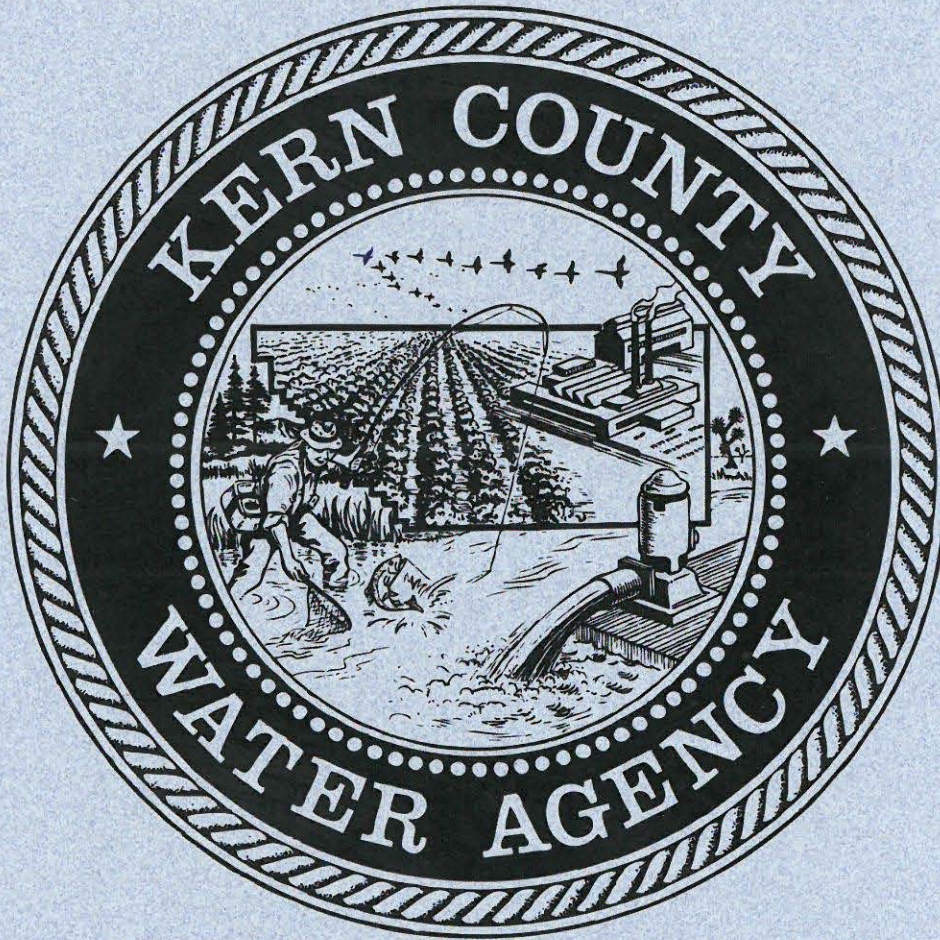


**Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2016**



Kern County Water Agency

**KERN COUNTY WATER AGENCY
BAKERSFIELD, CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016

**KERN COUNTY WATER AGENCY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Transmittal Letter	i-x
Board of Directors	xi
Organizational Chart	xii
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1-2
Management's Discussion and Analysis.....	3-6
<u>Basic Financial Statements:</u>	
Statements of net position	7
Statements of revenues, expenses and changes in net position	8
Statements of cash flows.....	9-10
Notes to the basic financial statements.....	11-35
<u>Required Supplementary Information:</u>	
Schedule of other post-employment benefits (OPEB) funding progress.....	36
Schedule of proportionate share of the net pension liability.....	37
Schedule of pension contributions.....	38
<u>Other Supplementary Information:</u>	
Schedules of functional expenses	39-40
Combining statements of net position	41-45
Combining statements of revenues, expenses and changes in net position	46-50
<u>Other Report:</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 <i>Government Auditing Standards</i>	51-52

INTRODUCTORY SECTION



Directors:

Ted R. Page
President
Division 1

Bruce Hafenfeld
Division 2

Martin Milobar
Division 3

Philip Cerro
Division 4

Charles (Bill) W. Wulff, Jr.
Division 5

Royce Fast
Vice President
Division 6

Gene A. Lundquist
Division 7

Curtis Creel
General Manager

Amelia T. Minaberrigarai
General Counsel

February 22, 2017

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

RE: Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2016

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, 2016. 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 Administrative Operations Department has prepared the CAFR in accordance with accounting principles generally accepted in the United States of America. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Agency management. Staff believes 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, 2016 and 2015, 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.

(661) 634-1400

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

Street Address
3200 Rio Mirada Drive
Bakersfield, CA 93308

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.

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 (ARBs) 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, 2016 and 2015 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 management and oversight. 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 have 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 Kern County's 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 982,730 acre-feet (af) of Table A water. Of that amount, 119,000 af are designated for municipal and industrial use, and 863,730 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 (CVP) via the CVC and Friant-Kern Canal are also an essential part of Kern County's water supply system. These federal supplies normally provide an average of more than 400,000 af per year primarily to Delano-Earlimart Irrigation District, Southern San Joaquin Municipal Utilities District, Shafter-Wasco Irrigation District, Arvin-Edison Water Storage District and Kern-Tulare Water District.

The Kern River supplies water for agriculture, industry and hydroelectric power generation, with flows averaging about 760,000 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, the second most productive agricultural county in the state in 2014, relies on an adequate water supply to maintain its economy.¹ A vast underground water basin supplies about 37 percent of the water used for domestic and agricultural purposes, in addition to the surface water sources, the Kern River (21 percent), SWP (23 percent), CVP (11 percent) and local streams (8 percent), for a combined annual supply from all sources of about 3.7 million acre-feet. 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 222,000 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.

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. Additionally, the Agency is a participant in the Tulare Lake Basin Portion of Kern County Integrated Regional Water Management Plan (Kern IRWMP), which seeks to preserve the economic and environmental health of Kern County communities through comprehensive management of our water resources. The Kern IRWMP is a collaboration of water suppliers, community and government representatives, environmental groups and a variety of other stakeholders. ID4 also updated its Urban Water Management Plan (UWMP) in 2015. An UWMP details the water supply reliability of the urban water supplier during normal, dry and multiple dry years. ID4 submitted its 2015 UWMP to the Department of Water Resources by July 1, 2016.

¹ California Department of Agriculture. 2015. *California County Agricultural Commissioners' Reports: Crop Year 2014-2015*.

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 just under 36 million acre-feet 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. As of 2010, contract amendments have been executed to permanently transfer 130,000 af to other SWP Contractors.

Below is a table listing the Member Units and their annual entitlement after all transfers and retirements.

Member Unit	SWP Maximum Annual Entitlement (af)
Berrenda Mesa WD (AG)	92,600
Lost Hills WD (AG)	119,110
Belridge WSD (AG)	121,508
Semitropic WSD (AG)	155,000
Cawelo WD (AG)	38,200
Rosedale-Rio Bravo WSD (AG)	29,900
Buena Vista WSD (AG)	21,300
Kern Delta WD (AG)	25,500
Henry Miller WD (AG)	35,500
West Kern WD (M&I)	25,000
West Kern WD (AG)	6,500
Wheeler Ridge- Maricopa WSD	197,088
Tehachapi Cummings CWD (AG)	4,300
Tehachapi Cummings CWD (M&I)	15,000
Tejon-Castac WD (AG)	3,278
Tejon-Castac WD (M&I)	2,000
KCWA Improvement District No. 4 (M&I)	77,000
KCWA Improvement District No. 4 (AG)	5,946
KCWA (AG)	8,000
Subtotal (AG)	879,730
Subtotal (M&I)	119,000
Total	982,730

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 Kern 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.

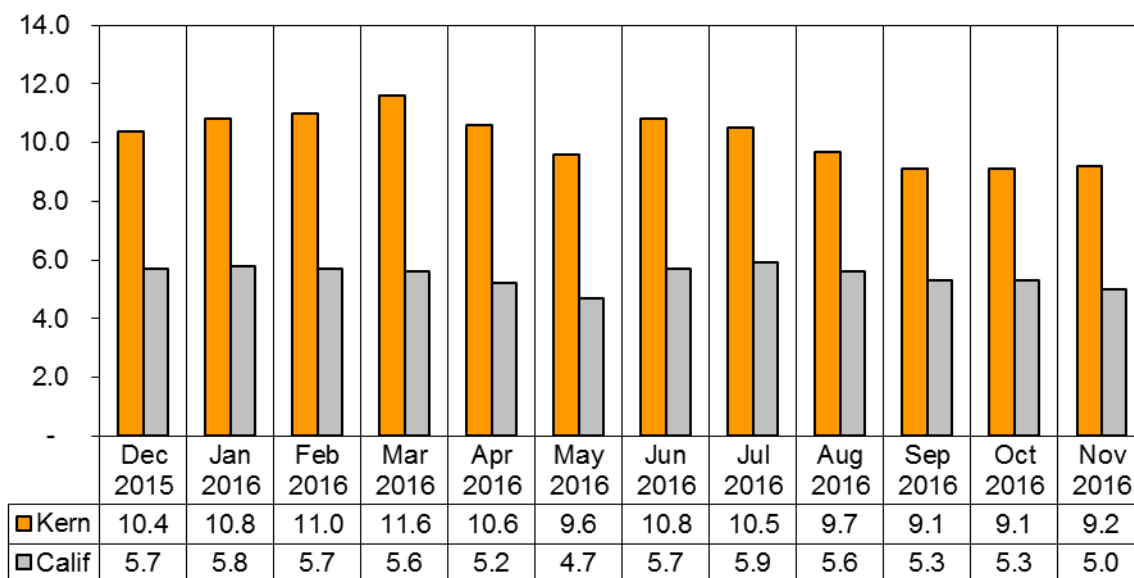
Kern County produces a wide variety of crops including fruits, nuts, vegetables and field crops, as well as lumber, nursery stock, livestock, poultry and dairy products. The total value of these agricultural products was \$6.9 billion and \$7.6 billion in 2015 and 2014 respectively. A breakdown of the top 20 commodities for 2015 is provided below.

<i>Kern County 2015 Crop Report</i>		
COMMODITY	VALUE	2014 RANKING
1. Grapes, All	\$ 1,643,103,000	1
2. Almonds, Including By-Products	1,487,789,000	2
3. Citrus, Fresh & Processing	927,694,000	4
4. Milk, Market & Manufacturing	594,816,000	3
5. Cattle & Calves	355,789,000	5
6. Carrots, Fresh & Processing	299,398,000	7
7. Pistachios	245,174,000	6
8. Pomegranates, Fresh & Processing	190,935,000	10
9. Hay, Alfalfa	133,685,000	8
10. Silage & Forage	84,773,000	14
11. Apiary Products	82,772,000	12
12. Potatoes, Fresh & Processing	81,716,000	11
13. Tomatoes, Fresh & Processing	62,106,000	13
14. Nursery Fruit and Nut Trees & Vines	52,746,000	17
15. Eggs & Egg Product	52,498,000	16
16. Onions, Fresh & Dehydrator	51,043,000	18
17. Cotton, Including Processed Cottonseed	50,578,000	9
18. Bell Peppers, Fresh & Processing	42,855,000	15
19. Cherries	42,368,000	21
20. Garlic, Fresh & Processing	39,569,000	20

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.

According to California Department of Finance population estimates, Kern County’s population is expected to grow over the next 40 years from 841,609 in 2010 to 1,823,277 in 2050. The estimated increase of 941,668, or 217, percent puts Kern County 1st on the list of fastest growing counties based on numerical change for the years 2010–2050. Kern County is estimated to grow an average of 21 percent every 10 years and is expected to be one of the 10 largest counties in California by 2050. Kern was number 14 on the list of largest counties in California in 2000 but is expected to be number eight in 2050. The civilian labor force increased to 399,300 as of November 2015, a .6% increase from the previous year. The civilian labor force increased by 2,400 workers from November 2015 to November 2016. Agriculturally-oriented counties like Kern tend to have greater seasonal variations on employment and higher unemployment rates.

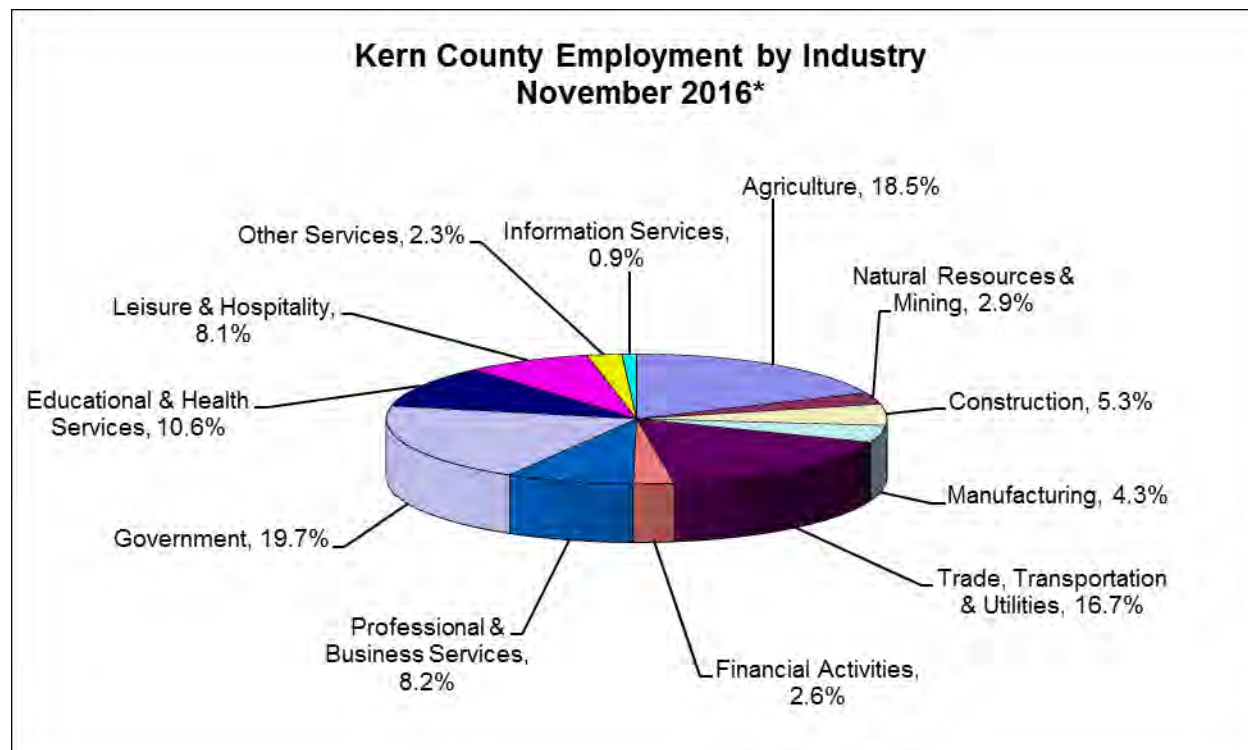
State & County Unemployment Rates



Source: California Employment Development Department

Data not seasonally adjusted

As of November 2016, government, agriculture and trade, transportation and utilities comprised a large part of Kern County's employment sectors. Together, these industries account for 54.9 percent of the total employment in the County. Government made up the largest share with 19.7 percent. Agriculture and trade, transportation and utilities account for 18.5 and 16.7 percent, respectively. There were 27,000 jobs in professional and business services, while educational and health services provided 34,700 jobs.



*Total Employment November 2016: 328,700

ACCOMPLISHMENTS DURING FISCAL YEAR 2015-16

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

Cross Valley Canal Extension Lining Project

In 2016, Agency staff continued to work with Provost and Pritchard Consulting Group (Provost and Pritchard) on the final design of Phase 1A and Phase 1B to concrete-line Pool No. 7 of CVC Extension. Phase 1A concrete-lined approximately 3,500 lineal feet of the unlined canal near Mohawk Street. Phase 1B will concrete-line approximately 2,100 lineal feet east of the Cawelo-Calloway turnout and 3,600 lineal feet west of the CVC Pumping Plant No. 7. In November 2016, Agency's contractor completed work on Phase 1A. Construction on Phase 1B is expected to commence in early 2017 and be completed in September 2017. In 2017, Provost and Pritchard will continue with the final design to concrete-line CVC Pool No. 8.

Improvement District No. 4 Projects

In 2016, ID4 issued \$89 million in water revenue Refunding Bonds, which resulted in a total net present value of \$12 million in savings, by refunding the outstanding 2006 tax-exempt and taxable Certificates of Participation (COPs), Series 2006A and 2006B, respectively, as well as the outstanding 2008 tax-exempt COPs, Series 2008A.

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

Improvement District No. 4 Kern River Turnout No. 4 Rehabilitation Project: River Turnout No. 4 (RTO4) is used to convey water from the CVC Extension to the Kern River channel for direct recharge operations. RTO4 was originally constructed using corrugated metal pipe. This pipe has deteriorated to the point where it is no longer able to safely support the existing soil and traffic loads, and requires replacement with a more rigid long-lasting pipe. In September 2016, the Board issued a Notice of Award to Summit Contracting, Inc. for the rehabilitation of RTO4. In October 2016, staff issued a Notice to Proceed. The Project is expected to be completed by early spring 2017.

Improvement District No. 4 23 Corner Tank Replacement Project: In December 2015, Agency staff received approval from the Agency Board to retain Dee Jaspar and Associates, Inc. for the Improvement District No. 423 Corner Tank Project redesign work to replace the existing tank with a 50,000-gallon welded steel tank. In November 2016, staff received bids and the Board issued a Notice of Award to Canyon Springs Enterprises dba RSH Construction. The project is expected to begin in early December 2016 and be completed in late spring 2017.

Other Accomplishments

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 water supplies and energy/power activities.

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 efforts to resolve the issues relative to the Delta.
- Continue to participate in California Water Fix activities.
- Continue to participate in the efforts to define a solution for conveyance around the Delta.
- 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 to participate in the resolution of Isabella Reservoir issues.
- Continue efforts to address policy issues related to the enhancement and development of Kern County groundwater banking programs.
- Continue efforts to complete capital projects and maintenance projects.

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 Administrative Operations 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 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, which 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. 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.

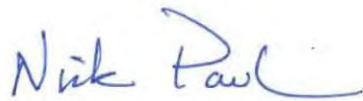
ACKNOWLEDGEMENTS

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 "Curtis Creel".

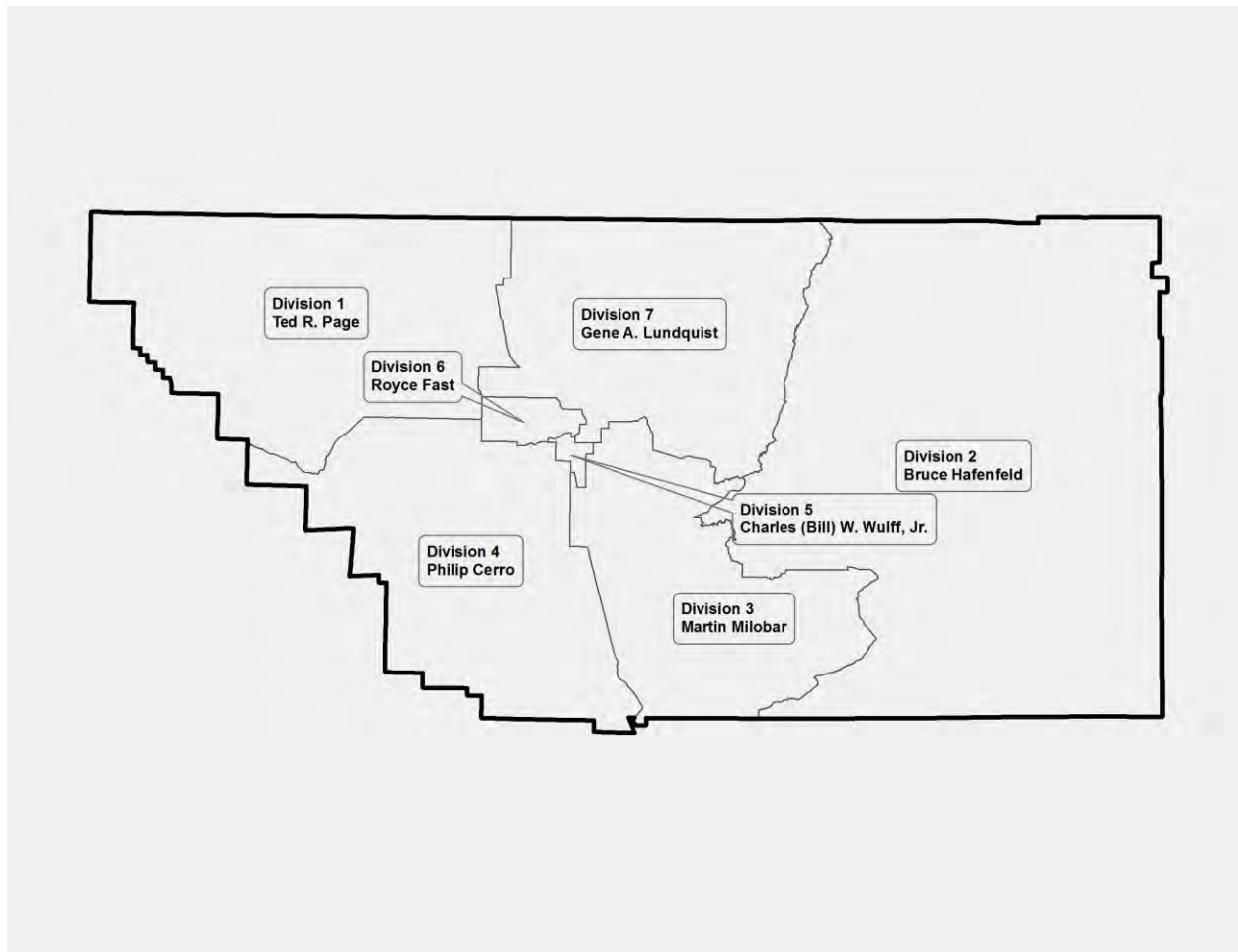
Curtis L. Creel
General Manager

A handwritten signature in blue ink, appearing to read "Nick Pavletich".

Nick Pavletich
Controller

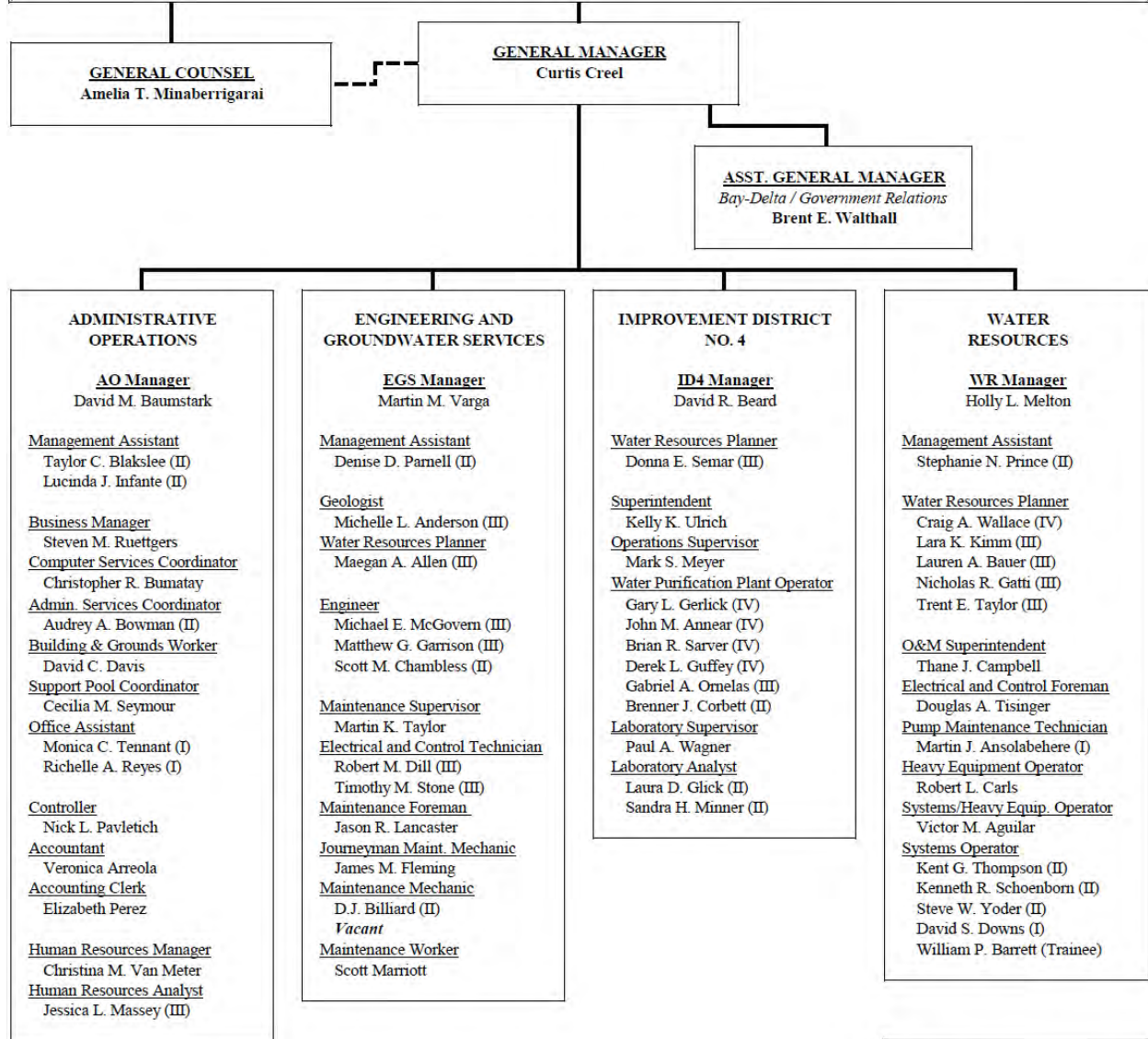
Kern County Water Agency

Board of Directors



KERN COUNTY WATER AGENCY

Elected Seven-Member Board



Filled Positions:	62
Vacant Positions:	1

6/23/16

FINANCIAL SECTION

NANCY C. BELTON

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of **Kern County Water Agency**, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise **Kern County Water Agency's** basic financial statements as listed in the table of contents. The financial statements of **Kern County Water Agency** as of and for the years ended June 30, 2014, 2013 and 2012 are presented for purposes of additional analysis. This information was derived from audit reports for those years, however it does not include all disclosures required for a presentation in accordance with accounting principles generally accepted in the United States of America for those years.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

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, 2016 and 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of other post-employment benefits (OPEB) funding progress, schedule of proportionate share of the net pension liability, and schedule of pension contributions on pages 3-6 and 36-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

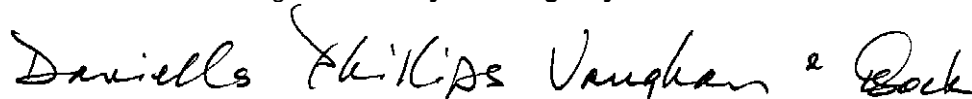
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise **Kern County Water Agency's** basic financial statements. The schedules of functional expenses and combining financial statements, as listed in the table of contents as other supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of functional expenses and combining financial statements, as listed in the table of contents as other supplementary information, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017 on our consideration of **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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Kern County Water Agency's** internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "David Phillips Vaughan".

Bakersfield, California
February 22, 2017

KERN COUNTY WATER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has 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, 2016 and 2015. Please read it in conjunction with the Transmittal Letter at the front of this report and the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

In the Fiscal Years ended June 30, 2016 and 2015, the Agency's total assets were \$460.9 and \$455.5 million, respectively. Current and Other Assets totaled \$138.0 million at June 30, 2016 and \$126.7 million at June 30, 2015. Current Liabilities totaled \$55.5 and \$59.4 million as of June 30, 2016 and 2015, respectively. Noncurrent liabilities equaled \$170.3 and \$162.4 million at June 30, 2016 and 2015, respectively.

Kern County Water Agency's Net Assets (in millions)

	2016	2015
Current and Other Non Capital Assets	\$ 138.0	\$ 126.8
Capital Assets (Net of Depreciation)	322.9	328.7
Total Assets	460.9	455.5
Deferred Outflows of Resources	11.6	4.4
Total Assets and Deferred Outflows of Resources	\$ 472.5	\$ 459.9
Current Liabilities	\$ 55.5	\$ 59.4
Noncurrent Liabilities	170.3	162.3
Total Liabilities	225.8	221.7
Deferred Inflows of Resources	1.1	2.3
Total Liabilities and Deferred Inflows of Resources	226.9	224.0
Invested in Capital Assets, Net of Related Debt	185.9	195.7
Unrestricted	59.7	40.2
Total Net Position	245.6	235.9
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 472.5	\$ 459.9

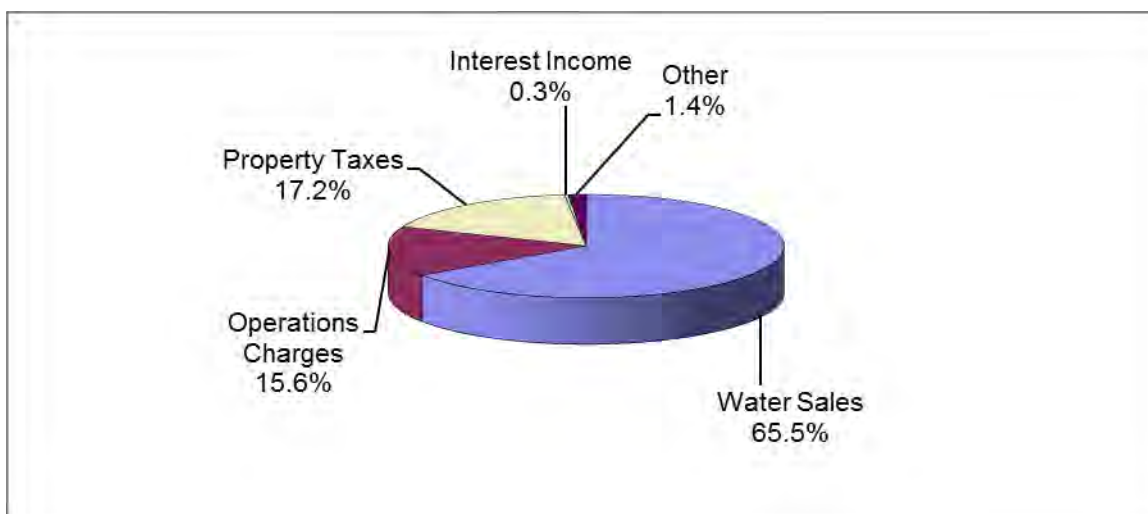
Total revenues as reported in the Statement of Revenues, Expenses and Changes in Net Position for Fiscal Years ended June 30, 2016 and 2015, were \$183.7 and \$205.0 million which includes total operating revenues of \$148.9 and \$172.2 million and non-operating revenues of \$34.8 and \$32.8 million, respectively, which includes taxes and interest income.

Total operating and non-operating expenses for Fiscal Years ended June 30, 2016 and 2015 were \$174.0 and \$202.3 million, respectively (includes non-operating expenses, interest and other expenditures). Operating costs were \$168.2 and \$195.1 million including depreciation and amortization expenses of \$8.8 and \$9.5 million and non-operating expenses were \$5.8 and \$7.2 million, for the Fiscal Years ended June 30, 2016 and 2015, respectively.

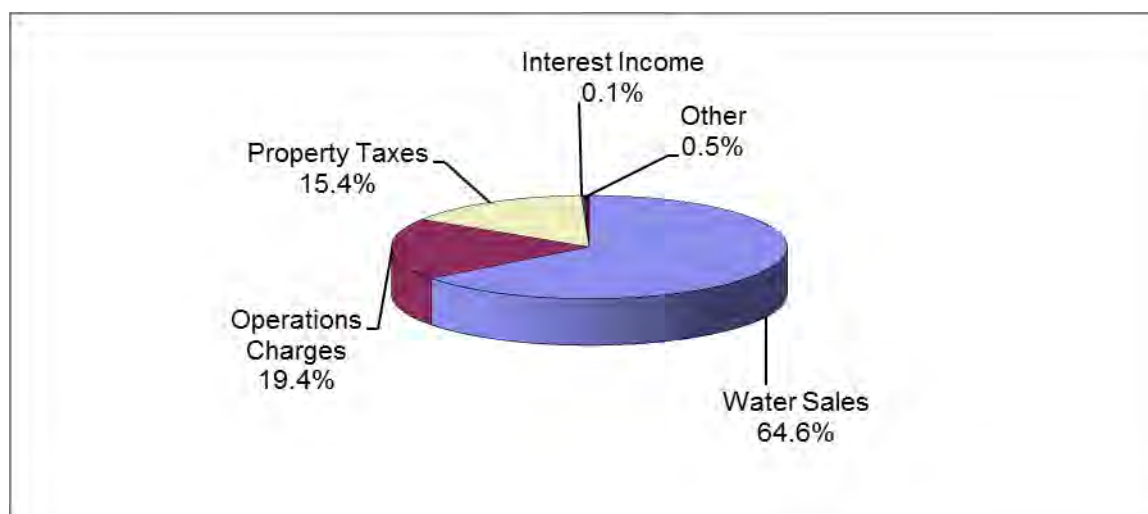
Kern County Water Agency's Increase in Net Assets (in millions)

	2016	2015
Operating Revenues	\$ 148.9	\$ 172.2
Operating Expenses	168.2	195.1
Operating (Loss)	(19.3)	(22.9)
Non-operating Revenues	34.8	32.8
Non-operating Expenses	5.8	7.2
Net Non-operating Income	29.0	25.6
Change in Net Position	\$ 9.7	\$ 2.7

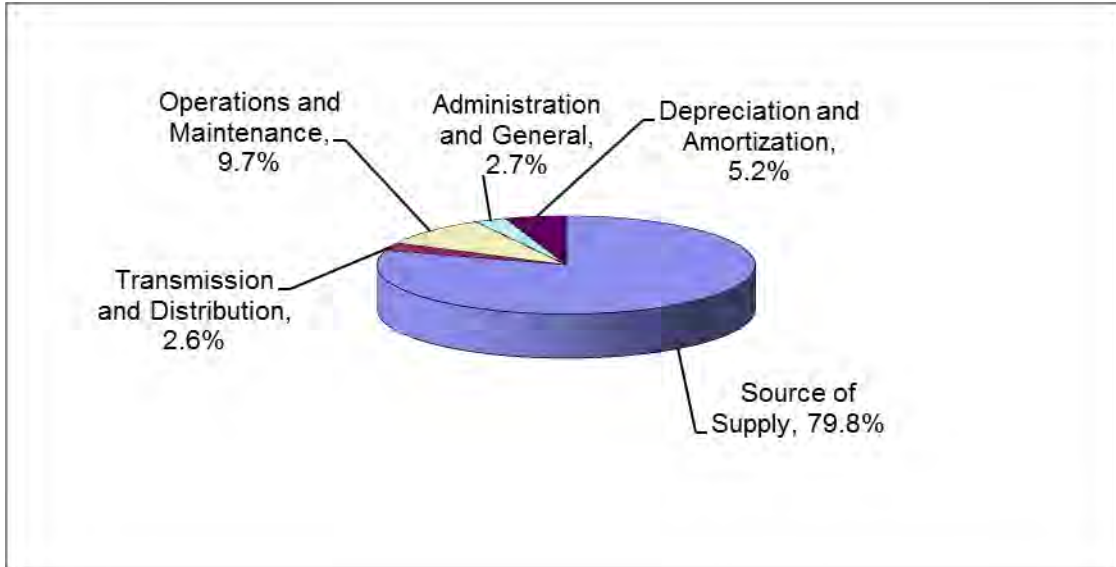
Sources of Revenue for Fiscal Year Ended June 30, 2016



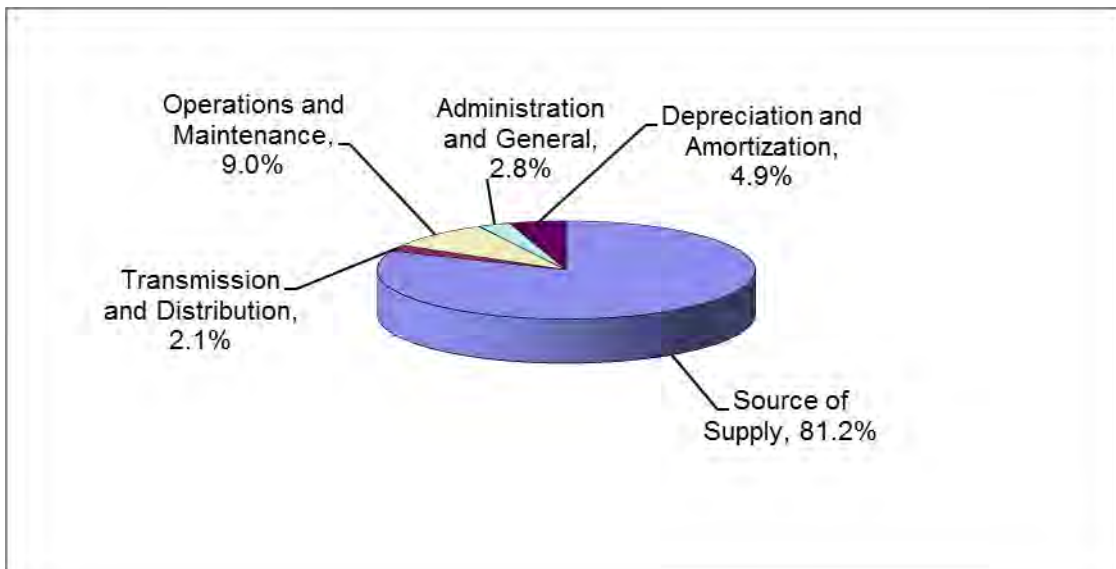
Sources of Revenue for Fiscal Year Ended June 30, 2015



Functional Expenses for Fiscal Year Ended June 30, 2016



Functional Expenses for Fiscal Year Ended June 30, 2015



CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM

The Agency's Fiscal Year 2015-2016 capital assets were \$402.2 million net of \$79.3 million of accumulated depreciation for a net book value of \$322.9 million. Included in the total reported on the Statement of Net Position is \$728 thousand in construction in progress reflecting capital projects in various stages of completion.

The Agency's Fiscal Year 2014-2015 capital assets were \$399.4 million net of \$70.7 million of accumulated depreciation for a net book value of \$328.7 million. Included in the total reported on the Statement of Net Position is \$2.8 million in construction in progress reflecting capital projects in various stages of completion.

LONG-TERM DEBT

For the fiscal years ended June 30, 2016 and 2015, the Agency had approximately \$137.0 and \$133.1 million, respectively, in bonds, notes and certificates of participations outstanding, an increase of \$3.9 million from last year. More detailed information about the Agency's long-term debts is presented in Notes 6 and 7 to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Agency relies on property taxes to cover administration costs in its General Fund. Budgeted property tax revenue for the General Fund is expected to decrease approximately 9.5 percent in Fiscal Year 2016-17 due to a decrease in oil and gas property values. Fiscal Year 2016-17 budgeted expenditures in the General Fund are down approximately 12.8 percent from the prior year.

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 Administrative Operations Department at 3200 Rio Mirada Drive, Bakersfield, California 93308.

BASIC FINANCIAL STATEMENTS

KERN COUNTY WATER AGENCY

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and investments (Note 2)	\$ 117,266,230	\$ 110,065,111
Receivables:		
Accounts receivable	5,604,947	1,380,049
Taxes receivable	230,401	158,097
Interest receivable	194,578	120,967
Prepaid expenses	225,620	155,504
Inventories (Note 3)	6,230,682	6,471,328
Total current assets	129,752,458	118,351,056
Restricted Cash and Investments (Note 2)	4,903,010	5,048,868
Property and Equipment (Note 4)	322,918,083	328,746,376
Investment in Kern Water Bank (Note 5)	3,343,691	3,343,691
Total assets	460,917,242	455,489,991
Deferred Outflows of Resources		
Related to pensions (Note 9)	6,047,562	4,400,332
Deferred bond refunding	5,564,425	-
Total assets and deferred outflows of resources	\$ 472,529,229	\$ 459,890,323
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Current portion of long-term debt (Note 6)	\$ 4,469,251	\$ 3,996,407
Accounts payable	8,988,482	8,399,464
Accrued expenses	4,366,958	7,268,693
Deferred revenue	37,689,912	39,715,496
Total current liabilities	55,514,603	59,380,060
Noncurrent Liabilities		
Long-term debt (Note 6)	132,514,264	129,068,461
Net pension liability (Note 9)	22,263,402	19,135,552
OPEB liability (Note 12)	15,514,658	14,151,750
Total noncurrent liabilities	170,292,324	162,355,763
Deferred Inflows of Resources (Note 9)	1,091,553	2,259,134
Net Position		
Invested in capital assets, net of related debt	185,934,568	195,681,508
Restricted for State Water Contract (Note 8)	-	-
Unrestricted	59,696,181	40,213,858
Total net position	245,630,749	235,895,366
Total liabilities, deferred inflows of resources and net position	\$ 472,529,229	\$ 459,890,323

See Notes to the Basic Financial Statements.

2014	2013	2012
\$ 77,807,366	\$ 98,439,020	\$ 87,790,734
4,786,978	7,485,496	6,736,982
246,520	177,916	166,625
63,180	109,679	153,509
421,111	569,826	1,468,175
6,959,401	7,427,829	7,527,356
90,284,556	114,209,766	103,843,381
673,194	2,814,838	18,488,548
334,993,873	338,991,507	342,294,208
3,343,691	3,343,691	3,343,691
429,295,314	459,359,802	467,969,828
-	-	-
-	-	-
\$ 429,295,314	\$ 459,359,802	\$ 467,969,828

\$ 3,811,041	\$ 3,660,983	\$ 3,356,795
4,325,679	7,334,223	7,852,708
6,505,279	5,277,257	4,439,204
18,463,601	32,122,165	36,424,850
33,105,600	48,394,628	52,073,557
133,064,867	136,875,910	140,648,414
-	-	-
12,729,210	10,678,664	8,538,483
145,794,077	147,554,574	149,186,897
-	-	-
198,117,965	198,454,614	211,055,680
-	4,285,287	6,076,597
52,277,672	60,670,699	49,577,097
250,395,637	263,410,600	266,709,374
\$ 429,295,314	\$ 459,359,802	\$ 467,969,828

KERN COUNTY WATER AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Charges for untreated water	\$ 111,515,169	\$ 123,625,975
Charges for treated water	6,511,410	6,224,820
Ground water charges	2,237,175	2,729,699
Charges for operations and maintenance	10,621,450	14,130,229
Charges for power	8,356,222	9,291,292
Exchange and conveyance fees	1,719,222	1,264,692
Other user charges	1,236,361	2,610,737
Refunds and credits	4,685,042	10,651,774
Reimbursements	2,051,639	1,714,495
	<u>148,933,690</u>	<u>172,243,713</u>
Operating Expenses		
Source of supply	134,112,821	158,461,910
Transmission and distribution	4,398,147	4,091,192
Operations and maintenance	16,313,688	17,627,320
Administration and general	4,585,226	5,403,151
Depreciation	8,779,898	9,495,023
	<u>168,189,780</u>	<u>195,078,596</u>
Operating (loss)	<u>(19,256,090)</u>	<u>(22,834,883)</u>
Non-operating Revenues (Expenses)		
Property taxes:		
General purpose distribution	6,164,395	6,863,700
Voter approved	25,391,136	24,629,097
Cost sharing income	1,161,086	89,302
Interest income	582,918	359,649
County collection charges	(154,226)	(144,958)
Interest expense	(5,652,368)	(7,080,023)
Other	1,498,532	902,877
	<u>28,991,473</u>	<u>25,619,644</u>
Change in net position	<u>9,735,383</u>	<u>2,784,761</u>
Net position, beginning, as previously stated	235,895,366	250,395,637
Prior period adjustment (Note 13)	-	(17,285,032)
Net position, beginning, as restated	<u>235,895,366</u>	<u>233,110,605</u>
Net position, ending	<u>\$ 245,630,749</u>	<u>\$ 235,895,366</u>

See Notes to the Basic Financial Statements.

	2014	2013	2012
\$	137,134,216	\$ 87,459,895	\$ 110,428,667
	6,860,109	6,458,847	6,598,860
	3,013,694	2,682,901	2,716,272
	13,362,666	12,556,253	12,890,719
	6,886,964	6,699,925	6,711,653
	1,400,064	889,648	1,839,059
	1,447,548	751,538	435,075
	7,118,941	5,068,325	10,116,543
	1,319,908	1,358,925	2,061,769
	<u>178,544,110</u>	<u>123,926,257</u>	<u>153,798,617</u>
	185,424,502	119,108,478	136,605,981
	4,120,627	7,521,447	8,177,266
	16,093,581	13,763,753	10,524,186
	5,399,667	5,657,266	5,567,790
	6,743,702	6,190,367	3,418,918
	<u>217,782,079</u>	<u>152,241,311</u>	<u>164,294,141</u>
	<u>(39,237,969)</u>	<u>(28,315,054)</u>	<u>(10,495,524)</u>
	6,644,285	6,546,403	6,292,246
	23,133,433	21,838,045	27,416,787
	576,571	445,217	3,400,104
	320,136	452,381	633,928
	(140,512)	(148,629)	(140,699)
	(7,241,475)	(7,290,062)	(3,024,257)
	2,930,568	3,172,925	840,507
	<u>26,223,006</u>	<u>25,016,280</u>	<u>35,418,616</u>
	<u>(13,014,963)</u>	<u>(3,298,774)</u>	<u>24,923,092</u>
	263,410,600	266,709,374	241,786,282
	-	-	-
	<u>263,410,600</u>	<u>266,709,374</u>	<u>241,786,282</u>
\$	<u>250,395,637</u>	<u>\$ 263,410,600</u>	<u>\$ 266,709,374</u>

KERN COUNTY WATER AGENCY

STATEMENTS OF CASH FLOWS (Page 1 of 2) Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Receipts from users	\$ 142,683,207	\$ 196,902,534
Source of supply purchases	(133,665,724)	(158,116,923)
Payments for administration services	(3,675,932)	(4,662,390)
Payments for suppliers for goods and services	(22,534,464)	(16,081,516)
Net cash provided by (used in) operating activities	(17,192,913)	18,041,705
Cash Flows From Noncapital Financing Activities		
Receipt of cost sharing income	1,161,086	89,302
Decrease (increase) in restricted cash and investments	145,858	(4,375,674)
Proceeds from property taxes	31,483,227	31,581,220
Other non-operating income	1,515,697	807,098
Net cash provided by noncapital financing activities	34,305,868	28,101,946
Cash Flows From Capital And Related Financing Activities		
Principal (payments) on long term-debt	(1,645,779)	(3,811,040)
Interest payments	(5,759,055)	(7,105,258)
Purchases of property and equipment	(3,016,309)	(3,817,727)
Proceeds from sale of property and equipment	-	546,695
Net cash (used in) capital and related financing activities	(10,421,143)	(14,187,330)
Cash Flows From Investing Activities		
Interest received -		
Net cash provided by investing activities	509,307	301,424
Net increase (decrease) in cash and investments	7,201,119	32,257,745
Cash and investments		
Beginning	110,065,111	77,807,366
Ending	\$ 117,266,230	\$ 110,065,111

See Notes to the Basic Financial Statements.

2014	2013	2012
\$ 167,583,562	\$ 118,875,058	\$ 155,681,609
(184,955,354)	(119,008,951)	(137,072,901)
(5,236,426)	(4,758,917)	(5,597,162)
(19,937,489)	(18,746,208)	(18,118,138)
(42,545,707)	(23,639,018)	(5,106,592)
576,571	445,217	3,400,104
2,141,644	15,673,710	(1,729,402)
29,709,114	28,373,157	36,518,347
2,790,061	3,028,592	787,473
35,217,390	47,520,676	38,976,522
(3,660,985)	(3,468,335)	(3,462,752)
(7,259,102)	(7,369,305)	(3,024,257)
(5,551,944)	(3,025,087)	(10,971,243)
2,803,041	133,144	36,347
(13,668,990)	(13,729,583)	(17,421,905)
365,653	496,211	619,759
(20,631,654)	10,648,286	17,067,784
98,439,020	87,790,734	70,722,950
\$ 77,807,366	\$ 98,439,020	\$ 87,790,734

KERN COUNTY WATER AGENCY

STATEMENTS OF CASH FLOWS (Page 2 of 2) Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating (loss) to net cash provided by (used in) operating activities		
Operating (loss)	\$ (19,256,090)	\$ (22,834,883)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:		
Depreciation	8,779,898	9,495,023
Changes in:		
Deferred outflows of resources	(1,647,229)	(2,012,806)
Net pension liability	3,127,850	(537,006)
OPEB liability	1,362,908	1,422,540
Deferred inflows of resources	(1,167,581)	2,259,134
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	(4,224,898)	3,406,929
Prepaid expenses	(70,116)	265,607
Inventories	240,646	488,073
Increase (decrease) in:		
Accounts payable	589,018	4,073,785
Accrued expenses	(2,901,735)	763,414
Deferred revenue	(2,025,584)	21,251,895
Net cash provided by (used in) operating activities	\$ (17,192,913)	\$ 18,041,705

See Notes to the Basic Financial Statements.

2014	2013	2012
\$ (39,237,969)	\$ (28,315,054)	\$ (10,495,524)
6,743,702	6,190,367	3,418,918
-	-	-
-	-	-
2,050,546	2,140,181	2,255,155
-	-	-
2,698,518	(748,514)	(775,333)
148,715	898,349	(29,372)
468,428	99,527	(466,920)
(3,008,544)	(518,485)	583,148
1,249,461	917,296	(5,054,989)
(13,658,564)	(4,302,685)	5,458,325
\$ (42,545,707)	\$ (23,639,018)	\$ (5,106,592)

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

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 accounting principles generally accepted in the United States of America 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, the net pension liability and the OPEB liability.

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 are 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, 2016**

As a result of the implementation of GASB 68 for the year ended June 30, 2015 as explained in Note 9, beginning net position was restated as required, as explained in Note 13. As such the Agency has elected to present comparative financial statements, however, years prior to June 30, 2015 have not been restated as all information is not readily available to restate prior years.

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 with a capitalization policy of \$2,500 or greater for items that are expected to be utilized by the Agency in excess of one year.

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.

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.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

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 Position/Fund Equity

The basic financial statements utilize a net position presentation. Net position is categorized as invested in 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 position. 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 Position* - 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 Position* - This category represents net position of the Agency not restricted for any project or other purpose.

Compensated Absences

Compensated absences represent the vested portion of accumulated vacation, sick 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 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.

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.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

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 are no appropriated budget controls which would require the Agency to get formal County or Board approval for budgetary line item changes.

Subsequent Events

The Agency has evaluated subsequent events through February 22, 2017, the date on which the financial statements were available to be issued. There were no subsequent events considered material by management that would require disclosure in the financial statements.

Changes in Accounting Principles

The Agency has adopted all current Statements of Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2016, the Agency implemented the following new standards issued by GASB:

Statement No. 72, Fair Value Measurement and Application, effective for the year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68, effective for the year ending June 30, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, effective for the year ending June 30, 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

In December 2015, the GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgement is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended.

If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

New Accounting Pronouncements:

The following statements issued by the Governmental Accounting Standards Board (GASB) are effective for year ends after June 30, 2016 and management is evaluating the impact of the implementation of these statements on their financial statements.

In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement No. 43, and Statement No. 50, Pension Disclosures.

The requirements of this Statement are effective for financial statements for period beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issues regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting For Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, Blending Requirements for Certain Component Units – amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations are Component Units.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2016 and 2015 are classified in the accompanying financial statements as follows:

	2016	2015
Cash and investments:		
Cash in bank and on hand	\$ 1,315,767	\$ 10,142,493
Cash in Local Agency Investment Fund	39,252,358	26,556,769
Investments in County Treasury	76,698,105	73,365,849
	<u>117,266,230</u>	<u>110,065,111</u>
Restricted cash and investments:		
Cash with fiscal agent - notes payable	325,503	501,915
Cash with fiscal agent - 2008 bonds	206,299	160,706
Ag rate management trust	4,371,208	4,386,247
	<u>4,903,010</u>	<u>5,048,868</u>
Total cash and investments	<u>\$ 122,169,240</u>	<u>\$ 115,113,979</u>

Deposits are carried at cost plus accrued interest. The bank balances are protected by a combination of FDIC insurance and the bank's collateral pool, in accordance with the California Government Code.

For all cash on hand and on deposit at June 30, 2016 and 2015 amortized cost approximates fair market value.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

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*.

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
State Obligations - CA and Other	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Banker's Acceptances	180 days	40%	None
Commercial Paper - Pooled Funds	270 days	40% of the agency's money	Highest letter and number rating by an NRSRO
Commercial Paper - Non-Pooled Funds	270 days	25% of the agency's money	Highest letter and number rating by an NRSRO
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30%	None
Placement Service Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium Term Notes	5 years	30%	"A" Rating
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Local Agency Investment (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" Rating

Disclosures Relating to Interest Rate Risk

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

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

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, 2016 and 2015.

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 by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

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.

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 at June 30, 2016 and 2015:

	2016	2015
Improvement District No. 4:		
Chemicals	\$ 117,918	\$ 119,211
Banked water	2,945,305	3,079,272
Total Improvement District No. 4	<u>3,063,223</u>	<u>3,198,483</u>
General Fund:		
Banked water	3,167,459	3,272,845
Total Inventory	<u>\$ 6,230,682</u>	<u>\$ 6,471,328</u>

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

Changes in banked water inventory for Improvement District No. 4 were as follows:

	Acre-Feet	Valuation
Balance at June 30, 2014	258,358	\$ 3,366,254
Deletions	(30,556)	(286,982)
Balance at June 30, 2015	227,802	3,079,272
Deletions	(14,264)	(133,967)
Balance at June 30, 2016	<u>213,538</u>	<u>\$ 2,945,305</u>

Changes in banked water inventory for Ground Water Banking were as follows:

	Acre-Feet	Valuation
Balance at June 30, 2014	128,754	\$ 3,443,217
Deletions	(6,819)	(170,372)
Balance at June 30, 2015	121,935	3,272,845
Deletions	(4,472)	(105,386)
Balance at June 30, 2016	<u>117,463</u>	<u>\$ 3,167,459</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

	Balance 7/1/2015	Additions	Deletions	Transfers	Balance 6/30/2016
Land	\$ 15,825,736	\$ -	\$ -	\$ -	\$ 15,825,736
Water Rights	32,879,452	-	-	-	32,879,452
Construction in Progress	2,788,682	1,454,017	-	(3,514,288)	728,411
Subtotal	<u>51,493,870</u>	<u>1,454,017</u>	<u>-</u>	<u>(3,514,288)</u>	<u>49,433,599</u>
Structures & Improvements	323,006,199	-	-	-	323,006,199
Equipment	7,006,105	233,173	(155,887)	-	7,083,391
Wells	17,925,634	1,329,119	(97,768)	3,514,288	22,671,273
Subtotal	<u>347,937,938</u>	<u>1,562,292</u>	<u>(253,655)</u>	<u>3,514,288</u>	<u>352,760,863</u>
Accumulated depreciation:					
Structures & Improvements	61,442,289	7,678,743	-	3,977	69,125,009
Equipment	4,838,100	315,302	(155,783)	(3,977)	4,993,642
Wells	4,405,043	785,853	(33,168)	-	5,157,728
Subtotal	<u>70,685,432</u>	<u>8,779,898</u>	<u>(188,951)</u>	<u>-</u>	<u>79,276,379</u>
Net Depreciable Capital Assets	<u>277,252,506</u>	<u>(7,217,606)</u>	<u>(64,704)</u>	<u>3,514,288</u>	<u>273,484,484</u>
Total Capital Assets	<u>\$ 328,746,376</u>	<u>\$ (5,763,589)</u>	<u>\$ (64,704)</u>	<u>\$ -</u>	<u>\$ 322,918,083</u>

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

	Balance 7/1/2014	Additions	Deletions	Transfers	Balance 6/30/2015
Land	\$ 15,825,736	\$ -	\$ -	\$ -	\$ 15,825,736
Water Rights	32,879,452	-	-	-	32,879,452
Construction in Progress	96,450,056	2,551,248	(539,231)	(95,673,391)	2,788,682
Subtotal	145,155,244	2,551,248	(539,231)	(95,673,391)	51,493,870
Structures & Improvements	227,277,550	107,998	(52,740)	95,673,391	323,006,199
Equipment	6,950,675	298,916	(243,486)	-	7,006,105
Wells	17,066,069	859,565	-	-	17,925,634
Subtotal	251,294,294	1,266,479	(296,226)	95,673,391	347,937,938
Accumulated depreciation:					
Structures & Improvements	53,307,107	8,157,275	(22,093)	-	61,442,289
Equipment	4,782,761	298,502	(243,163)	-	4,838,100
Wells	3,365,797	1,039,246	-	-	4,405,043
Subtotal	61,455,665	9,495,023	(265,256)	-	70,685,432
Net Depreciable Capital					
Assets	189,838,629	(8,228,544)	(30,970)	95,673,391	277,252,506
Total Capital Assets	\$ 334,993,873	\$ (5,677,296)	\$ (570,201)	\$ -	\$ 328,746,376

NOTE 5 - INVESTMENT IN KERN WATER BANK

In December 1995, negotiations between the California Department of Water Resources (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-Castac 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, 2016 and 2015, 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, 2016

NOTE 6 - LONG-TERM DEBT

The following is a summary of the long-term debt activity for the years ended June 30, 2016 and 2015:

	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016	Amount Due in One Year
Certificates of Participation:					
2006 Certificates of Participation	\$ 21,340,000	\$ -	\$ 21,340,000	\$ -	\$ -
Discount on COPs - 2006	(13,503)	-	(13,503)	-	-
2008 Certificates of Participation	106,250,000	-	70,195,000	36,055,000	2,610,000
Premium on COPs - 2008	1,033,880	-	1,033,880	-	-
	<u>128,610,377</u>	<u>-</u>	<u>92,555,377</u>	<u>36,055,000</u>	<u>2,610,000</u>
Water Revenue Refunding Bond:					
2016 Water Revenue Refunding Bond	-	88,900,000	-	88,900,000	1,060,000
Premium on Water Revenue Refunding Bond - 2016	-	8,408,504	-	8,408,504	385,122
	<u>-</u>	<u>97,308,504</u>	<u>-</u>	<u>97,308,504</u>	<u>1,445,122</u>
Notes Payable:					
California Dept. of Water Resources - KCWA/BMWD	431,095	-	431,095	-	-
California Dept. of Water Resources - Pioneer Project	1,783,576	-	277,606	1,505,970	285,326
California Dept. of Water Resources SRF-ID4 Operations	2,239,820	-	125,779	2,114,041	128,803
	<u>4,454,491</u>	<u>-</u>	<u>834,480</u>	<u>3,620,011</u>	<u>414,129</u>
	<u>\$ 133,064,868</u>	<u>\$ 97,308,504</u>	<u>\$ 93,389,857</u>	<u>\$ 136,983,515</u>	<u>\$ 4,469,251</u>
2015 Data:					
	Balance 7/1/2014	Additions	Deletions	Balance 6/30/2015	Amount Due in One Year
Certificates of Participation:					
2006 Certificates of Participation	\$ 22,185,000	\$ -	\$ 845,000	\$ 21,340,000	\$ 885,000
Discount on COPs - 2006	(14,151)	-	(648)	(13,503)	(648)
2008 Certificates of Participation	108,615,000	-	2,365,000	106,250,000	2,495,000
Premium on COPs - 2008	1,079,159	-	45,279	1,033,880	45,280
	<u>131,865,008</u>	<u>-</u>	<u>3,254,631</u>	<u>128,610,377</u>	<u>3,424,632</u>
Notes Payable:					
California Dept. of Water Resources - KCWA/BMWD	594,329	-	163,234	431,095	168,390
California Dept. of Water Resources - Pioneer Project	2,053,925	-	270,349	1,783,576	277,606
California Dept. of Water Resources SRF-ID4 Operations	2,362,646	-	122,826	2,239,820	125,779
	<u>5,010,900</u>	<u>-</u>	<u>556,409</u>	<u>4,454,491</u>	<u>571,775</u>
	<u>\$ 136,875,908</u>	<u>\$ -</u>	<u>\$ 3,811,040</u>	<u>\$ 133,064,868</u>	<u>\$ 3,996,407</u>

Total interest expense incurred during the years ended June 30, 2016 and 2015 was \$5,652,368 and \$7,080,023, respectively.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

**NOTE 7 - CERTIFICATES OF PARTICIPATION, WATER REVENUE REFUNDING BOND,
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 had an interest rate range of 4.00% to 4.60% and the 2006 B series certificates had an interest rate of 5.85%. Under the terms of the agreement, the Agency was responsible for interest payments on May 1 and November 1 of each year. The Agency was responsible for principal payments once per year.

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 2008 certificates of participation are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2008 A Series:			
2017	\$ 156,200	\$ 1,915,000	\$ 2,071,200
2018	79,600	1,990,000	2,069,600
	<u>235,800</u>	<u>3,905,000</u>	<u>4,140,800</u>
2008 B Series:			
2017	2,126,156	695,000	2,821,156
2018	2,085,534	735,000	2,820,534
2019	2,042,573	780,000	2,822,573
2020	1,990,711	830,000	2,820,711
2021	1,935,524	885,000	2,820,524
2022-2026	8,711,520	5,395,000	14,106,520
2027-2031	6,663,628	7,440,000	14,103,628
2032-2036	3,838,800	10,265,000	14,103,800
2037-2038	516,627	5,125,000	5,641,627
	<u>29,911,073</u>	<u>32,150,000</u>	<u>62,061,073</u>
Total 2008 COP's	<u>\$ 30,146,873</u>	<u>\$ 36,055,000</u>	<u>\$ 66,201,873</u>

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

On May 1, 2016 the Agency issued \$88,107,958 in 2016 A Water Revenue Refunding Bonds and \$9,361,800 in 2016 B Water Revenue Refunding Bonds, for a total of \$97,469,758. The interest rates range from 3.00% to 5.00% and 1.45% to 4.276% on the A and B COP Bonds, respectively. The 2016 Water Revenue Refunding Bonds were issued to advance refund \$12,325,000 of outstanding 2006 Series A COPs with interest rates ranging from 4.00% to 4.60%, \$9,015,000 of outstanding 2006 Series B COPs with an interest rate of 5.85%, and \$67,700,000 of outstanding 2008 Series A COPs with interest rates ranging from 3.00% to 5.00%. As a result of the refunding, the All-In True Interest Cost decreased from approximately 5.02% to 3.16%. The net proceeds of \$88,900,000 (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 A and B COP's, as well as the remaining portion of the 2008 Series A COPs. As a result, the 2006 A and B COP's and all but \$3,905,000 of the 2008 Series A COPs are considered to be defeased, and the liabilities for those bonds have been removed from the statement of net position.

The deferred refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5,564,425. This difference, reported in the accompanying financial statements as deferred outflows of resources, is being charged to operations through the year 2018 using the effective-interest rate method. The Agency completed the deferred refunding to reduce its total debt service payments over the next 22 years by \$12,033,966 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$4,439,532. 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 2016 Water Revenue Refunding Bonds are as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2016 A Series:			
2017	\$ 3,519,813	\$ 735,000	\$ 4,254,813
2018	3,277,775	965,000	4,242,775
2019	3,239,175	2,905,000	6,144,175
2020	3,122,975	3,035,000	6,157,975
2021	3,001,575	3,155,000	6,156,575
2022-2026	12,739,875	15,555,000	28,294,875
2027-2031	8,440,625	19,865,000	28,305,625
2032-2036	4,361,125	23,940,000	28,301,125
2037-2038	532,875	9,410,000	9,942,875
	<u>42,235,813</u>	<u>79,565,000</u>	<u>121,800,813</u>
2016 B Series:			
2017	361,836	325,000	686,836
2018	334,509	350,000	684,509
2019	328,209	360,000	688,209
2020	320,649	365,000	685,649
2021	312,144	375,000	687,144
2022-2026	1,390,672	2,040,000	3,430,672
2027-2031	977,492	2,470,000	3,447,492
2032-2036	401,302	3,050,000	3,451,302
	<u>4,426,813</u>	<u>9,335,000</u>	<u>13,761,813</u>
Total 2016 Water Revenue Refunding Bonds	\$ 46,662,626	\$ 88,900,000	\$ 135,562,626

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 had an interest rate of 3.148% and was payable in semi-annual installments over a period of 25 years. As of June 30, 2016 and 2015, the Agency had outstanding borrowings of \$0 and \$431,095, respectively.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

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, 2016 and 2015, the Agency had borrowings against the loan totaling \$1,505,970 and \$1,783,576, respectively. 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, 2016 are due as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2017	\$ 38,673	\$ 285,326	\$ 323,999
2018	30,999	293,000	323,999
2019	23,034	300,964	323,998
2020	14,880	309,119	323,999
2021	6,436	317,561	323,997
Total	\$ 114,022	\$ 1,505,970	\$ 1,619,992

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 were used to construct infrastructure to 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 occurred in December 2009. Interest payments began January 1, 2009. As of June 30, 2016 and 2015, the Agency had borrowings against the loan totaling \$2,114,041 and \$2,239,820, respectively. 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, 2016 are due as follows:

Year Ending June 30,	Interest	Principal	Total Debt Service
2017	\$ 49,760	\$ 128,803	\$ 178,563
2018	46,664	131,900	178,564
2019	43,492	135,071	178,563
2020	40,245	138,319	178,564
2021	36,919	141,644	178,563
2022-2026	131,846	760,973	892,819
2027-2030	36,929	677,331	714,260
Total	\$ 385,855	\$ 2,114,041	\$ 2,499,896

NOTE 8 – RESTRICTED NET ASSETS

Funds received from member units in the State Contract Payment Fund are restricted for payments required to be made for the State Water Project Bill.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

NOTE 9 - RETIREMENT PLAN

Kern County Employees Retirement Plan

General Information about the Pension Plan

Plan Description: The Agency contributes to the Kern County Employees' Retirement Association (KCERA), a cost-sharing multiple-employer defined benefit pension plan. KCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. State statutes assign the authority to establish and amend benefit provisions to the Kern County Board of Supervisors. KCERA issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to KCERA, 11125 River Run Boulevard, Bakersfield, CA 93311 or by calling (661) 381-7700.

Benefits provided: KCERA provides service retirement, disability, death, survivor and supplemental benefits to eligible employees. All regular full-time employees of the Agency who work 50% or more of the regular standard hours required become members of KCERA effective on the first day of the payroll period following the date of hire. General members (excluding Tier III) are eligible to retire once they attain the age of 70 regardless of service or at age 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. General Tier III members are eligible to retire once they have attained the age of 70 regardless of service or at age 52 and have acquired 5 or more years of retirement service credit. A member with five years of service, regardless of age, who becomes permanently incapacitated from the performance of duty will be eligible for a nonservice-connected disability retirement. Any member who becomes permanently incapacitated from the performance of duty as a result of an injury or disease arising out of and in the course of employment is eligible for a service-connected disability, regardless of service length or age. An active member's beneficiary 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 of salary. If a member dies after retirement, a death benefit of \$3,000 is payable to the designated beneficiary(ies) or the estate. As of January 1, 2015, the death benefit increased to \$5,000. KCERA provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the Los Angeles-Riverside-Orange County Area, is capped at 2.5%.

The KCERA plan provisions and benefits in effect at June 30, 2016 and 2015 are summarized as follows:

		2016	2015
	Prior to January 1, 2013	On or after January 1, 2013	
Hire date			
Benefit formula (Tier I)	3% @ 60	3% @ 60	3% @ 60
Benefit formula (Tier II)	1.62% @ 65	1.62% @ 65	1.62% @ 65
Benefit vesting schedule	5-10 years of service	5-10 years of service	5-10 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-52	50-52	50-52
Monthly benefits, as a % of eligible compensation	1.62% to 3%	1.62% to 3%	1.62% to 3%
Retirement employee contribution rates	4.25% to 17.50%	4.25% to 17.50%	5.98% to 11.12%

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

Contributions: The Agency contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from KCERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2015 for 2014-2015 (based on the June 30, 2013 valuation) was 42.00% of compensation. The average employer contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 42.67% of compensation.

Members are required to make contributions to KCERA regardless of the retirement plan or tier in which they are included. The average member contribution rate as of June 30, 2015 for 2014-2015 (based on the June 30, 2013 valuation) was 5.14% of compensation. The average member contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 4.27% of compensation.

For the years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for the plan were as follows:

	2016	2015
Contributions - employer	\$ 2,716,443	\$ 2,602,731
Contributions - employee (paid by employer)	\$ 192,488	\$ 176,154

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016 and 2015, the Agency reported net pension liability for its proportionate shares of the net pension liability of \$22,263,402 and \$19,135,552, respectively.

The Agency's net pension liability as of June 30, 2016 is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial evaluation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.925%
Proportion - June 30, 2015	1.011%
Change - Increase	0.086%

The Agency's net pension liability as of June 30, 2015 is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial evaluation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability as of June 30, 2013 and June 30, 2014 was as follows:

Proportion - June 30, 2013	0.926%
Proportion - June 30, 2014	0.925%
Change - Decrease	-0.001%

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

For the years ended June 30, 2016 and 2015, the Agency recognized pension expense of \$3,047,898 and \$2,312,053, respectively. At June 30, 2016 and 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 2,716,443	\$ -	\$ 2,602,731	\$ -
Differences between actual and expected experience	-	5,332	-	1,831,786
Changes in assumptions	1,285,677	-	1,536,334	-
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	2,045,442	-	261,267	-
Net differences between projected and actual earnings on plan investments	-	1,086,221	-	427,348
Total	\$ 6,047,562	\$ 1,091,553	\$ 4,400,332	\$ 2,259,134

\$2,716,443 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	
2017	\$ 485,087
2018	485,087
2019	485,087
2020	733,666
2021	50,639
	\$ 2,239,566

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

Actuarial Assumptions: The total pension liabilities in the June 30, 2014 and 2013 actuarial valuations were determined using the following actuarial assumptions:

	2016	2015
Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry-Age actuarial cost method	
Actuarial assumptions:		
Discount rate	7.50%	
Inflation	3.25%	
Projected salary increase	General: 4.25% - 9.25% (a)	
Investment rate of return	7.50% (b)	
Mortality	RP-2000 combined Healthy Mortality Table projected with Scale BB to 2023 set forward one year for males and females	

(a) Varies by service, including inflation

(b) Net of pension plan investment expense, including inflation

Discount Rate: The discount rate used to measure the total pension liability was 7.50% as of June 30 2015 and June 30, 2014. The projection of cash flows used to determine the discount rates assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

The discount rate assumptions have been developed without taking into consideration any impact of the 50/50 allocation of future excess earnings between the retirement and Supplement Retirement Benefit Reserve (SRBR) asset pools.

Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Large Cap U.S. Equity	19%	5.92%
Small/Mid Cap U.S. Equity	4%	6.49%
Developed International Equity	18%	6.90%
Emerging Markets Equity	4%	8.34%
Core Bonds	18%	0.73%
High Yield Bonds	4%	2.67%
Emerging Market Debt	4%	4.00%
TIPS	3%	0.35%
Real Estate	5%	4.96%
Commodities	6%	4.35%
Hedge Funds	10%	4.30%
Private Equity	5%	8.10%
Total	<u>100%</u>	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the Agency's proportionate share of the net pension liability, calculated using the discount rate, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2016	2015
1% Decrease	6.50%	6.50%
Net Pension Liability	\$ 29,926,302	\$ 25,989,741
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$ 22,263,402	\$ 19,135,552
1% Increase	8.50%	8.50%
Net Pension Liability	\$ 15,924,643	\$ 13,471,270

Pension Plan Fiduciary Net Position: Detailed information about KCERA's fiduciary net position is available in the separately issued KCERA financial report.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Litigation

The Agency is involved in various litigation and subject to claims in the normal course of business. While it is not feasible to determine the outcome of any of these uncertainties, it is the opinion of management that their outcomes will not have a material adverse effect on the financial position, results of operations, or cash flows of the Agency.

In addition, the County of Kern is involved in litigation regarding protested tax assessments. The contested assessments at June 30, 2016 and 2015 totaled approximately \$6,394,000 and \$5,080,000, 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, 2016 the total outstanding commitments were \$2,074,990.

NOTE 11 - 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 JPIA for the years ended September 30, 2015 and 2014 (the most recent data available) is as follows:

	2015	2014
Total Assets	\$ 194,775,717	\$ 195,584,006
Deferred Outflows of Resources	625,033	-
Total Liabilities	113,620,777	107,626,833
Deferred Inflows of Resources	846,155	-
Net Position	<u>\$ 80,933,818</u>	<u>\$ 87,957,173</u>
Total Revenues	\$ 160,400,697	\$ 143,125,594
Total Expenses	164,195,428	149,684,189
Net (Decrease) in Net Position	<u>\$ (3,794,731)</u>	<u>\$ (6,558,595)</u>

The JPIA had no outstanding debt at September 30, 2015 or 2014. The Agency's share of year-end assets, liabilities and fund equity has not been computed.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

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.

Condensed financial information for KWBA for the years ended December 31, 2015 and 2014 (the most recent data available) is as follows:

	2015	2014
Total Assets	\$ 72,306,178	\$ 71,969,397
Total Liabilities	(25,313,597)	(31,644,639)
Total Contributed Capital	(42,088,241)	(38,024,287)
	<u>\$ 4,904,340</u>	<u>\$ 2,300,471</u>
 Total Revenues	 \$ 23,219,889	 \$ 18,016,250
Total Expenses	16,552,066	17,445,217
Increase in Net Position	<u>\$ 6,667,823</u>	<u>\$ 571,033</u>

The KWBA had an outstanding loan in the amount of \$15,965,560 and \$17,313,128 at December 31, 2015 and 2014, respectively. The Agency's share of year-end assets, liabilities and retained earnings has not been computed.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description: The Kern County Water Agency Post-Employment Benefits Plan (the Plan) is a single-employer, defined benefit healthcare plan administered by Kern County Water Agency. The Plan provides medical insurance benefits to eligible employees and their spouses. The Agency's Board of Directors has the authority to establish and amend benefit provisions.

Funding Policy: The contribution requirements of plan members and the Agency are established by the Agency's Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Agency's Board of Directors. For the years ended June 30, 2016 and 2015, the Agency contributed \$482,104 and \$469,390, respectively, for current premiums.

Annual OPEB Cost and Net OPEB Obligation: The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation to the Plan for the years ended June 30, 2016 and 2015:

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

	2016	2015
Annual required contribution	\$ 2,311,764	\$ 2,311,764
Interest on net OPEB obligation	495,311	445,522
Adjustment to annual required contribution	(962,063)	(865,356)
Annual OPEB cost (expense)	1,845,012	1,891,930
Contributions made	(482,104)	(469,390)
Increase in net OPEB obligation	1,362,908	1,422,540
Net OPEB obligation, beginning of year	14,151,750	12,729,210
Net OPEB obligation, end of year	<u>\$ 15,514,658</u>	<u>\$ 14,151,750</u>

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 1,845,012	26.1%	\$15,514,658
6/30/2015	\$ 1,891,930	24.8%	\$14,151,750
6/30/2014	\$ 2,558,210	19.8%	\$12,729,210

Funded Status and Funding Progress. As of June 30, 2015, the most recent actuarial valuation date, the plan was 0% percent funded. The actuarial accrued liability for benefits was \$22.4 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$22.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6,492,840, and the ratio of the UAAL to the covered payroll was 344.4% percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 6 percent initially, reduced by decrements to an ultimate rate of 4.5 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016, was 19 years.

**Kern County Water Agency
Notes to the Basic Financial Statements
Year Ended June 30, 2016**

NOTE 13 – PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB 68 as explained in Note 9, a restatement to beginning net position was required. Net pension liability recognized for the Agency's proportionate share of KCERA Defined Benefit Plan resulted in a decrease to beginning net position of \$17,285,032.

REQUIRED SUPPLEMENTARY INFORMATION

KERN COUNTY WATER AGENCY

SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OBEB) FUNDING PROGRESS

As of June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2015	\$0	\$22,364,582	\$22,364,582	0.0%	\$6,492,840	344.4%
6/30/2012	\$0	\$25,525,349	\$25,525,349	0.0%	\$6,636,635	384.6%
6/30/2009	\$0	\$20,293,118	\$20,293,118	0.0%	\$6,140,051	330.5%

KERN COUNTY WATER AGENCY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

As of June 30, 2016

Last 10 Years*

	2016	2015
Proportion of the net pension liability	1.011%	0.925%
Proportionate share of the net pension liability	\$ 22,263,402	\$ 19,135,553
Covered - employee payroll	\$ 6,490,763	\$ 6,138,341
Proportionate share of the net pension liability as a percentage of covered-employee payroll	343.00%	311.74%
Plan's fiduciary net position	\$ 13,191,066	\$ 11,607,626
Plan fiduciary net position as a percentage of the total pension liability	59.25%	60.66%

* Fiscal year 2015 was the 1st year of implementation, therefore, only two years are shown.

KERN COUNTY WATER AGENCY

SCHEDULE OF PENSION CONTRIBUTIONS

As of June 30, 2016

Last 10 Years*

	2016	2015
Contractually required contribution (actuarially determined)	\$ 2,630,706	\$ 2,533,907
Contributions in relation to the actuarially determined contributions	2,630,706	2,533,907
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 6,490,763	\$ 6,138,341
Contributions as a percentage of covered-employee payroll	40.53%	41.28%

Notes to Schedule

Valuation date: June 30, 2014 June 30, 2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of payroll for total unfunded liability
Remaining amortization period	20.5 years 21.5 years
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized semi-annually over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in nine equal semi-annual amounts over a period of four and a half years from that date.
Inflation	3.25%
Salary increases	4.25% to 9.25%
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Retirement age	70, or 50 with 10 years of credited service
Mortality	RP 2000 combined Healthy Mortality Table projected with Scale BB to 2023 set forward one year for males and females

* Fiscal year 2015 was the 1st year of implementation, therefore, only two years are shown.

OTHER SUPPLEMENTARY INFORMATION

KERN COUNTY WATER AGENCY

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

	Source of Supply	Transmission and Distribution	Operations and Maintenance	Administration and General	Total
Water purchases	\$ 123,275,225	\$ -	\$ -	\$ -	\$ 123,275,225
Salaries, wages and benefits	2,574,781	1,238,019	4,332,577	2,839,169	10,984,546
Refunds and credits	2,384,661	-	7,273,577	7,439	9,665,677
Other	970,889	960,400	1,919,921	880,613	4,731,823
Power	1,494,363	877,705	-	-	2,372,068
Association and membership fees	1,367,482	9,533	139,250	37,031	1,553,296
Recharge and recovery fees	1,186,967	-	-	105,386	1,292,353
Professional fees	423,744	104,048	267,904	256,771	1,052,467
Maintenance	29,712	218,020	586,316	113,068	947,116
Capital outlay	9,752	100,347	789,570	18,364	918,033
Operations	68,834	61,674	772,017	10,553	913,078
Exchange and conveyance fees	65,777	729,867	-	-	795,644
Telephone and utilities	52,788	28,005	34,129	120,857	235,779
Insurance	36,228	44,402	98,068	48,668	227,366
Other administrative	28,228	21,702	59,653	94,450	204,033
Meeting and travel	86,661	3,673	13,367	17,840	121,541
Director fees	56,729	752	27,339	35,017	119,837
	<u>\$ 134,112,821</u>	<u>\$ 4,398,147</u>	<u>\$ 16,313,688</u>	<u>\$ 4,585,226</u>	<u>\$ 159,409,882</u>

KERN COUNTY WATER AGENCY

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015

	Source of Supply	Transmission and Distribution	Operations and Maintenance	Administration and General	Total
Water purchases	\$ 136,462,766	\$ -	\$ -	\$ -	\$ 136,462,766
Salaries, wages and benefits	3,195,103	1,634,627	4,943,618	3,926,914	13,700,262
Power	1,701,543	841,243	10,215,719	-	12,758,505
Refunds and credits	10,626,533	-	-	4,205	10,630,738
Recharge and recovery fees	2,854,893	-	-	170,372	3,025,265
Association and membership fees	1,664,157	3,985	114,708	14,381	1,797,231
Other	993,966	45,288	144,050	162,414	1,345,718
Maintenance	16,802	262,340	921,170	95,842	1,296,154
Capital outlay	12,317	122,420	495,898	542,551	1,173,186
Operations	88,771	457,745	315,856	12,804	875,176
Professional fees	377,925	21,152	273,456	159,083	831,616
Exchange and conveyance fees	136,036	619,540	-	-	755,576
Insurance	38,153	43,850	96,945	48,983	227,931
Telephone and utilities	53,808	25,580	33,922	111,646	224,956
Meeting and travel	166,952	1,685	15,167	29,269	213,073
Other administrative	2,902	10,347	35,372	84,202	132,823
Director fees	69,283	1,390	21,439	40,485	132,597
	<u>\$ 158,461,910</u>	<u>\$ 4,091,192</u>	<u>\$ 17,627,320</u>	<u>\$ 5,403,151</u>	<u>\$ 185,583,573</u>

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - SUMMARY OF ALL ACTIVITIES

June 30, 2016

	State Contract Activities	Treatment Transportation Flood Control Activities	Groundwater Banking Activities	General and Administrative Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets				
Cash and investments	\$ 65,550,529	\$ 28,036,538	\$ 1,719,818	\$ 18,708,995
Receivables:				
Accounts receivable	-	2,201,709	2,205,671	7,321,541
Taxes receivable	140,956	41,166	-	48,279
Interest receivable	98,732	54,618	7,658	33,570
Due from other funds	140,000	-	156,596	44,109
Prepaid expenses	9,983,250	5,478,314	229,682	293,195
Inventories	-	3,063,223	-	3,167,459
Total current assets	75,913,467	38,875,568	4,319,425	29,617,148
Restricted Cash and Investments	4,371,208	2,469,871	-	1,312,281
Property and Equipment	3,600	271,836,057	36,518,711	15,049,524
Investment in Kern Water Bank	-	3,343,691	-	-
Total assets	80,288,275	316,525,187	40,838,136	45,978,953
Deferred Outflows of Resources				
Pension plan	638,121	2,900,695	-	2,508,746
Deferred bond refunding	-	5,564,425	-	-
Total assets and deferred outflows of resources	\$ 80,926,396	\$ 324,990,307	\$ 40,838,136	\$ 48,487,699
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ 4,183,925	\$ 285,326	\$ -
Accounts payable	4,991,769	2,741,928	865,051	389,734
Accrued expenses	1,834,103	6,704,616	723,996	1,228,217
Due to other funds	-	140,000	44,109	156,596
Deferred revenue	44,553,058	7,530,365	718,513	646,797
Total current liabilities	51,378,930	21,300,834	2,636,995	2,421,344
Noncurrent Liabilities				
Long-term debt	-	131,293,620	1,220,644	-
Net pension liability	2,346,430	10,614,294	-	9,302,678
OPEB liability	1,662,866	7,038,411	-	6,813,381
Total noncurrent liabilities	4,009,296	148,946,325	1,220,644	16,116,059
Deferred Inflows of Resources	113,813	491,492	-	486,248
Net Position				
Invested in capital assets, net of related debt	3,600	136,358,512	35,012,741	15,049,524
Unrestricted	25,420,757	17,893,144	1,967,756	14,414,524
Total net position	25,424,357	154,251,656	36,980,497	29,464,048
Total liabilities, deferred inflows of resources, and net position	\$ 80,926,396	\$ 324,990,307	\$ 40,838,136	\$ 48,487,699

Subtotal	Interfund Eliminations	2016 Total	2015 Total
\$ 114,015,880	\$ 3,250,350	\$ 117,266,230	\$ 110,065,111
11,728,921	(6,123,974)	5,604,947	1,380,049
230,401	-	230,401	158,097
194,578	-	194,578	120,967
340,705	(340,705)	-	-
15,984,441	(15,758,821)	225,620	155,504
6,230,682	-	6,230,682	6,471,328
148,725,608	(18,973,150)	129,752,458	118,351,056
8,153,360	(3,250,350)	4,903,010	5,048,868
323,407,892	(489,809)	322,918,083	328,746,376
3,343,691	-	3,343,691	3,343,691
483,630,551	(22,713,309)	460,917,242	455,489,991
6,047,562	-	6,047,562	4,400,332
5,564,425	-	5,564,425	-
\$ 495,242,538	\$ (22,713,309)	\$ 472,529,229	\$ 459,890,323

\$ 4,469,251	\$ -	\$ 4,469,251	\$ 3,996,407
8,988,482	-	8,988,482	8,399,464
10,490,932	(6,123,974)	4,366,958	7,268,693
340,705	(340,705)	-	-
53,448,733	(15,758,821)	37,689,912	39,715,496
77,738,103	(22,223,500)	55,514,603	59,380,060

132,514,264	-	132,514,264	129,068,461
22,263,402	-	22,263,402	19,135,552
15,514,658	-	15,514,658	14,151,750
170,292,324	-	170,292,324	162,355,763

1,091,553	-	1,091,553	2,259,134
-----------	---	-----------	-----------

186,424,377	(489,809)	185,934,568	195,681,508
59,696,181	-	59,696,181	40,213,858
246,120,558	(489,809)	245,630,749	235,895,366
\$ 495,242,538	\$ (22,713,309)	\$ 472,529,229	\$ 459,890,323

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - STATE CONTRACT ACTIVITIES

June 30, 2016

	State Contract Payment	Supplemental Water	Westlands Payback
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets			
Cash and investments	\$ 42,332,080	\$ 8,001,712	\$ 1,363,384
Receivables:			
Accounts receivable	-	-	-
Taxes receivable	-	-	-
Interest receivable	74,677	-	2,598
Due from other funds	-	140,000	-
Prepaid expenses	551,856	-	-
Inventories	-	-	-
Total current assets	42,958,613	8,141,712	1,365,982
Restricted Cash and Investments	4,371,208	-	-
Property and Equipment	3,600	-	-
Investment in Kern Water Bank	-	-	-
Total assets	47,333,421	8,141,712	1,365,982
Deferred Outflows of Resources			
Pension plan	638,121	-	-
Deferred bond refunding	-	-	-
Total assets and deferred outflows of resources	\$ 47,971,542	\$ 8,141,712	\$ 1,365,982
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current Liabilities			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable	4,991,769	-	-
Accrued expenses	1,582,308	-	-
Due to other funds	-	-	-
Deferred revenue	43,186,325	-	1,366,733
Total current liabilities	49,760,402	-	1,366,733
Noncurrent Liabilities			
Long-term debt	-	-	-
Net pension liability	2,346,430	-	-
OPEB liability	1,662,866	-	-
Total noncurrent liabilities	4,009,296	-	-
Deferred Inflows of Resources	113,813	-	-
Net Position			
Invested in capital assets, net of related debt	3,600	-	-
Unrestricted	(5,915,569)	8,141,712	(751)
Total net position	(5,911,969)	8,141,712	(751)
Total liabilities, deferred inflows of resources, and net position	\$ 47,971,542	\$ 8,141,712	\$ 1,365,982

Zone of Benefit No. 17	Zone of Benefit No. 18	Zone of Benefit No. 19	2016 Total	2015 Total
\$ 6,474,273	\$ 1,079,194	\$ 6,299,886	\$ 65,550,529	\$ 66,487,111
-	-	-	-	804,385
73,527	14,689	52,740	140,956	80,736
9,779	1,708	9,970	98,732	54,347
-	-	-	140,000	200,000
4,715,697	537,203	4,178,494	9,983,250	367,008
-	-	-	-	-
11,273,276	1,632,794	10,541,090	75,913,467	67,993,587
-	-	-	4,371,208	4,386,247
-	-	-	3,600	5,811
-	-	-	-	-
11,273,276	1,632,794	10,541,090	80,288,275	72,385,645
-	-	-	638,121	463,194
-	-	-	-	-
\$ 11,273,276	\$ 1,632,794	\$ 10,541,090	\$ 80,926,396	\$ 72,848,839

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	4,991,769	4,886,521
125,898	14,341	111,556	1,834,103	6,119,984
-	-	-	-	-
-	-	-	44,553,058	39,621,026
125,898	14,341	111,556	51,378,930	50,627,531
-	-	-	-	-
-	-	-	2,346,430	2,014,269
-	-	-	1,662,866	1,489,658
-	-	-	4,009,296	3,503,927
-	-	-	113,813	237,804
-	-	-	3,600	5,811
11,147,378	1,618,453	10,429,534	25,420,757	18,473,766
11,147,378	1,618,453	10,429,534	25,424,357	18,479,577
\$ 11,273,276	\$ 1,632,794	\$ 10,541,090	\$ 80,926,396	\$ 72,848,839

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - TREATMENT TRANSPORTATION FLOOD CONTROL ACTIVITIES

June 30, 2016

	Cross Valley Canal Operations	Improvement District No. 1	Improvement District No. 3	Improvement District No. 4 Operations
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets				
Cash and investments	\$ 3,303,472	\$ 68,696	\$ (315,490)	\$ 10,236,377
Receivables:				
Accounts receivable	331,417	-	-	1,870,292
Taxes receivable	-	699	160	-
Interest receivable	6,727	-	-	16,714
Due from other funds	-	-	-	-
Prepaid expenses	-	-	-	1,133,172
Inventories	-	-	-	3,063,223
Total current assets	3,641,616	69,395	(315,330)	16,319,778
Restricted Cash and Investments	-	-	120,644	-
Property and Equipment	103,227,590	687,714	48,227	4,544,460
Investment in Kern Water Bank	-	-	-	3,343,691
Total assets	106,869,206	757,109	(146,459)	24,207,929
Deferred Outflows of Resources				
Pension plan	1,039,512	-	-	1,861,183
Deferred bond refunding	-	-	-	-
Total assets and deferred outflows of resources	\$ 107,908,718	\$ 757,109	\$ (146,459)	\$ 26,069,112
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 128,803
Accounts payable	198,212	2,000	74	209,067
Accrued expenses	251,372	1,736	1,484	2,327,673
Due to other funds	-	140,000	-	-
Deferred revenue	2,657,341	-	-	2,768,229
Total current liabilities	3,106,925	143,736	1,558	5,433,772
Noncurrent Liabilities				
Long-term debt	-	-	-	1,985,234
Net pension liability	3,770,541	-	-	6,843,753
OPEB liability	2,557,151	-	-	4,481,260
Total noncurrent liabilities	6,327,692	-	-	13,310,247
Deferred Inflows of Resources	159,538	-	-	331,954
Net Position				
Invested in capital assets, net of related debt	103,227,590	687,714	48,227	2,430,423
Unrestricted	(4,913,027)	(74,341)	(196,244)	4,562,716
Total net position	98,314,563	613,373	(148,017)	6,993,139
Total liabilities, deferred inflows of resources, and net position	\$ 107,908,718	\$ 757,109	\$ (146,459)	\$ 26,069,112

Improvement District No. 4 Bonds	Zone of Benefit No. 7	2016 Total	2015 Total
\$ 4,504,222	\$ 10,239,261	\$ 28,036,538	\$ 23,520,550
-	-	2,201,709	2,607,694
-	40,307	41,166	41,465
8,642	22,535	54,618	31,491
-	-	-	-
-	4,345,142	5,478,314	4,397,495
-	-	3,063,223	3,198,483
4,512,864	14,647,245	38,875,568	33,797,178
43,025	2,306,202	2,469,871	2,545,989
163,328,066	-	271,836,057	278,559,898
-	-	3,343,691	3,343,691
167,883,955	16,953,447	316,525,187	318,246,756
-	-	2,900,695	2,084,368
5,564,425	-	5,564,425	-
\$ 173,448,380	\$ 16,953,447	\$ 324,990,307	\$ 320,331,124

\$ 4,055,122	\$ -	\$ 4,183,925	\$ 3,550,411
2,332,575	-	2,741,928	696,949
1,116,532	3,005,819	6,704,616	7,354,168
-	-	140,000	200,000
2,104,795	-	7,530,365	4,037,828
9,609,024	3,005,819	21,300,834	15,839,356

129,308,386	-	131,293,620	127,299,787
-	-	10,614,294	9,064,209
-	-	7,038,411	6,703,461
129,308,386	-	148,946,325	143,067,457
-	-	491,492	1,070,116

29,964,558	-	136,358,512	147,709,700
4,566,412	13,947,628	17,893,144	12,644,495
34,530,970	13,947,628	154,251,656	160,354,195
\$ 173,448,380	\$ 16,953,447	\$ 324,990,307	\$ 320,331,124

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - GROUNDWATER BANKING ACTIVITIES June 30, 2016

	Kern Water Bank	Lower Kern River	Pioneer Project	Proposition 204 Loan
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets				
Cash and investments	\$ 7,807	\$ 493,593	\$ 960,549	\$ 432,802
Receivables:				
Accounts receivable	76,718	834,940	1,258,347	-
Taxes receivable	-	-	-	-
Interest receivable	-	1,189	3,745	140
Due from other funds	-	-	-	-
Prepaid expenses	-	21,634	-	-
Inventories	-	-	-	-
Total current assets	84,525	1,351,356	2,222,641	432,942
Restricted Cash and Investments	-	-	-	-
Property and Equipment	-	14,163,616	15,233,900	3,822,171
Investment in Kern Water Bank	-	-	-	-
Total assets	84,525	15,514,972	17,456,541	4,255,113
Deferred Outflows of Resources				
Pension plan	-	-	-	-
Deferred bond refunding	-	-	-	-
Total assets and deferred outflows of resources	\$ 84,525	\$ 15,514,972	\$ 17,456,541	\$ 4,255,113
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current Liabilities				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 285,326
Accounts payable	2,933	2,018	641,191	-
Accrued expenses	10,042	436,276	160,813	137
Due to other funds	-	-	-	-
Deferred revenue	-	294,289	230,772	68,776
Total current liabilities	12,975	732,583	1,032,776	354,239
Noncurrent Liabilities				
Long-term debt	-	-	-	1,220,644
Net pension liability	-	-	-	-
OPEB liability	-	-	-	-
Total noncurrent liabilities	-	-	-	1,220,644
Deferred Inflows of Resources	-	-	-	-
Net Position				
Invested in capital assets, net of related debt	-	14,163,616	15,233,900	2,316,201
Unrestricted	71,550	618,773	1,189,865	364,029
Total net position	71,550	14,782,389	16,423,765	2,680,230
Total liabilities, deferred inflows of resources, and net position	\$ 84,525	\$ 15,514,972	\$ 17,456,541	\$ 4,255,113

Entitlement Retention	Joint KCWA/BM Water Banking	Agency Participation in CVC	2016 Total	2015 Total
\$ (1,470,078)	\$ 1,195,426	\$ 99,719	\$ 1,719,818	\$ 4,485,473
35,666	-	-	2,205,671	3,584,290
-	-	-	-	-
-	2,462	122	7,658	6,109
-	156,596	-	156,596	156,596
107,772	-	100,276	229,682	197,553
-	-	-	-	-
(1,326,640)	1,354,484	200,117	4,319,425	8,430,021
-	-	-	-	-
-	3,299,024	-	36,518,711	35,368,126
-	-	-	-	-
(1,326,640)	4,653,508	200,117	40,838,136	43,798,147
-	-	-	-	-
-	-	-	-	-
\$ (1,326,640)	\$ 4,653,508	\$ 200,117	\$ 40,838,136	\$ 43,798,147

\$ -	\$ -	\$ -	\$ 285,326	\$ 445,996
-	218,909	-	865,051	908,217
2,866	13,586	100,276	723,996	575,351
-	44,109	-	44,109	44,109
-	54,248	70,428	718,513	803,555
2,866	330,852	170,704	2,636,995	2,777,228
-	-	-	1,220,644	1,768,674
-	-	-	-	-
-	-	-	-	-
-	-	-	1,220,644	1,768,674
-	-	-	-	-

-	3,299,024	-	35,012,741	33,153,456
(1,329,506)	1,023,632	29,413	1,967,756	6,098,789
(1,329,506)	4,322,656	29,413	36,980,497	39,252,245
\$ (1,326,640)	\$ 4,653,508	\$ 200,117	\$ 40,838,136	\$ 43,798,147

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF NET POSITION - GENERAL AND ADMINISTRATIVE ACTIVITIES June 30, 2016

	General	Water Management	Western Hills
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets			
Cash and investments	\$ 11,352,749	\$ 3,961,984	\$ 3,292,052
Receivables:			
Accounts receivable	-	7,253,600	15,031
Taxes receivable	48,279	-	-
Interest receivable	18,778	9,459	5,333
Due from other funds	44,109	-	-
Prepaid expenses	258,580	-	34,615
Inventories	3,167,459	-	-
Total current assets	14,889,954	11,225,043	3,347,031
Restricted Cash and Investments	312,281	1,000,000	-
Property and Equipment	15,049,524	-	-
Investment in Kern Water Bank	-	-	-
Total assets	30,251,759	12,225,043	3,347,031
Deferred Outflows of Resources			
Pension plan	2,508,746	-	-
Deferred bond refunding	-	-	-
Total assets and deferred outflows of resources	\$ 32,760,505	\$ 12,225,043	\$ 3,347,031
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current Liabilities			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable	384,840	-	1,572
Accrued expenses	1,125,124	-	90,001
Due to other funds	156,596	-	-
Deferred revenue	-	-	646,797
Total current liabilities	1,666,560	-	738,370
Noncurrent Liabilities			
Long-term debt	-	-	-
Net pension liability	9,302,678	-	-
OPEB liability	6,813,381	-	-
Total noncurrent liabilities	16,116,059	-	-
Deferred Inflows of Resources	486,248	-	-
Net Position			
Invested in capital assets, net of related debt	15,049,524	-	-
Unrestricted	(557,886)	12,225,043	2,608,661
Total net position	14,491,638	12,225,043	2,608,661
Total liabilities, deferred inflows of resources, and net position	\$ 32,760,505	\$ 12,225,043	\$ 3,347,031

Section 125	Kern Fan Monitoring Committee	2016 Total	2015 Total
\$ 11,455	\$ 90,755	\$ 18,708,995	\$ 11,496,328
27,991	24,919	7,321,541	4,671,147
-	-	48,279	35,896
-	-	33,570	29,020
-	-	44,109	44,109
-	-	293,195	230,090
-	-	3,167,459	3,272,845
39,446	115,674	29,617,148	19,779,435
-	-	1,312,281	2,192,281
-	-	15,049,524	15,302,350
-	-	-	-
39,446	115,674	45,978,953	37,274,066
-	-	2,508,746	1,852,770
-	-	-	-
\$ 39,446	\$ 115,674	\$ 48,487,699	\$ 39,126,836

\$ -	\$ -	\$ -	\$ -
111	3,211	389,734	1,907,777
11,482	1,610	1,228,217	3,506,657
-	-	156,596	156,596
-	-	646,797	289,729
11,593	4,821	2,421,344	5,860,759
-	-	-	-
-	-	9,302,678	8,057,074
-	-	6,813,381	5,958,631
-	-	16,116,059	14,015,705
-	-	486,248	951,214
-	-	15,049,524	15,302,350
27,853	110,853	14,414,524	2,996,808
27,853	110,853	29,464,048	18,299,158
\$ 39,446	\$ 115,674	\$ 48,487,699	\$ 39,126,836

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - SUMMARY OF ALL ACTIVITIES Year Ended June 30, 2016

	State Contract Activities	Treatment Transportation Flood Control Activities	Groundwater Banking Activities	General and Administrative Activities
Operating Revenues				
Charges for untreated water	\$ 120,235,311	\$ -	\$ -	\$ 8,400,975
Charges for treated water	-	6,531,753	-	-
Ground water charges	-	2,237,175	-	-
Charges for operations and maintenance	-	9,406,556	2,403,878	-
Charges for power	-	3,592,325	5,915,321	-
Exchange and conveyance fees	-	1,550,973	240,127	-
Other user charges	-	871,713	321,595	89,677
Refunds and credits	4,685,042	-	-	-
Reimbursements	397,951	864,974	685,236	193,518
	<u>125,318,304</u>	<u>25,055,469</u>	<u>9,566,157</u>	<u>8,684,170</u>
Operating Expenses				
Salaries, wages and benefits	2,115,331	5,005,925	1,017,543	2,845,747
Water purchases	132,768,587	7,616,985	5,295	-
Exchange and conveyance fees	-	520,885	829,599	51,567
Recharge and recovery fees	-	1,569,963	-	105,386
Power	-	5,082,829	5,041,132	-
Refunds and credits	2,392,100	-	-	-
Operations	47,100	692,084	163,339	10,553
Maintenance	1,969	1,162,421	353,504	113,068
Other administrative	23,623	74,851	11,099	94,460
Insurance	29,337	129,228	20,081	48,720
Telephone and utilities	50,946	59,844	4,129	144,668
Meeting and travel	85,285	15,166	3,250	17,840
Association and membership fees	1,363,239	138,738	14,131	37,188
Director fees	51,626	20,208	12,804	35,199
Professional fees	413,496	321,559	107,857	283,596
Capital outlay	1,096	1,023,142	170,166	18,364
Depreciation	2,211	7,793,432	731,532	252,723
Agency overhead allocation	750,495	1,541,932	566,627	(2,859,054)
Other	12,104	1,584,288	3,858,243	191,701
	<u>140,108,545</u>	<u>34,353,480</u>	<u>12,910,331</u>	<u>1,391,726</u>
Operating income (loss)	<u>(14,790,241)</u>	<u>(9,298,011)</u>	<u>(3,344,174)</u>	<u>7,292,444</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	6,164,395
Voter approved	18,400,189	6,990,947	-	-
Cost sharing income	-	900,854	1,144,124	-
Interest income	279,908	155,927	28,991	118,092
County collection charges	(44,043)	(18,178)	(25)	(91,980)
Interest expense	-	(5,587,130)	(65,238)	-
Other	44,066	753,052	3,317	698,097
Transfers to other funds	(45,099)	(1,969,749)	(1,554,320)	(4,615,577)
Transfers from other funds	3,100,000	1,969,749	1,515,577	1,599,419
	<u>21,735,021</u>	<u>3,195,472</u>	<u>1,072,426</u>	<u>3,872,446</u>
Change in net position	<u>6,944,780</u>	<u>(6,102,539)</u>	<u>(2,271,748)</u>	<u>11,164,890</u>
Net position, beginning, as previously stated	18,479,577	160,354,195	39,252,245	18,299,158
Prior period adjustment	-	-	-	-
Net position, beginning, as restated	<u>18,479,577</u>	<u>160,354,195</u>	<u>39,252,245</u>	<u>18,299,158</u>
Net position, ending	<u>\$ 25,424,357</u>	<u>\$ 154,251,656</u>	<u>\$ 36,980,497</u>	<u>\$ 29,464,048</u>

Subtotal	Interfund Eliminations	2016 Total	2015 Total
\$ 128,636,286	\$ (17,121,117)	\$ 111,515,169	\$ 123,625,975
6,531,753	(20,343)	6,511,410	6,224,820
2,237,175	-	2,237,175	2,729,699
11,810,434	(1,188,984)	10,621,450	14,130,229
9,507,646	(1,151,424)	8,356,222	9,291,292
1,791,100	(71,878)	1,719,222	1,264,692
1,282,985	(46,624)	1,236,361	2,610,737
4,685,042	-	4,685,042	10,651,774
2,141,679	(90,040)	2,051,639	1,714,495
168,624,100	(19,690,410)	148,933,690	172,243,713
10,984,546	-	10,984,546	13,700,262
140,390,867	(17,115,642)	123,275,225	136,462,766
1,402,051	(606,407)	795,644	755,576
1,675,349	(382,996)	1,292,353	3,025,265
10,123,961	(478,316)	9,645,645	12,758,505
2,392,100	-	2,392,100	10,630,738
913,076	-	913,076	875,176
1,630,962	(683,846)	947,116	1,296,154
204,033	-	204,033	132,823
227,366	-	227,366	227,931
259,587	(23,808)	235,779	224,956
121,541	-	121,541	213,073
1,553,296	-	1,553,296	1,797,231
119,837	-	119,837	132,597
1,126,508	(74,042)	1,052,466	831,616
1,212,768	(294,735)	918,033	1,173,186
8,779,898	-	8,779,898	9,495,023
-	-	-	15
5,646,336	(914,510)	4,731,826	1,345,703
188,764,082	(20,574,302)	168,189,780	195,078,596
(20,139,982)	883,892	(19,256,090)	(22,834,883)
6,164,395	-	6,164,395	6,863,700
25,391,136	-	25,391,136	24,629,097
2,044,978	(883,892)	1,161,086	89,302
582,918	-	582,918	359,649
(154,226)	-	(154,226)	(144,958)
(5,652,368)	-	(5,652,368)	(7,080,023)
1,498,532	-	1,498,532	902,876
(8,184,745)	1,399,479	(6,785,266)	(4,724,221)
8,184,745	(1,399,479)	6,785,266	4,724,222
29,875,365	(883,892)	28,991,473	25,619,644
9,735,383	-	9,735,383	2,784,761
236,385,175	(489,809)	235,895,366	250,395,637
-	-	-	(17,285,032)
236,385,175	(489,809)	235,895,366	233,110,605
\$ 246,120,558	\$ (489,809)	\$ 245,630,749	\$ 235,895,366

KERN COUNTY WATER AGENCY

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

Year Ended June 30, 2016

	State Contract Payment	Supplemental Water	Westlands Payback
Operating Revenues			
Charges for untreated water	\$ 120,235,311	\$ -	\$ -
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	4,685,042	-	-
Reimbursements	114,977	282,974	-
	<u>125,035,330</u>	<u>282,974</u>	<u>-</u>
Operating Expenses			
Salaries, wages and benefits	2,115,331	-	-
Water purchases	123,275,226	-	-
Exchange and conveyance fees	-	-	-
Recharge and recovery fees	-	-	-
Power	-	-	-
Refunds and credits	2,384,661	-	7,439
Operations	47,100	-	-
Maintenance	1,969	-	-
Other administrative	23,623	-	-
Insurance	29,337	-	-
Telephone and utilities	50,946	-	-
Meeting and travel	85,285	-	-
Association and membership fees	1,363,239	-	-
Director fees	51,626	-	-
Professional fees	413,496	-	-
Capital outlays	1,096	-	-
Depreciation	2,211	-	-
Agency overhead allocation	750,495	-	-
Other	12,104	-	-
	<u>130,607,745</u>	<u>-</u>	<u>7,439</u>
Operating income (loss)	(5,572,415)	282,974	(7,439)
Non-operating Revenues (Expenses)			
Property taxes:			
General purpose distribution	-	-	-
Voter approved	-	-	-
Cost sharing income	-	-	-
Interest income	186,127	45,099	7,439
County collection charges	-	-	-
Interest expense	-	-	-
Other	44,066	-	-
Transfers to other funds	-	(45,099)	-
Transfers from other funds	3,100,000	-	-
	<u>3,330,193</u>	<u>-</u>	<u>7,439</u>
Change in net position	(2,242,222)	282,974	-
Net position, beginning, as previously stated	(3,669,747)	7,858,738	(751)
Prior period adjustment	-	-	-
Net position, beginning, as restated	<u>(3,669,747)</u>	<u>7,858,738</u>	<u>(751)</u>
Net position, ending	<u>\$ (5,911,969)</u>	<u>\$ 8,141,712</u>	<u>\$ (751)</u>

Zone of Benefit No. 17	Zone of Benefit No. 18	Zone of Benefit No. 19	2016 Total	2015 Total
\$ -	\$ -	\$ -	\$ 120,235,311	\$ 129,709,556
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	4,685,042	10,626,533
-	-	-	397,951	280,133
-	-	-	125,318,304	140,616,222
-	-	-	-	-
4,746,682	540,731	4,205,948	132,768,587	136,462,765
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	2,392,100	10,630,738
-	-	-	47,100	56,809
-	-	-	1,969	4,148
-	-	-	23,623	633
-	-	-	29,337	32,192
-	-	-	50,946	51,926
-	-	-	85,285	166,486
-	-	-	1,363,239	1,663,575
-	-	-	51,626	59,692
-	-	-	413,496	368,383
-	-	-	1,096	6,296
-	-	-	2,211	2,623
-	-	-	750,495	815,421
-	-	-	12,104	4,523,381
4,746,682	540,731	4,205,948	140,108,545	157,569,179
(4,746,682)	(540,731)	(4,205,948)	(14,790,241)	(16,952,957)
-	-	-	-	-
9,376,527	1,034,598	7,989,064	18,400,189	17,667,839
-	-	-	-	-
14,334	1,018	25,891	279,908	150,488
(22,240)	(2,350)	(19,453)	(44,043)	(42,092)
-	-	-	-	-
-	-	-	44,066	10,280
-	-	-	(45,099)	(84,065)
-	-	-	3,100,000	6,860,924
9,368,621	1,033,266	7,995,502	21,735,021	24,563,374
4,621,939	492,535	3,789,554	6,944,780	7,610,417
6,525,439	1,125,918	6,639,980	18,479,577	12,688,637
-	-	-	-	(1,819,477)
6,525,439	1,125,918	6,639,980	18,479,577	10,869,160
\$ 11,147,378	\$ 1,618,453	\$ 10,429,534	\$ 25,424,357	\$ 18,479,577

KERN COUNTY WATER AGENCY

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

Year Ended June 30, 2016

	Cross Valley Canal Operations	Improvement District No. 1	Improvement District No. 3	Improvement District No. 4 Operations
Operating Revenues				
Charges for untreated water	\$ -	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	6,531,753
Ground water charges	-	-	-	2,237,175
Charges for operations and maintenance	1,961,905	-	-	881,182
Charges for power	871,829	-	-	2,720,496
Exchange and conveyance fees	-	-	-	1,550,973
Other user charges	-	-	-	871,713
Refunds and credits	-	-	-	-
Reimbursements	-	-	-	864,974
	<u>2,833,734</u>	<u>-</u>	<u>-</u>	<u>15,658,266</u>
Operating Expenses				
Salaries, wages and benefits	1,238,019	13,564	67,803	3,686,539
Water purchases	-	-	-	-
Exchange and conveyance fees	500,962	-	-	19,923
Recharge and recovery fees	-	-	-	1,569,963
Power	877,705	-	-	4,205,124
Refunds and credits	-	-	-	-
Operations	61,674	9	189	630,212
Maintenance	218,020	205	1,230	942,966
Other administrative	21,657	29	349	52,816
Insurance	44,402	235	431	84,160
Telephone and utilities	28,005	20	32	31,787
Meeting and travel	3,673	30	338	11,125
Association and membership fees	9,464	-	-	129,274
Director fees	752	91	3,531	15,834
Professional fees	104,048	2,180	6,162	209,169
Capital outlays	100,347	2	3	922,790
Depreciation	2,832,466	19,533	-	4,941,433
Agency overhead allocation	441,554	27,903	42,407	1,030,068
Other	41,351	-	21	756,648
	<u>6,524,099</u>	<u>63,801</u>	<u>122,496</u>	<u>19,239,831</u>
Operating income (loss)	(3,690,365)	(63,801)	(122,496)	(3,581,565)
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	89,338	13,742	-
Cost sharing income	900,854	-	-	-
Interest income	20,651	-	-	50,606
County collection charges	-	(1,132)	(110)	-
Interest expense	-	(673)	(669)	(52,785)
Other	499,168	-	-	189,697
Transfers to other funds	-	-	-	(1,302,324)
Transfers from other funds	-	-	-	667,425
	<u>1,420,673</u>	<u>87,533</u>	<u>12,963</u>	<u>(447,381)</u>
Change in net position	(2,269,692)	23,732	(109,533)	(4,028,946)
Net position, beginning, as previously stated	100,584,255	589,641	(38,484)	11,022,085
Prior period adjustment	-	-	-	-
Net position, beginning, as restated	100,584,255	589,641	(38,484)	11,022,085
Net position, ending	<u>\$ 98,314,563</u>	<u>\$ 613,373</u>	<u>\$ (148,017)</u>	<u>\$ 6,993,139</u>

Improvement District No. 4 Bonds	Zone of Benefit No. 7	2016 Total	2015 Total
\$ -	\$ -	\$ -	\$ -
-	-	6,531,753	6,236,932
-	-	2,237,175	2,729,699
6,563,469	-	9,406,556	12,134,841
-	-	3,592,325	3,385,469
-	-	1,550,973	762,853
-	-	871,713	1,797,237
-	-	-	-
-	-	864,974	932,125
6,563,469	-	25,055,469	27,979,156
-	-	5,005,925	6,117,470
-	7,616,985	7,616,985	6,875,696
-	-	520,885	1,880
-	-	1,569,963	3,233,584
-	-	5,082,829	6,599,984
-	-	-	-
-	-	692,084	613,013
-	-	1,162,421	1,740,793
-	-	74,851	44,879
-	-	129,228	127,815
-	-	59,844	56,482
-	-	15,166	15,854
-	-	138,738	122,106
-	-	20,208	16,951
-	-	321,559	232,548
-	-	1,023,142	653,595
-	-	7,793,432	8,471,961
-	-	1,541,932	1,393,504
786,268	-	1,584,288	187,052
786,268	7,616,985	34,353,480	36,505,167
5,777,201	(7,616,985)	(9,298,011)	(8,526,011)
-	-	-	-
-	6,887,867	6,990,947	6,961,258
-	-	900,854	102,587
28,201	56,469	155,927	92,816
-	(16,936)	(18,178)	(18,355)
(5,533,003)	-	(5,587,130)	(7,008,935)
64,187	-	753,052	195,190
(667,425)	-	(1,969,749)	(1,302,246)
1,302,324	-	1,969,749	94,286,518
(4,805,716)	6,927,400	3,195,472	93,308,833
971,485	(689,585)	(6,102,539)	84,782,822
33,559,485	14,637,213	160,354,195	83,759,020
-	-	-	(8,187,647)
33,559,485	14,637,213	160,354,195	75,571,373
\$ 34,530,970	\$ 13,947,628	\$ 154,251,656	\$ 160,354,195

KERN COUNTY WATER AGENCY

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

Year Ended June 30, 2016

	Kern Water Bank	Lower Kern River	Pioneer Project	Proposition 204 Loan
Operating Revenues				
Charges for untreated water	\$ -	\$ -	\$ -	\$ -
Charges for treated water	-	-	-	-
Ground water charges	-	-	-	-
Charges for operations and maintenance	-	-	1,477,404	325,128
Charges for power	-	807,469	3,614,236	-
Exchange and conveyance fees	-	-	206,854	-
Other user charges	-	-	262,006	-
Refunds and credits	-	-	-	-
Reimbursements	349,694	294,289	4,616	-
	<u>349,694</u>	<u>1,101,758</u>	<u>5,565,116</u>	<u>325,128</u>
Operating Expenses				
Salaries, wages and benefits	276,290	54,140	564,671	-
Water purchases	-	-	-	-
Exchange and conveyance fees	31,192	549,020	214,802	-
Recharge and recovery fees	-	-	-	-
Power	-	-	3,543,665	-
Refunds and credits	-	-	-	-
Operations	11,754	34	141,605	-
Maintenance	3,496	-	55,069	-
Other administrative	2,609	49	6,459	-
Insurance	2,562	469	13,242	-
Telephone and utilities	1,356	126	2,290	-
Meeting and travel	1,064	25	1,874	-
Association and membership fees	64	217	9,976	-
Director fees	-	4,488	7,883	-
Professional fees	-	25,296	80,162	-
Capital outlays	1	17	47,794	-
Depreciation	-	-	562,205	69,199
Agency overhead allocation	93,148	43,524	334,338	-
Other	2,046	1,013,655	1,778,820	65,730
	<u>425,582</u>	<u>1,691,060</u>	<u>7,364,855</u>	<u>134,929</u>
Operating income (loss)	<u>(75,888)</u>	<u>(589,302)</u>	<u>(1,799,739)</u>	<u>190,199</u>
Non-operating Revenues (Expenses)				
Property taxes:				
General purpose distribution	-	-	-	-
Voter approved	-	-	-	-
Cost sharing income	-	-	1,144,124	-
Interest income	232	10,755	8,724	1,001
County collection charges	-	(25)	-	-
Interest expense	-	-	-	(46,392)
Other	-	-	3,317	-
Transfers to other funds	(232)	(1,456,933)	-	-
Transfers from other funds	-	-	1,515,577	-
	<u>-</u>	<u>(1,446,203)</u>	<u>2,671,742</u>	<u>(45,391)</u>
Change in net assets	<u>(75,888)</u>	<u>(2,035,505)</u>	<u>872,003</u>	<u>144,808</u>
Net position, beginning, as previously stated	147,438	16,817,894	15,551,762	2,535,422
Prior period adjustment	-	-	-	-
Net position, beginning, as restated	<u>147,438</u>	<u>16,817,894</u>	<u>15,551,762</u>	<u>2,535,422</u>
Net position, ending	<u>\$ 71,550</u>	<u>\$ 14,782,389</u>	<u>\$ 16,423,765</u>	<u>\$ 2,680,230</u>

Entitlement Retention	Joint KCWA/BM Water Banking	Agency Participation in CVC	2016 Total	2015 Total
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	215,088	386,258	2,403,878	3,543,949
-	1,493,616	-	5,915,321	7,306,910
-	33,273	-	240,127	628,138
-	59,589	-	321,595	864,699
-	-	-	-	25,241
-	-	36,637	685,236	1,438,426
-	1,801,566	422,895	9,566,157	13,807,363
1,786	120,656	-	1,017,543	926,732
5,295	-	-	5,295	134,520
-	34,585	-	829,599	1,290,709
-	-	-	-	439,410
-	1,494,363	3,104	5,041,132	6,634,486
-	-	-	-	-
-	9,946	-	163,339	192,550
-	24,247	270,692	353,504	452,477
-	1,937	45	11,099	3,103
42	3,766	-	20,081	18,890
-	357	-	4,129	4,900
-	287	-	3,250	1,462
-	3,805	69	14,131	2,431
-	433	-	12,804	14,421
682	1,717	-	107,857	99,201
-	8,638	113,716	170,166	19,695
-	100,128	-	731,532	774,779
-	95,617	-	566,627	564,271
-	1,933	996,059	3,858,243	978,521
7,805	1,902,415	1,383,685	12,910,331	12,552,558
(7,805)	(100,849)	(960,790)	(3,344,174)	1,254,805
-	-	-	-	-
-	-	-	-	-
-	-	-	1,144,124	1,719,394
-	6,914	1,365	28,991	14,895
-	-	-	(25)	(24)
(6,564)	(12,282)	-	(65,238)	(71,088)
-	-	-	3,317	675,186
-	-	(97,155)	(1,554,320)	(40,156)
-	-	-	1,515,577	2,514,000
(6,564)	(5,368)	(95,790)	1,072,426	4,812,207
(14,369)	(106,217)	(1,056,580)	(2,271,748)	6,067,012
(1,315,137)	4,428,873	1,085,993	39,252,245	33,185,233
-	-	-	-	-
(1,315,137)	4,428,873	1,085,993	39,252,245	33,185,233
\$ (1,329,506)	\$ 4,322,656	\$ 29,413	\$ 36,980,497	\$ 39,252,245

KERN COUNTY WATER AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - GENERAL AND ADMINISTRATIVE ACTIVITIES Year Ended June 30, 2016

	General	Water Management	Western Hills
Operating Revenues			
Charges for untreated water	\$ -	\$ 7,253,600	\$ 1,147,375
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	24,966	-	-
	<u>24,966</u>	<u>7,253,600</u>	<u>1,147,375</u>
Operating Expenses			
Salaries and wages	2,775,715	-	6,578
Water purchases	-	-	-
Exchange and conveyance fees	-	-	51,567
Recharge and recovery fees	105,386	-	-
Power	-	-	-
Refunds and credits	-	-	-
Operations	10,126	-	-
Maintenance	112,877	-	-
Other administrative	89,633	-	10
Insurance	48,120	-	52
Telephone and utilities	144,476	-	3
Meeting and travel	17,840	-	-
Association and membership fees	37,018	-	157
Director fees	35,017	-	182
Professional fees	189,134	-	26,825
Capital outlays	17,309	-	-
Depreciation	252,723	-	-
Agency overhead allocation	(2,919,522)	-	-
Other	25,231	-	166,419
	<u>941,083</u>	<u>-</u>	<u>251,793</u>
Operating income (loss)	(916,117)	7,253,600	895,582
Non-operating Revenues (Expenses)			
Property taxes:			
General purpose distribution	6,164,395	-	-
Voter approved	-	-	-
Cost sharing income	-	-	-
Interest income	78,965	19,740	18,780
County collection charges	(91,980)	-	-
Interest expense	-	-	-
Other	706	695,707	-
Transfers to other funds	(3,100,000)	-	(1,515,577)
Transfers from other funds	142,487	1,456,932	-
	<u>3,194,573</u>	<u>2,172,379</u>	<u>(1,496,797)</u>
Change in net position	2,278,456	9,425,979	(601,215)
Net position, beginning, as previously stated	12,213,182	2,799,064	3,209,876
Prior period adjustment	-	-	-
Net position, beginning, as restated	<u>12,213,182</u>	<u>2,799,064</u>	<u>3,209,876</u>
Net position, ending	<u>\$ 14,491,638</u>	<u>\$ 12,225,043</u>	<u>\$ 2,608,661</u>

Section 125		Kern Fan Monitoring Committee	2016 Total	2015 Total	
\$	-	\$	-	\$	-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-	89,677	89,677		65,868
	-		-		-
	-	168,552	193,518		44,919
	-	258,229	8,684,170		1,038,771
	-	63,454	2,845,747		3,931,949
	-		-		-
	-		51,567		159,006
	-		105,386		170,372
	-		-		-
	-		-		-
	-	427	10,553		12,804
	-	191	113,068		193,721
	-	4,817	94,460		84,208
	-	548	48,720		49,034
	-	189	144,668		125,458
	-		17,840		29,271
	-	13	37,188		14,644
	-		35,199		41,533
	-	67,637	283,596		197,836
	-	1,055	18,364		542,552
	-		252,723		245,660
	-	60,468	(2,859,054)		(2,773,181)
	-	51	191,701		179,798
	-	198,850	1,391,726		3,204,665
	-	59,379	7,292,444		(2,165,894)
	-		6,164,395		6,863,700
	-		-		-
	-		-		1,822,495
	-	607	118,092		101,450
	-		(91,980)		(84,487)
	-		-		-
1,137	547		698,097		22,220
	-		(4,615,577)		(4,600,000)
	-		1,599,419		(97,634,974)
1,137	1,154		3,872,446		(93,509,596)
1,137	60,533		11,164,890		(95,675,490)
26,716	50,320		18,299,158		121,252,556
	-		-		(7,277,908)
26,716	50,320		18,299,158		113,974,648
\$ 27,853	\$ 110,853	\$	29,464,048	\$	18,299,158

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Kern County Water Agency**, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise **Kern County Water Agency's** basic financial statements, and have issued our report thereon dated February 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Kern County Water Agency's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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. Accordingly, we do not express an opinion on the effectiveness of **Kern County Water Agency's** internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Kern County Water Agency's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

Purpose of this Report

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

Daniels Phillips Vaughan & Rock

Bakersfield, California
February 22, 2017