-	-	130,221
Director fees	616	6,159	7,564	99,694	114,033
	<u>\$ 100,286,170</u>	<u>\$ 4,775,641</u>	<u>\$ 8,494,692</u>	<u>\$ 3,587,542</u>	<u>\$ 117,144,045</u>

KERN COUNTY WATER AGENCY

COMBINING BALANCE SHEET - SUMMARY OF ALL ACTIVITIES

June 30, 2008

	State Contract Activities	Treatment Transportation Flood Control Activities	Groundwater Banking Activities	General and Administrative Activities
ASSETS				
Current Assets				
Cash and investments	\$ 57,936,381	\$ 32,583,548	\$ (734,023)	\$ 14,790,619
Receivables:				
Accounts receivable	5,197,587	5,006,975	3,428,003	2,292,078
Taxes receivable	273,304	201,597	-	123,468
Interest receivable	465,148	662,438	(7,356)	140,617
Due from other funds	-	-	200,705	-
Prepaid expenses	(630)	1,641,469	253,049	143,583
Inventories	-	3,446,063	3,531,743	-
Total current assets	63,871,790	43,542,090	6,672,121	17,490,365
Restricted cash and investments	2,542,833	83,004,841	312,281	5,266,179
Property and equipment	11,246	89,882,518	39,189,364	66,786,520
Investment in Kern Water Bank	-	3,343,691	-	-
Total assets	\$ 66,425,869	\$ 219,773,140	\$ 46,173,766	\$ 89,543,064
LIABILITIES AND NET ASSETS				
Outstanding checks in excess of bank balance	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	-	2,413,111	365,786	-
Accounts payable	1,578,237	4,221,115	1,233,107	1,015,067
Accrued expenses	5,821,862	3,043,232	704,387	4,669,073
Due to other funds	-	-	44,109	156,596
Deferred revenue	29,083,836	5,812,452	934,028	-
Total current liabilities	36,483,935	15,489,910	3,281,417	5,840,736
Long-term Debt	-	144,079,565	4,640,270	-
Net Assets				
Invested in capital assets, net of related debt	11,246	24,024,222	34,183,307	66,786,520
Restricted for State Water Contract	8,324,017	-	-	-
Unrestricted	21,606,671	36,179,443	4,068,772	16,915,808
Total net assets	29,941,934	60,203,665	38,252,079	83,702,328
Total liabilities and net assets	\$ 66,425,869	\$ 219,773,141	\$ 46,173,766	\$ 89,543,064

Subtotal	Interfund Eliminations	2008 Total	2007 Total
\$ 104,576,525	\$ -	\$ 104,576,525	\$ 67,266,153
15,924,643	(1,819,851)	14,104,792	9,000,313
598,369	-	598,369	196,117
1,260,847	-	1,260,847	781,997
200,705	(200,705)	-	-
2,037,471	(1,760,967)	276,504	1,182,962
6,977,806	-	6,977,806	7,230,857
131,576,366	(3,781,523)	127,794,843	85,658,399
91,126,134	-	91,126,134	31,570,971
195,869,648	(489,808)	195,379,840	115,993,183
3,343,691	-	3,343,691	3,343,691
<u>\$ 421,915,839</u>	<u>\$ (4,271,331)</u>	<u>\$ 417,644,508</u>	<u>\$ 236,566,244</u>

\$ -	\$ -	\$ -	\$ 8,144,372
2,778,897	-	2,778,897	951,812
8,047,526	-	8,047,526	12,024,737
14,238,554	(1,819,851)	12,418,703	11,417,639
200,705	(200,705)	-	-
35,830,316	(1,760,967)	34,069,349	37,401,461
61,095,998	(3,781,523)	57,314,475	69,940,021
148,719,835	-	148,719,835	30,892,019

125,005,295	(489,808)	124,515,487	83,500,863
8,324,017	-	8,324,017	7,392,488
78,770,694	-	78,770,694	44,840,853
212,100,006	(489,808)	211,610,198	135,734,204
<u>\$ 421,915,839</u>	<u>\$ (4,271,331)</u>	<u>\$ 417,644,508</u>	<u>\$ 236,566,244</u>

KERN COUNTY WATER AGENCY

COMBINING BALANCE SHEET - STATE CONTRACT ACTIVITIES

June 30, 2008

	State Contract Payment	Settlement Allocation	Supplemental Water	Westlands Payback
ASSETS				
Current Assets				
Cash and investments	\$ 32,495,274	\$ 3,869,886	\$ 12,864,570	\$ 1,366,640
Receivables:				
Accounts receivable	5,197,587	-	-	-
Taxes receivable	-	-	-	-
Interest receivable	369,263	34,681	-	12,005
Due from other funds	-	-	-	-
Prepaid expenses	(630)	-	-	-
Inventories	-	-	-	-
Total current assets	38,061,494	3,904,567	12,864,570	1,378,645
Restricted cash and investments	2,542,833	-	-	-
Deferred charges	-	-	-	-
Property and equipment	11,246	-	-	-
Investment in Kern Water Bank	-	-	-	-
Total assets	\$ 40,615,573	\$ 3,904,567	\$ 12,864,570	\$ 1,378,645
LIABILITIES AND NET ASSETS				
Current Liabilities				
Outstanding checks in excess of bank balance	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	-	-	-	-
Accounts payable	1,578,237	-	-	-
Accrued expenses	2,996,882	-	2,824,980	-
Due to other funds	-	-	-	-
Deferred revenue	27,705,191	-	-	1,378,645
Total current liabilities	32,280,310	-	2,824,980	1,378,645
Long-term Debt	-	-	-	-
Net Assets				
Invested in capital assets, net of related debt	11,246	-	-	-
Restricted for State Water Contract	8,324,017	-	-	-
Unrestricted	-	3,904,567	10,039,590	-
Total net assets	8,335,263	3,904,567	10,039,590	-
Total liabilities and net assets	\$ 40,615,573	\$ 3,904,567	\$ 12,864,570	\$ 1,378,645

Zone of Benefit No. 17	Zone of Benefit No. 18	Zone of Benefit No. 19	2008 Total	2007 Total
\$ 3,370,680	\$ 565,964	\$ 3,403,367	\$ 57,936,381	\$ 38,166,851
-	-	-	5,197,587	1,941,707
124,272	1,321	147,711	273,303	88,361
21,857	3,994	23,348	465,149	455,269
-	-	-	-	7,323,022
-	-	-	(630)	744,595
-	-	-	-	-
3,516,809	571,279	3,574,426	63,871,790	48,719,805
-	-	-	2,542,833	12,752,203
-	-	-	-	-
-	-	-	11,246	-
-	-	-	-	-
\$ 3,516,809	\$ 571,279	\$ 3,574,426	\$ 66,425,869	\$ 61,472,008

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	1,578,237	3,381,473
-	-	-	5,821,862	3,236,167
-	-	-	-	-
-	-	-	29,083,836	30,629,763
-	-	-	36,483,935	37,247,403
-	-	-	-	-
-	-	-	11,246	-
-	-	-	8,324,017	7,392,488
3,516,809	571,279	3,574,426	21,606,671	16,832,117
3,516,809	571,279	3,574,426	29,941,934	24,224,605
\$ 3,516,809	\$ 571,279	\$ 3,574,426	\$ 66,425,869	\$ 61,472,008

KERN COUNTY WATER AGENCY

COMBINING BALANCE SHEET - TREATMENT TRANSPORTATION FLOOD CONTROL ACTIVITIES

June 30, 2008

	Cross Valley Canal Operations	Improvement District No. 1	Improvement District No. 3	Improvement District No. 4 Operations
ASSETS				
Current Assets				
Cash and investments	\$ 2,341,618	\$ 523,520	\$ (495)	\$ 9,110,810
Receivables:				
Accounts receivable	729,801	-	-	3,628,886
Taxes receivable	-	1,408	277	-
Interest receivable	24,297	5,341	1,788	67,932
Due from other funds	-	-	-	-
Prepaid expenses	-	-	-	297,865
Inventories	-	-	-	3,446,063
Total current assets	3,095,716	530,269	1,570	16,551,556
Restricted cash and investments	408,142	-	203,814	-
Property and equipment	16,739,961	140,958	48,227	23,678,717
Investment in Kern Water Bank	-	-	-	3,343,691
Total assets	\$ 20,243,819	\$ 671,227	\$ 253,611	\$ 43,573,964
LIABILITIES AND NET ASSETS				
Current Liabilities				
Outstanding checks in excess of bank balance	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	-	-	-	-
Accounts payable	164,899	-	371	1,035,686
Accrued expenses	330,443	313	-	689,366
Due to other funds	-	-	-	-
Deferred revenue	3,383,984	-	-	2,428,468
Total current liabilities	3,879,326	313	371	4,153,520
Long-term Debt	-	-	-	991,941
Net Assets				
Invested in capital assets, net of related debt	16,739,961	140,958	48,227	22,686,776
Restricted for State Water Contract	-	-	-	-
Unrestricted	(375,468)	529,956	205,013	15,741,727
Total net assets	16,364,493	670,914	253,240	38,428,503
Total liabilities and net assets	\$ 20,243,819	\$ 671,227	\$ 253,611	\$ 43,573,964

Improvement District No. 4 Bonds	Zone of Benefit No. 7	2008 Total	2007 Total
\$ 17,467,226	\$ 3,140,869	\$ 32,583,548	\$ 14,583,514
78,836	569,452	5,006,975	4,808,888
119	199,794	201,597	60,913
527,759	35,320	662,438	199,004
-	-	-	-
-	1,343,604	1,641,469	1,841,988
-	-	3,446,063	3,441,601
18,073,940	5,289,039	43,542,090	24,935,908
80,634,380	1,758,505	83,004,841	12,979,227
49,274,655	-	89,882,518	53,429,931
-	-	3,343,691	3,343,691
<u>\$ 147,982,975</u>	<u>\$ 7,047,544</u>	<u>\$ 219,773,140</u>	<u>\$ 94,688,757</u>

\$ -	\$ -	\$ -	\$ 4,433,274
2,413,111	-	2,413,111	596,863
3,020,159	-	4,221,115	2,701,048
1,410,072	613,038	3,043,232	3,301,069
-	-	-	-
-	-	5,812,452	7,239,945
6,843,342	613,038	15,489,910	18,272,199
143,087,624	-	144,079,565	25,885,961

(15,591,700)	-	24,024,222	26,298,617
-	-	-	-
13,643,709	6,434,506	36,179,443	24,231,980
(1,947,991)	6,434,506	60,203,665	50,530,597
<u>\$ 147,982,975</u>	<u>\$ 7,047,544</u>	<u>\$ 219,773,140</u>	<u>\$ 94,688,757</u>

KERN COUNTY WATER AGENCY

COMBINING BALANCE SHEET - GROUNDWATER BANKING ACTIVITIES

June 30, 2008

	Ground Water Bank	Kern Water Bank	Lower Kern River	Pioneer Project
ASSETS				
Current Assets				
Cash and investments	\$ 411,892	\$ 169,194	\$ (703,525)	\$ (743,272)
Receivables:				
Accounts receivable	18,221	-	659,644	1,710,475
Taxes receivable	-	-	-	-
Interest receivable	-	-	(4,918)	(676)
Due from other funds	44,109	-	-	-
Prepaid expenses	5,334	-	-	-
Inventories	3,531,743	-	-	-
Total current assets	4,011,299	169,194	(48,799)	966,527
Restricted cash and investments	312,281	-	-	-
Deferred charges	-	-	-	-
Property and equipment	10,417,928	-	14,165,941	6,631,525
Investment in Kern Water Bank	-	-	-	-
Total assets	\$ 14,741,508	\$ 169,194	\$ 14,117,142	\$ 7,598,052
LIABILITIES AND NET ASSETS				
Current Liabilities				
Outstanding checks in excess of bank balance	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	-	-	-	-
Accounts payable	4,649	6,333	105,704	943,203
Accrued expenses	188,348	25,495	90,571	165,188
Due to other funds	-	-	-	-
Deferred revenue	-	138,599	-	108,893
Total current liabilities	192,997	170,427	196,275	1,217,284
Long-term Debt	-	-	-	-
Net Assets				
Invested in capital assets, net of related debt	10,417,928	-	14,165,941	6,631,525
Restricted for State Water Contract	-	-	-	-
Unrestricted	4,130,583	(1,233)	(245,074)	(250,757)
Total net assets	14,548,511	(1,233)	13,920,867	6,380,768
Total liabilities and net assets	\$ 14,741,508	\$ 169,194	\$ 14,117,142	\$ 7,598,052

Proposition 204 Loan	Entitlement Retention	Joint KCWA/BM Water Banking	Agency Participation in CVC	2008 Total	2007 Total
\$ 411,295	\$ (1,604,884)	\$ 106,530	\$ 1,218,747	\$ (734,023)	\$ 999,948
59,757	-	872,703	107,203	3,428,003	3,388,052
-	-	-	-	-	-
779	(14,099)	2,613	8,945	(7,356)	(22,095)
-	-	156,596	-	200,705	200,705
-	210,544	-	37,171	253,049	249,358
-	-	-	-	3,531,743	3,789,256
471,831	(1,408,439)	1,138,442	1,372,066	6,672,121	8,605,224
-	-	-	-	312,281	312,281
-	-	-	-	-	-
4,532,318	-	3,441,652	-	39,189,364	36,939,314
-	-	-	-	-	-
<u>\$ 5,004,149</u>	<u>\$ (1,408,439)</u>	<u>\$ 4,580,094</u>	<u>\$ 1,372,066</u>	<u>\$ 46,173,766</u>	<u>\$ 45,856,819</u>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,711,098
230,356	-	135,430	-	365,786	354,949
-	-	173,218	-	1,233,107	348,953
707	85,084	41,791	107,203	704,387	1,136,542
-	-	44,109	-	44,109	7,367,131
180,500	-	32,650	473,386	934,028	473,671
411,563	85,084	427,198	580,589	3,281,417	13,392,344
3,302,059	-	1,338,211	-	4,640,270	5,006,058

999,903	-	1,968,010	-	34,183,307	31,578,308
-	-	-	-	-	-
290,624	(1,493,523)	846,675	791,477	4,068,772	(4,119,891)
1,290,527	(1,493,523)	2,814,685	791,477	38,252,079	27,458,417
<u>\$ 5,004,149</u>	<u>\$ (1,408,439)</u>	<u>\$ 4,580,094</u>	<u>\$ 1,372,066</u>	<u>\$ 46,173,766</u>	<u>\$ 45,856,819</u>

KERN COUNTY WATER AGENCY

COMBINING BALANCE SHEET - GENERAL AND ADMINISTRATIVE ACTIVITIES

June 30, 2008

	General	Proposition 13 Phase II	Water Management	Western Hills
ASSETS				
Current Assets				
Cash and investments	\$ 8,301,796	\$ 5,132,305	\$ 723,808	\$ 623,329
Receivables:				
Accounts receivable	81,707	1,589,116	-	621,254
Taxes receivable	123,468	-	-	-
Interest receivable	95,421	(6,614)	22,873	28,937
Due from other funds	-	-	-	-
Prepaid expenses	143,583	-	-	-
Inventories	-	-	-	-
Total current assets	8,745,975	6,714,807	746,681	1,273,520
Restricted cash and investments	-	-	1,880,000	-
Deferred charges	-	-	-	-
Property and equipment	2,331,162	64,455,358	-	-
Investment in Kern Water Bank	-	-	-	-
Total assets	\$ 11,077,137	\$ 71,170,165	\$ 2,626,681	\$ 1,273,520
LIABILITIES AND NET ASSETS				
Current Liabilities				
Outstanding checks in excess of bank balance	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	-	-	-	-
Accounts payable	140,846	874,221	-	-
Accrued expenses	948,530	340,919	-	-
Due to other funds	156,596	-	-	-
Deferred revenue	-	-	-	-
Total current liabilities	1,245,972	1,215,140	-	-
Long-term Debt	-	-	-	-
Net Assets				
Invested in capital assets, net of related debt	2,331,162	64,455,358	-	-
Restricted for State Water Contract	-	-	-	-
Unrestricted	7,500,003	5,499,667	2,626,681	1,273,520
Total net assets	9,831,165	69,955,025	2,626,681	1,273,520
Total liabilities and net assets	\$ 11,077,137	\$ 71,170,165	\$ 2,626,681	\$ 1,273,520

Deferred Compensation	Section 125	2008 Total	2007 Total
\$ -	\$ 9,382	\$ 14,790,619	\$ 13,515,840
-	-	2,292,078	75,317
-	-	123,468	46,843
-	-	140,617	149,819
-	-	-	-
-	-	143,583	120,847
-	-	-	-
-	9,382	17,490,365	13,908,666
3,386,179	-	5,266,179	5,527,259
-	-	-	-
-	-	66,786,520	26,113,747
-	-	-	-
\$ 3,386,179	\$ 9,382	\$ 89,543,064	\$ 45,549,672

\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	1,015,067	5,593,264
3,386,179	(6,555)	4,669,073	5,789,419
-	-	156,596	156,596
-	-	-	-
3,386,179	(6,555)	5,840,736	11,539,279
-	-	-	-

-	-	66,786,520	26,113,747
-	-	-	-
-	15,937	16,915,808	7,896,646
-	15,937	83,702,328	34,010,393
\$ 3,386,179	\$ 9,382	\$ 89,543,064	\$ 45,549,672

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - SUMMARY OF ALL ACTIVITIES
Year Ended June 30, 2008**

	State Contract Activities	Treatment Transportation Flood Control Activities	Groundwater Banking Activities	General and Administrative Activities
Operating Revenue				
Charges for untreated water	\$ 90,954,751	\$ -	\$ 4,867,183	\$ 821,255
Charges for treated water	-	4,832,987	-	-
Ground water charges	-	3,058,536	-	-
Charges for operations and maintenance	-	3,869,198	10,859,028	-
Charges for power	-	2,184,676	4,720,599	-
Exchange and conveyance fees	-	167,868	660,435	-
Other user charges	-	33,265	680,704	-
Refunds and credits	4,880,398	-	-	-
Reimbursements	1,214,355	6,308,696	2,340,082	107,240
	<u>97,049,504</u>	<u>20,455,226</u>	<u>24,128,031</u>	<u>928,495</u>
Operating Expenses				
Salaries and wages	1,576,476	3,917,454	768,563	3,071,764
Water purchases	91,234,406	4,365,484	697,461	-
Exchange and conveyance fees	-	89,491	895,032	-
Recharge and recovery fees	24,980	493,952	196,741	-
Power	-	3,212,864	4,910,437	-
Refunds and credits	4,942,722	-	-	-
Operations	45,141	729,148	188,978	24,952
Maintenance	13,957	908,846	173,824	113,047
Other administrative	1,019,968	(124,261)	13,968	202,925
Insurance	39,475	130,134	25,050	76,799
Telephone and utilities	24,821	48,302	4,009	128,675
Meeting and travel	178,652	53,402	3,020	162,882
Association and membership fees	858,045	34,695	1,296	94,792
Director fees	-	12,066	-	93,041
Professional fees	4,246,956	150,532	94,071	229,950
Capital outlay	(13,007)	1,067,864	10,061,286	36,135
Depreciation	1,762	1,690,105	372,802	273,917
Agency overhead allocation	623,542	1,282,586	418,808	(2,324,936)
Other	2,820,776	450,189	661,178	243,826
	<u>107,638,672</u>	<u>18,512,853</u>	<u>19,486,525</u>	<u>2,427,769</u>
Operating income (loss)	<u>(10,589,168)</u>	<u>1,942,373</u>	<u>4,641,506</u>	<u>(1,499,274)</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	5,918,499
Voter approved	12,994,689	6,961,960	-	-
Grant income	-	-	-	15,189,724
Cost sharing income	-	-	-	34,789,435
Interest income	2,384,586	1,395,313	(409,168)	550,898
Gain (loss) on sale of assets	-	6,754	-	230
County collection charges	(26,538)	(14,679)	-	(76,580)
Interest expense	-	(1,192,145)	(149,722)	-
Other	1,244,600	817,492	932,265	62,943
Transfers to other funds	(18,004,688)	(817,814)	(7,647,536)	(5,951,869)
Transfers from other funds	17,713,848	573,814	13,426,317	707,928
	<u>16,306,497</u>	<u>7,730,695</u>	<u>6,152,156</u>	<u>51,191,208</u>
Change in net assets	<u>5,717,329</u>	<u>9,673,069</u>	<u>10,793,662</u>	<u>49,691,934</u>
Net assets, beginning	24,224,605	50,530,597	27,458,417	34,010,393
Net assets, ending	<u>\$ 29,941,934</u>	<u>\$ 60,203,666</u>	<u>\$ 38,252,079</u>	<u>\$ 83,702,327</u>

Subtotal	Interfund Eliminations	2008 Total	2007 Total
\$ 96,643,189	\$ (10,011,380)	\$ 86,631,809	\$ 75,375,359
4,832,987	(34,888)	4,798,099	3,606,960
3,058,536	-	3,058,536	2,962,221
14,728,226	(1,589,763)	13,138,463	7,652,017
6,905,275	(371,591)	6,533,684	5,169,027
828,303	(267,930)	560,373	1,774,954
713,969	(82,953)	631,016	407,017
4,880,398	-	4,880,398	8,904,696
9,970,373	(225,042)	9,745,331	1,302,466
142,561,256	(12,583,547)	129,977,709	107,154,717

9,334,257	-	9,334,257	8,452,449
96,297,351	(11,346,340)	84,951,011	83,738,226
984,523	(223,547)	760,976	1,030,892
715,673	(105,330)	610,343	130,221
8,123,301	(405,888)	7,717,413	6,228,249
4,942,722	-	4,942,722	8,974,497
988,220	-	988,220	927,830
1,209,674	(820,694)	388,980	670,244
1,112,600	-	1,112,600	322,116
271,458	-	271,458	229,414
205,807	(34,888)	170,919	181,882
397,956	-	397,956	353,967
988,828	-	988,828	1,003,607
105,107	-	105,107	114,033
4,721,509	(289,931)	4,431,578	3,129,338
11,152,278	(11,152,278)	-	296,624
2,338,586	-	2,338,586	1,816,608
-	-	-	-
4,175,969	(388,199)	3,787,770	1,360,456
148,065,820	(24,767,095)	123,298,724	118,960,653
(5,504,564)	12,183,548	6,678,985	(11,805,936)

5,918,499	-	5,918,499	5,165,642
19,956,649	-	19,956,649	13,799,819
15,189,724	-	15,189,724	978,506
34,789,435	(10,547,580)	24,241,855	9,609,860
3,921,629	-	3,921,629	4,222,827
6,984	-	6,984	(36,500)
(117,797)	-	(117,797)	(100,056)
(1,341,867)	-	(1,341,867)	(1,794,682)
3,057,301	(1,635,968)	1,421,333	561,564
(32,421,906)	32,421,906	-	-
32,421,907	(32,421,906)	-	-
81,380,557	(12,183,548)	69,197,009	32,406,980
75,875,993	-	75,875,994	20,601,044
136,224,012	(489,808)	135,734,204	115,133,160
\$212,100,005	\$ (489,808)	\$211,610,198	\$135,734,204

KERN COUNTY WATER AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
STATE CONTRACT ACTIVITIES**

Year Ended June 30, 2008

	State Contract Payment	Settlement Allocation	Supplemental Water	Westlands Payback
Operating Revenue				
Charges for untreated water	\$ 90,954,751	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	-	-	-
Charges for power	-	-	-	-
Exchange and conveyance fees	-	-	-	-
Other user charges	-	-	-	-
Refunds and credits	4,880,398	-	-	-
Reimbursements	1,214,355	-	-	-
	<u>97,049,504</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Expenses				
Salaries and wages	1,576,476	-	-	-
Water purchases	79,440,406	-	-	-
Exchange and conveyance fees	-	-	-	-
Recharge and recovery fees	-	-	24,980	-
Power	-	-	-	-
Refunds and credits	4,880,398	-	-	62,324
Operations	45,141	-	-	-
Maintenance	13,957	-	-	-
Other administrative	1,019,968	-	-	-
Insurance	39,475	-	-	-
Telephone and utilities	24,821	-	-	-
Meeting and travel	178,652	-	-	-
Association and membership fees	858,045	-	-	-
Director fees	-	-	-	-
Professional fees	4,246,956	-	-	-
Capital outlays	(13,007)	-	-	-
Depreciation	1,762	-	-	-
Agency overhead allocation	623,542	-	-	-
Other	20,776	-	2,800,000	-
	<u>92,957,368</u>	<u>-</u>	<u>2,824,980</u>	<u>62,324</u>
Operating income (loss)	<u>4,092,136</u>	<u>-</u>	<u>(2,824,980)</u>	<u>(62,324)</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	-	-	-
Grant income	-	-	-	-
Cost sharing income	-	-	-	-
Interest income	1,423,661	171,659	457,218	62,324
Gain (loss) on sale of assets	-	-	-	-
County collection charges	-	-	-	-
Interest expense	-	-	-	-
Other	-	-	1,244,600	-
Transfers to other funds	(7,323,022)	-	(10,681,666)	-
Transfers from other funds	2,750,000	-	14,963,848	-
	<u>(3,149,361)</u>	<u>171,659</u>	<u>5,984,000</u>	<u>62,324</u>
Change in net assets	<u>942,775</u>	<u>171,659</u>	<u>3,159,020</u>	<u>-</u>
Net assets, beginning	7,392,488	3,732,908	6,880,570	-
Net assets, ending	<u>\$ 8,335,263</u>	<u>\$ 3,904,567</u>	<u>\$ 10,039,590</u>	<u>\$ -</u>

Zone of Benefit No. 17	Zone of Benefit No. 18	Zone of Benefit No. 19	2008 Total	2007 Total
\$ -	\$ -	\$ -	\$ 90,954,751	\$ 80,684,994
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	4,880,398	8,904,696
-	-	-	1,214,355	402,080
-	-	-	97,049,504	89,991,770

-	-	-	1,576,476	1,618,896
5,897,000	672,000	5,225,000	91,234,406	83,345,541
-	-	-	-	164,096
-	-	-	24,980	12,512
-	-	-	-	-
-	-	-	4,942,722	8,974,497
-	-	-	45,141	59,068
-	-	-	13,957	980
-	-	-	1,019,968	21,930
-	-	-	39,475	37,166
-	-	-	24,821	37,016
-	-	-	178,652	178,536
-	-	-	858,045	914,919
-	-	-	-	616
-	-	-	4,246,956	2,640,226
-	-	-	(13,007)	-
-	-	-	1,762	-
-	-	-	623,542	649,116
-	-	-	2,820,776	960
5,897,000	672,000	5,225,000	107,638,672	98,656,075
(5,897,000)	(672,000)	(5,225,000)	(10,589,168)	(8,664,305)

-	-	-	-	-
6,525,221	741,000	5,728,468	12,994,689	9,338,559
-	-	-	-	-
-	-	-	-	-
119,870	20,605	129,249	2,384,586	2,231,803
-	-	-	-	-
(13,764)	(1,496)	(11,278)	(26,538)	(22,632)
-	-	-	-	-
-	-	-	1,244,600	9,886
-	-	-	(18,004,688)	(2,129,530)
-	-	-	17,713,848	1,787,000
6,631,327	760,109	5,846,439	16,306,497	11,215,086
734,327	88,109	621,439	5,717,329	2,550,781
2,782,482	483,170	2,952,987	24,224,605	21,673,824
\$ 3,516,809	\$ 571,279	\$ 3,574,426	\$ 29,941,934	\$ 24,224,605

KERN COUNTY WATER AGENCY

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

Year Ended June 30, 2008

	Cross Valley Canal Operations	Improvement District No. 1	Improvement District No. 3	Improvement District No. 4 Operations
Operating Revenue				
Charges for untreated water	\$ -	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	4,832,987
Ground water charges	-	-	-	3,058,536
Charges for operations and maintenance	2,201,521	-	-	31,166
Charges for power	781,605	-	-	1,403,071
Exchange and conveyance fees	167,868	-	-	-
Other user charges	-	-	-	33,265
Refunds and credits	-	-	-	-
Reimbursements	5,324,679	-	-	946,517
	<u>8,475,673</u>	<u>-</u>	<u>-</u>	<u>10,305,542</u>
Operating Expenses				
Salaries and wages	1,250,465	6,997	7,032	2,604,523
Water purchases	-	-	-	(3,938)
Exchange and conveyance fees	-	-	-	89,491
Recharge and recovery fees	-	-	-	493,952
Power	842,993	-	-	2,369,871
Refunds and credits	-	-	-	-
Operations	89,140	-	80	639,818
Maintenance	86,436	33	-	822,378
Other administrative	15,164	29	629	104,791
Insurance	42,757	86	430	79,285
Telephone and utilities	20,780	-	23	25,188
Meeting and travel	3,467	-	-	48,677
Association and membership fees	1,834	-	1	32,860
Director fees	4,651	-	-	7,415
Professional fees	41,599	1,320	-	93,055
Capital outlays	241,167	-	-	826,697
Depreciation	666,103	4,250	-	981,775
Agency overhead allocation	354,523	-	-	724,656
Other	358,160	62	-	106,116
	<u>4,019,239</u>	<u>12,777</u>	<u>8,195</u>	<u>10,046,610</u>
Operating income (loss)	<u>4,456,434</u>	<u>(12,777)</u>	<u>(8,195)</u>	<u>258,932</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	82,800	13,374	-
Grant income	-	-	-	-
Cost sharing income	-	-	-	-
Interest income	205,540	24,947	9,161	390,802
Gain (loss) on sale of assets	2,986	-	-	3,768
County collection charges	-	(1,088)	(108)	-
Interest expense	-	-	-	-
Other	1,033	-	-	806,490
Transfers to other funds	(18,424)	(244,000)	-	(555,390)
Transfers from other funds	18,424	-	-	-
	<u>209,559</u>	<u>(137,341)</u>	<u>22,427</u>	<u>645,670</u>
Change in net assets	<u>4,665,993</u>	<u>(150,118)</u>	<u>14,232</u>	<u>904,602</u>
Net assets, beginning	11,698,500	821,032	239,008	37,523,901
Net assets, ending	<u>\$ 16,364,493</u>	<u>\$ 670,914</u>	<u>\$ 253,240</u>	<u>\$ 38,428,503</u>

Improvement District No. 4 Bonds	Zone of Benefit No. 7	2008 Total	2007 Total
\$ -	\$ -	\$ -	\$ -
-	-	4,832,987	3,604,987
-	-	3,058,536	2,962,221
1,636,511	-	3,869,198	-
-	-	2,184,676	3,746,039
-	-	167,868	5,482,837
-	-	33,265	737,644
-	-	-	50,904
-	-	-	-
37,500	-	6,308,696	653,904
1,674,011	-	20,455,226	17,238,536

48,437	-	3,917,454	3,779,623
-	4,369,422	4,365,484	6,090,096
-	-	89,491	731,945
-	-	493,952	504,028
-	-	3,212,864	7,147,171
-	-	-	-
110	-	729,148	667,497
-	-	908,847	1,105,647
(244,874)	-	(124,261)	110,230
7,576	-	130,134	107,324
2,311	-	48,302	43,307
1,258	-	53,402	55,501
-	-	34,695	23,897
-	-	12,066	13,723
14,558	-	150,532	153,166
-	-	1,067,864	599,354
37,977	-	1,690,105	1,467,563
203,407	-	1,282,586	1,080,033
(14,149)	-	450,189	958,206
56,611	4,369,422	18,512,853	24,638,311
1,617,400	(4,369,422)	1,942,373	(7,399,775)

-	-	-	-
118	6,865,668	6,961,960	4,461,260
-	-	-	-
-	-	-	-
618,123	146,740	1,395,313	1,911,967
-	-	6,754	(37,755)
-	(13,483)	(14,679)	(11,318)
(1,192,145)	-	(1,192,145)	(1,635,299)
9,970	-	817,492	363,393
-	-	(817,814)	(552,348)
555,390	-	573,814	5,667,351
(8,544)	6,998,925	7,730,695	10,167,251
1,608,856	2,629,503	9,673,069	2,767,476
(3,556,847)	3,805,003	50,530,597	47,763,121
\$ (1,947,991)	\$ 6,434,506	\$ 60,203,665	\$ 50,530,597

KERN COUNTY WATER AGENCY

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

Year Ended June 30, 2008

	Ground Water Bank	Kern Water Bank	Lower Kern River	Pioneer Project
Operating Revenue				
Charges for untreated water	\$ -	\$ -	\$ 4,867,184	\$ -
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	-	-	223,828
Charges for power	-	-	692,625	3,019,772
Exchange and conveyance fees	-	-	116,179	348,293
Other user charges	47,141	-	-	239,784
Refunds and credits	-	-	-	-
Reimbursements	6,515	273,764	-	2,059,803
	<u>53,656</u>	<u>273,764</u>	<u>5,675,988</u>	<u>5,891,480</u>
Operating Expenses				
Salaries and wages	218,079	211,955	57,170	221,915
Water purchases	257,512	-	104,090	-
Exchange and conveyance fees	-	109,933	126,630	416,187
Recharge and recovery fees	-	-	196,741	-
Power	-	-	798,158	3,106,652
Refunds and credits	-	-	-	-
Operations	3,731	11,462	3,675	17,885
Maintenance	948	5,242	13,368	141,401
Other administrative	4,749	1,513	471	5,774
Insurance	4,144	3,180	1,324	12,026
Telephone and utilities	516	1,613	1,012	654
Meeting and travel	1,270	40	112	1,593
Association and membership fees	797	87	-	367
Director fees	-	-	-	-
Professional fees	12,096	-	59,373	22,602
Capital outlays	6,786	-	-	-
Depreciation	1,496	-	-	140,820
Agency overhead allocation	109,969	66,480	47,402	138,011
Other	7,300	1,053	648,963	418
	<u>629,393</u>	<u>412,558</u>	<u>2,058,489</u>	<u>4,226,305</u>
Operating income (loss)	<u>(575,737)</u>	<u>(138,794)</u>	<u>3,617,499</u>	<u>1,665,175</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	-	-	-
Grant income	-	-	-	-
Cost sharing income	-	-	-	-
Interest income	(428,950)	6,710	(25,955)	(582)
Gain (loss) on sale of assets	-	-	-	-
County collection charges	-	-	-	-
Interest expense	-	-	-	-
Other	12,560	-	919,105	-
Transfers to other funds	(2,901,426)	(6,710)	(4,739,400)	-
Transfers from other funds	13,389,717	-	-	-
	<u>10,071,901</u>	<u>-</u>	<u>(3,846,250)</u>	<u>(582)</u>
Change in net assets	<u>9,496,164</u>	<u>(138,794)</u>	<u>(228,751)</u>	<u>1,664,593</u>
Net assets, beginning	5,052,347	137,561	14,149,618	4,716,175
Net assets, ending	<u>\$ 14,548,511</u>	<u>\$ (1,233)</u>	<u>\$ 13,920,867</u>	<u>\$ 6,380,768</u>

Proposition 204 Loan	Entitlement Retention	Joint KCWA/BM Water Banking	Agency Participation in CVC	2008 Total	2007 Total
\$ -	\$ -	\$ -	\$ -	\$ 4,867,183	\$ 57,453
-	-	-	-	-	1,973
-	-	-	-	-	-
353,926	-	116,974	10,164,300	10,859,028	4,885,332
-	-	901,001	107,201	4,720,599	2,309,124
-	-	84,190	111,773	660,435	2,024,979
-	-	310,826	82,953	680,704	357,395
-	-	-	-	-	-
-	-	-	-	2,340,082	883,400
353,926	-	1,412,991	10,466,227	24,128,031	10,519,656
-	-	59,444	-	768,563	609,334
-	335,859	-	-	697,461	206,903
-	-	114,558	127,725	895,032	976,039
-	-	-	-	196,741	7,497
-	-	896,826	108,801	4,910,437	1,704,012
-	-	-	-	-	-
-	-	7,426	144,800	188,978	181,785
-	-	12,865	-	173,824	89,078
-	-	1,461	-	13,968	7,545
-	-	4,376	-	25,050	17,256
-	-	214	-	4,009	5,151
-	-	5	-	3,020	7,829
-	-	45	-	1,296	8,038
-	-	-	-	-	-
-	-	-	-	94,071	92,912
-	-	-	10,054,500	10,061,286	3,368,750
140,011	-	90,475	-	372,802	163,508
-	-	56,946	-	418,808	361,942
1,724	-	1,720	-	661,178	308,266
141,735	335,859	1,246,361	10,435,826	19,486,525	8,115,845
212,191	(335,859)	166,630	30,401	4,641,506	2,403,811
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,281	(62,451)	19,461	66,318	(409,168)	(518,426)
-	-	-	-	-	-
-	-	-	-	-	-
(100,126)	-	(49,596)	-	(149,722)	(159,383)
-	-	600	-	932,265	174,615
-	-	-	-	(7,647,536)	(398,944)
-	-	-	36,600	13,426,317	16,278,353
(83,845)	(62,451)	(29,535)	102,918	6,152,156	15,376,215
128,346	(398,310)	137,095	133,319	10,793,662	17,780,026
1,162,181	(1,095,213)	2,677,590	658,158	27,458,417	9,678,391
\$ 1,290,527	\$ (1,493,523)	\$ 2,814,685	\$ 791,477	\$ 38,252,080	\$ 27,458,417

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - GENERAL AND ADMINISTRATIVE ACTIVITIES

Year Ended June 30, 2008

	General	Proposition 13 Phase II	Water Management	Western Hills
Operating Revenue				
Charges for untreated water	\$ -	\$ -	\$ -	\$ 821,255
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	-	-	-
Charges for power	-	-	-	-
Exchange and conveyance fees	-	-	-	-
Other user charges	-	-	-	-
Refunds and credits	-	-	-	-
Reimbursements	107,240	-	-	-
	<u>107,240</u>	<u>-</u>	<u>-</u>	<u>821,255</u>
Operating Expenses				
Salaries and wages	3,073,357	361	-	-
Water purchases	-	-	-	-
Exchange and conveyance fees	-	-	-	-
Recharge and recovery fees	-	-	-	-
Power	-	-	-	-
Refunds and credits	-	-	-	-
Operations	24,952	-	-	-
Maintenance	113,047	-	-	-
Other administrative	213,500	(10,575)	-	-
Insurance	71,038	5,761	-	-
Telephone and utilities	127,938	737	-	-
Meeting and travel	159,042	3,840	-	-
Association and membership fees	94,792	-	-	-
Director fees	93,041	-	-	-
Professional fees	229,725	225	-	-
Capital outlays	36,135	-	-	-
Depreciation	273,917	-	-	-
Agency overhead allocation	(2,324,936)	-	-	-
Other	243,590	236	-	-
	<u>2,429,138</u>	<u>585</u>	<u>-</u>	<u>-</u>
Operating income (loss)	<u>(2,321,898)</u>	<u>(585)</u>	<u>-</u>	<u>821,255</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	5,918,499	-	-	-
Voter approved	-	-	-	-
Grant income	-	15,189,724	-	-
Cost sharing income	-	34,789,435	-	-
Interest income	373,678	(79,452)	111,408	145,264
Gain (loss) on sale of assets	230	-	-	-
County collection charges	(76,580)	-	-	-
Interest expense	-	-	-	-
Other	62,943	-	-	-
Transfers to other funds	(3,215,550)	-	-	(2,736,319)
Transfers from other funds	463,928	244,000	-	-
	<u>3,527,148</u>	<u>50,143,707</u>	<u>111,408</u>	<u>(2,591,055)</u>
Change in net assets	<u>1,205,250</u>	<u>50,143,122</u>	<u>111,408</u>	<u>(1,769,800)</u>
Net assets, beginning	8,625,915	19,811,903	2,515,273	3,043,320
Net assets, ending	<u>\$ 9,831,165</u>	<u>\$ 69,955,025</u>	<u>\$ 2,626,681</u>	<u>\$ 1,273,520</u>

Deferred Compensation	Section 125	2008 Total	2007 Total
\$ -	\$ -	\$ 821,255	\$ 499,807
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	107,240	16,986
-	-	928,495	516,793

-	(1,955)	3,071,764	2,444,596
-	-	-	(71)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	24,952	19,480
-	-	113,047	84,153
-	-	202,925	182,411
-	-	76,799	67,668
-	-	128,675	96,408
-	-	162,882	112,101
-	-	94,792	56,753
-	-	93,041	99,694
-	-	229,950	243,034
-	-	36,135	28,351
-	-	273,917	185,537
-	-	(2,324,936)	(2,091,091)
-	-	243,826	99,805
-	(1,955)	2,427,769	1,628,829
-	1,955	(1,499,274)	(1,112,036)

-	-	5,918,499	5,165,642
-	-	-	-
-	-	15,189,724	978,506
-	-	34,789,435	13,027,010
-	-	550,898	597,483
-	-	230	1,255
-	-	(76,580)	(66,106)
-	-	-	-
-	-	62,943	52,697
-	-	(5,951,869)	(23,842,243)
-	-	707,928	3,190,361
-	-	51,191,208	(895,395)
-	1,955	49,691,935	(2,007,431)
-	13,982	34,010,393	36,017,824
\$ -	\$ 15,937	\$ 83,702,328	\$ 34,010,393



Certified Public Accountants
Business & Personal Consultants

Member of the McGladrey Network

Member of AICPA Division for Firms
Private Companies Practice Section

NANCY C. BELTON

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Kern County Water Agency
Bakersfield, California

We have audited the basic financial statements of **Kern County Water Agency** as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Kern County Water Agency's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Kern County Water Agency's** internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of **Kern County Water Agency's** internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Daniells, Phillips, Vaughan & Rock

Bakersfield, California
March 31, 2009