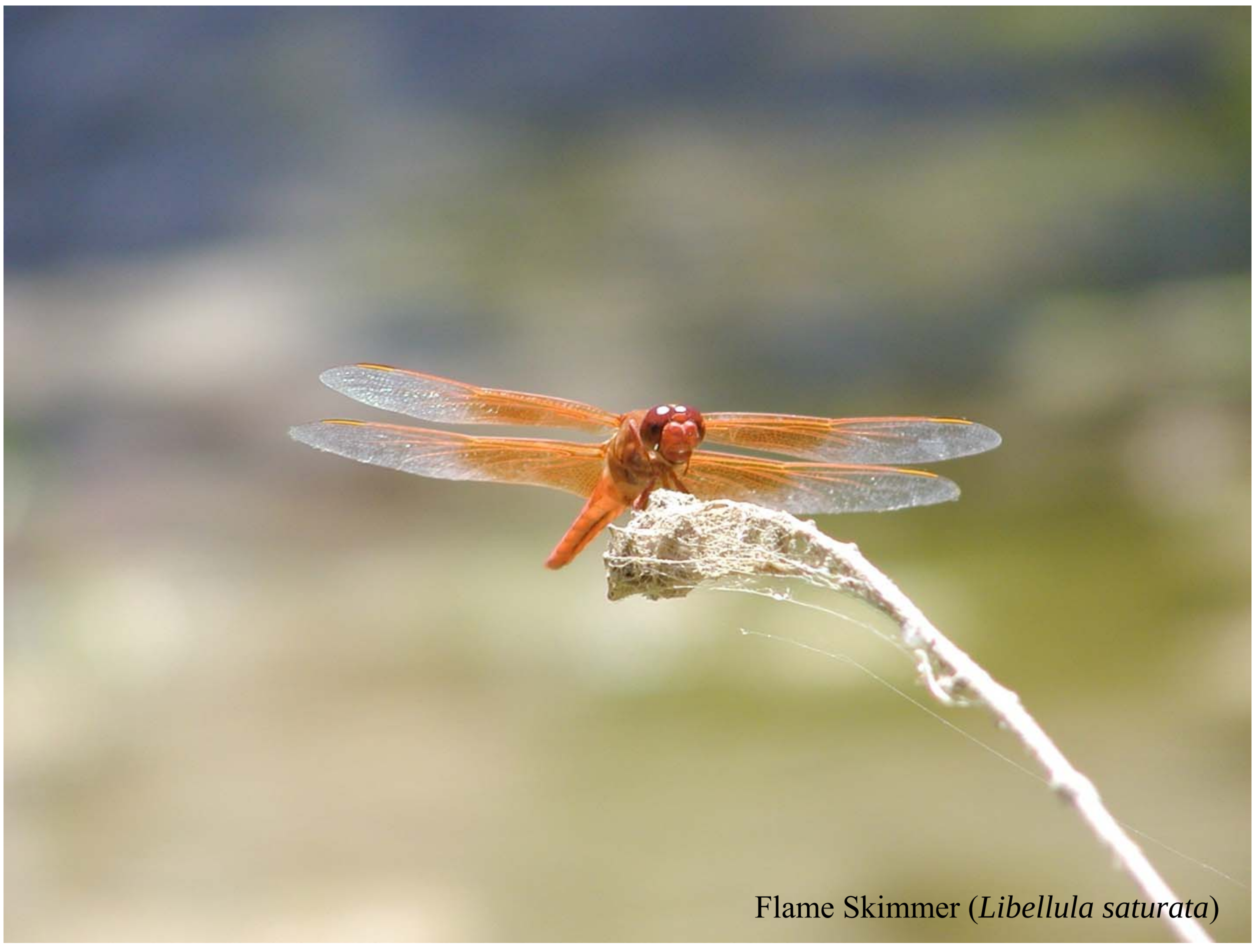
Appendix I

Financial Statements



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Kern Water Bank Authority

Financial Statements

December 31, 2014 and 2013

C O N T E N T S

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kern Water Bank Authority
Bakersfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Kern Water Bank Authority (the Authority), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 opinions 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 Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2014 and 2013, 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 on pages 2 through 8 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2015, on our consideration of the Authority'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 the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
April 1, 2015

As management of the Kern Water Bank Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal years ended December 31, 2014 and 2013. Please read it in conjunction with the Authority's financial statements, which follow this section.

The Authority is a Joint Powers Authority, established October 16, 1995, under the Joint Exercise of Powers Act. The Authority operates the Kern Water Bank, which is an area of land (approximately 20,000 acres) located in the southwest portion of the San Joaquin Valley uniquely suited for water recharge, water recovery and habitat preservation.

The Authority is a public agency, whose participants are the Kern County Water Agency, water storage districts, water districts and a mutual water company. The Authority oversees the day-to-day operations of the Kern Water Bank on behalf of the Participants.

The Authority recharges, recovers and stores water on behalf of the Participants. The Authority's governing body is a seven-member Board of Directors, comprised of Participant representatives, which includes a Chairman and a Vice-Chairman.

Participants receive water from a number of sources including the State Water Project (SWP), the Central Valley Project via the Friant-Kern Canal, and the Kern River. Participants recognized the benefit of developing the Kern Water Bank lands and constructed recharge basins, recovery wells, canals and other banking facilities on a portion of the Kern Water Bank lands while preserving the land for habitat conservation. Participants, under the Authority, utilize these banking facilities to create a more reliable water supply.

Hydrological patterns tend to be cyclical, often creating multiple years of excess water supply followed by multiple years of water supply shortage. Participants have, or acquire, water surplus to accommodate their needs in wet years and place it in storage in the Kern Water Bank for future recovery in dry years. This provides Participants with a unique water supply regulation tool.

The 2012-2013 water year was dry, necessitating the recovery of almost 190,000 acre-feet of water during the year. The 2013-2014 water year was also dry, and over 180,000 acre-feet of water was recovered throughout the year.

Financial Highlights

The Authority's total assets decreased by $0.12 million, or 0.16%, over the course of the 2014 operations, which was largely due to depreciation on capital assets and a decrease in restricted assets.

The Authority's total revenues increased from $15.4 million to $18 million, and total expenses increased from $14.1 million to $17.4 million because of an increase in electricity and legal expenses.

The Authority's long-term debt decreased by $1.4 million from $18.9 million to $17.5 million. This was due to principal payments paid to the variable rate bond investors and to the State of California Department of Water Resources (DWR) of $1,080,000 and $260,487, respectively, and a decrease in the fair value of the interest rate swap of $74,049.

Overview of the Financial Statements

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

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statements of Net Position include all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues and Expenses. This statement can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, its profitability, and its credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is, "Is the Authority, as a whole, better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and the changes in them. One can think of the Authority's net position - the difference between assets, deferred inflows, deferred outflows and liabilities - as one way to measure financial health or financial position. Increases or decreases in the Authority's net position is also an indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

Net Position

To begin our analysis, a summary of the Authority's Statements of Net Position is presented in the following table.

Condensed Statements of Net Position
December 31, 2014 and 2013
(000's)

	2014	*2013 (Restated)*	*Dollar Change*	*Percentage Change*
Current Assets	$ 13,538	$ 13,008	$ 530	4.07 %
Capital Assets - Net	55,204	55,619	(415)	(0.75) %
Restricted Assets	1,680	1,911	(231)	(12.09) %
Total Assets	70,422	70,538	(116)	(0.16) %
Deferred Outflows of Resources	1,547	1,621	(74)	(4.57) %
	$ 71,969	$ 72,159	$ (190)	(0.26) %
Current Liabilities	$ 14,132	$ 13,471	$ 661	4.91 %
Long-Term Debt	17,512	18,934	(1,422)	(7.51) %
Total Liabilities	31,644	32,405	(761)	(2.35) %
Net Investment in Capital Assets	36,344	35,345	999	2.83 %
Restricted	1,680	1,911	(231)	(12.09) %
Unrestricted	2,301	2,498	(197)	(7.89) %
Total Net Position	40,325	39,754	571	1.44 %
	$ 71,969	$ 72,159	$ (190)	(0.26) %

The increase in current assets from the year ended 2013 to 2014 of 4.07% is due to an increase in cash. The small decrease in capital assets is due to offsetting investments in facilities and depreciation. Lastly, the decrease in restricted assets is due to the timing of debt service deposits. The decrease in total liabilities of 2.35% is primarily due to long-term debt principal payments.

The following chart summarizes the Comparative Statements of Revenues, Expenses and Changes in Net Position.

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2014 and 2013
(000's)

	2014	*2013 (Restated)*	*Dollar Change*	*Percentage Change*
Operating Revenues, Net	$ 16,767	$ 14,191	$ 2,576	18.15 %
Non-operating Revenues	1,249	1,196	53	4.43 %
Total Revenues	18,016	15,387	2,629	17.09 %
Operating Expenses	16,511	13,145	3,366	25.61 %
Non-operating Expenses	934	944	(10)	(1.06) %
Total Expenses	17,445	14,089	3,356	23.82 %
Change in Net Position	571	1,298	(727)	
Net Position, Beginning of Year	39,754	38,456	1,298	
Net Position, End of Year	$ 40,325	$ 39,754	$ 571	

Net operating revenues at December 31, 2014 were $16.8 million compared to $14.2 million at December 31, 2013. Operating expenses at December 31, 2014 were $16.5 million compared to $13.1 million at December 31, 2013. The increases in both revenues and expenses are due to increased electricity costs in the recovery operations and some general and administrative expenses. The Authority distributes capital use fees and returns unused deposits and fees to Participants each fiscal year.

Budgetary Highlights

The Authority adopts an annual budget each year to project the expected coming year's administrative, land management, and general maintenance operations. The budget includes these proposed expenses and the means of financing them. The Authority's budget remains in effect the entire year. Budget-to-actual comparisons were analyzed by management throughout the year; however, it is not reported on nor shown in the financial statements section of this report.

A December 31, 2014 budget-to-actual comparison is presented in the following table:

General and Administrative
Budget vs. Actual Comparison
For the Year Ended December 31, 2014
(000's)

	Actual	*Budget*	*Variance*
G&A Revenues	$ 2,778	$ 2,367	$ 411
Other G&A Revenues	296	127	169
Total G&A Revenues	3,074	2,494	580
G&A Expenses	2,836	2,494	342
Net Loss	$ 238	$ -	$ 238

The Authority collected three general and administrative (G&A) assessments for the year ended December 31, 2014. Total G&A revenues were over budget by $580,000. The G&A expenses are administrative expenses, such as payroll and benefits, equipment and supplies, general maintenance and legal fees. The 2014 G&A actual expenses were higher than anticipated expenses because of on-going legal matters.

The Authority collects estimated fees from Participants for their recharge and recovery activity based on usage. These fees and the expenses, in addition to offsetting debt service assessments and payments, are not included in the annual G&A budget.

Capital Assets

As of December 31, 2014, the Authority had invested $73.5 million in gross capital assets as shown in the following table:

Capital Assets
December 31, 2014 and 2013
(000's)

	2014	*2013*	*Dollar Change*	*Percentage Change*
Land	$ 23,614	$ 23,614	$ -	- %
Wells - Recovery	33,213	30,776	2,437	7.92 %
Canals and Related Facilities	12,087	12,087	-	- %
Earthwork - Recharge	3,174	3,174	-	- %
Pumps - Recharge	358	358	-	- %
Roads and Fences	638	638	-	- %
Equipment	6	6	-	- %
Office Equipment and Furniture	51	91	(40)	(43.96) %
Trucks and Autos	126	94	32	34.04 %
Construction in Progress	256	1,707	(1,451)	(85.00) %
Property and Equipment	73,523	72,545	978	1.35 %
Less: Accumulated Depreciation	18,319	16,926	1,393	8.23 %
Total Capital Assets	$ 55,204	$ 55,619	$ (415)	(0.75) %

Total capital assets net of depreciation decreased slightly, from $55.6 million at December 31, 2013 to $55.2 million at December 31, 2014. This change reflects the offset of investments in facilities and depreciation.

Debt Service Requirements

Between 1999 and 2002, the Authority received a $5 million loan from the DWR. The proceeds of this loan were used to complete a portion of the Master Plan Construction Project, and the Authority makes monthly deposits into a fiscal service agent account for semi-annual principal, interest, and reserve payments. As of December 31, 2014, the outstanding principal on this loan was approximately $2.2 million.

On November 25, 2003, the Authority received $27 million in proceeds from the issuance of two series of variable rate demand bonds, Series 2003A (tax exempt) and Series 2003B (taxable). The proceeds from this bond issuance were designated to pay off a 1999 Bank of America loan, fund the Authority's 50% match for a DWR Proposition 13 grant to construct the River Area well and pipeline project, enhance recharge pond capacities, expand security fencing and roads, and possibly build an office facility on the Kern Water Bank property.

As part of the bond issuance, Zions First National Bank, Trustee, established restricted cash accounts, including a $1 million Reserve Fund. The remainder of the bond proceeds was placed, primarily, in the Project Fund to be used for the construction projects. The final requisition was drawn in 2007.

The principal amount owed on this bond issuance as of December 31, 2014 was $15.1 million. Principal is payable in annual installments, or mandatory redemptions, of $1.08 million due on July 1, beginning in 2004 and ending in 2028 (maturity). Variable interest on the two series of bonds is accrued weekly and paid monthly.

On July 27, 2005, the Authority entered into an Interest Rate Master Agreement with Wells Fargo Bank, N.A. which established a fixed interest rate swap on the outstanding balance of the Series A and Series B bonds through July 1, 2023, in which the Authority pays interest at 3.86% and 4.75%, respectively, in exchange for receiving a Bond Market Association (BMA) rate and a London Interbank Offered Rate (LIBOR), respectively. Payments are made monthly.

Kern Integrated Regional Water Management Implementation Grant

In 2014, the Kern Integrated Regional Water Management project proposal received final approval by the DWR. The Authority's portion of the project has an estimated cost of $3 million, of which a 25% match will be provided by the Authority. The Authority will be the lead agency with the DWR on the project. As of December 31, 2014, no grant funds had been received.

Contacting the Authority's Management

This annual financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Kern Water Bank Authority, 1620 Mill Rock Way, Suite 500, Bakersfield, CA 93311.

Kern Water Bank Authority

Statements of Net Position
December 31, 2014 and 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***2014***	***2013 (Restated)***
Current Assets		
Cash and cash equivalents	$ 12,356,813	$ 11,235,756
Accounts receivable	1,166,388	1,756,680
Prepaid expenses	5,606	5,498
Interest receivable	9,401	9,909
	13,538,208	13,007,843
Property, Plant and Equipment, net of accumulated depreciation	55,204,368	55,618,982
Restricted Assets	1,679,934	1,910,972
Total Assets	70,422,510	70,537,797
Deferred Outflows of Resources		
Deferred outflow of interest rate swap	1,546,887	1,620,936
	$ 71,969,397	$ 72,158,733

See Notes to Basic Financial Statements.

LIABILITIES AND NET POSITION	*2014*	*2013 (Restated)*
Current Liabilities		
Current maturities of long-term debt	$ 1,347,503	$ 1,340,424
Accounts payable	2,050,432	1,978,180
Accounts payable, water transfers	3,044,693	1,944,688
Participant reimbursements payable	6,485,834	5,481,255
Advanced 2014 and 2013 assessments	-	647,477
Advanced 2014 and 2013 loan/bond payments	-	1,596,406
Advanced well replacement and refurbishment	79,407	453,573
Grant revenue match	770,572	-
Accounts payable - Department of Fish and Game	8,625	12,750
Accrued interest payable	14,813	16,128
Mitigation funds payable	330,248	-
	14,132,127	13,470,881
Long-Term Liabilities		
Long-term debt, less current maturities	15,965,625	17,313,191
Fair value of interest rate swap	1,546,887	1,620,936
	17,512,512	18,934,127
Total Liabilities	31,644,639	32,405,008
Net Position		
Net investment in capital assets	36,344,353	35,344,431
Restricted for debt service	1,679,934	1,910,972
Unrestricted	2,300,471	2,498,322
	40,324,758	39,753,725
	$ 71,969,397	$ 72,158,733

Kern Water Bank Authority

Statements of Revenues and Expenses
For the Years Ended December 31, 2014 and 2013

	2014	***2013 (Restated)***
Operating revenues (net of participant refunds)	$ 16,767,195	$ 14,191,004
Operating expenses	(16,511,179)	(13,145,278)
Operating income	256,016	1,045,726
Non-operating revenues	1,249,055	1,196,495
Non-operating expenses	(934,038)	(944,213)
Non-operating income	315,017	252,282
Change in net position	$ 571,033	$ 1,298,008

See Notes to Basic Financial Statements.

Kern Water Bank Authority

Statements of Changes in Net Position
For the Years Ended December 31, 2014 and 2013

Balance, December 31, 2012, as previously stated	$ 39,010,232
Prior period adjustment for change in accounting principle (see Note 10)	(554,515)
Balance, December 31, 2012, as restated	38,455,717
Change in net position	1,298,008
Balance, December 31, 2013, as restated	39,753,725
Change in net position	571,033
Balance, December 31, 2014	$ 40,324,758

See Notes to Basic Financial Statements.

Kern Water Bank Authority

Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013 (Restated)
Cash flows from operating activities:		
Receipts from customers and participants	$ 16,844,838	$ 16,113,935
Payments to other suppliers for goods and services	(13,751,215)	(8,840,329)
Payments to employees for services	(445,695)	(496,890)
Net cash provided by operating activities	2,647,928	6,776,716
Cash flows from capital and related financing activities:		
Payments for construction loan principal	(1,340,487)	(1,333,644)
Payments for construction of water banking facilities and fixed assets	(777,309)	(1,992,524)
Interest paid on construction loans	(633,095)	(699,247)
Reimbursement from Participants for interest on construction loan	64,702	95,936
Reimbursement from Participants for annual bond fees	887,120	937,780
Net cash used in capital and related financing activities	(1,799,069)	(2,991,699)
Cash flows from investing activities:		
Receipt of interest	41,160	37,852
Net increase in cash and cash equivalents	890,019	3,822,869
Cash and cash equivalents at beginning of the year	13,146,728	9,323,859
Cash and cash equivalents at end of the year	$ 14,036,747	$ 13,146,728

See Notes to Basic Financial Statements.

	2014	2013 (Restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 256,016	$ 1,045,726
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,432,729	1,366,649
Change in operating assets, liabilities, and other expense:		
Accounts receivable	590,292	1,257,967
Prepaid expenses	(108)	(74)
Accounts payable	831,900	3,228,668
Accounts payable, water transfers	1,100,005	1,451,118
Advanced 2014 and 2013 assessments and loan/bond payments	(2,243,883)	(54,723)
Advanced well replacement and refurbishment	(374,166)	(1,395,111)
Advanced DWR grant revenue	770,572	-
Advanced mitigation funds	330,248	-
Other expense	(45,677)	(123,504)
Net cash provided by operating activities	$ 2,647,928	$ 6,776,716
Reconciliation of cash and cash equivalents:		
Unrestricted cash	$ 12,356,813	$ 11,235,756
Restricted cash	1,679,934	1,910,972
	$ 14,036,747	$ 13,146,728
Supplemental disclosures of cash flow information:		
Noncash activities:		
Property and equipment purchased through issuance of accounts payable	$ 276,538	$ 35,732
Participant refund through issuance of accounts payable	$ 6,485,834	$ 5,481,255
Change in fair value of interest rate swap	$ (74,049)	$ (996,630)

Note 1. Summary of Significant Accounting Policies

The reporting entity:

In 1995, the Monterey Agreement was signed which, among other things, modified how State Water Project water supplies are allocated and how users are charged. One of the components of the Monterey Agreement was the transfer of Kern Fan Element lands from the California Department of Water Resources (DWR) to local ownership.

Kern Water Bank Authority (the Authority) was established October 16, 1995 under the Joint Exercise of Powers Act, as amended by the First Amended and Restated Joint Powers Agreement signed July 19, 1999. The Authority is a public agency comprised of the Kern County Water Agency, water storage districts, water districts and a mutual water company. Water is stored in aquifers during times of surplus and recovered during times of shortage. The Authority oversees all day-to-day operations of these facilities. As organized, the Authority does not own the stored water, but rather, acts on behalf of the Participants.

Kern Water Bank Authority Participants:

The Participants and their percentage of ownership are:

Tejon-Castac Water District	2.00%
Semitropic Water Storage District	6.67%
Dudley Ridge Water District	9.62%
Kern County Water Agency	9.62%
Wheeler Ridge-Maricopa Water Storage District	24.03%
Westside Mutual Water Company	48.06%

Management and Board of Directors:

The Authority has a full time staff to administer the day-to-day operations. The Authority's governing body is its seven-member Board of Directors (Board), which includes a Chairman and a Vice-Chairman. The joint powers agreement directs that voting is based on each member’s ownership in the Authority.

Financial reporting:

The Authority prepares its financial statements in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments.” Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets, restricted components of net position, and unrestricted components of net position. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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

Unrestricted component of net position - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The Authority reports its interest rate swap in accordance with the provisions of GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, which include interest rate swaps, at fair value.

The Authority has adopted the provisions of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure. The adoption of Statement No. 62 does not have any impact on the Authority's financial statements.

The Authority has adopted the provisions of GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources.

The Authority has adopted the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." Statement No. 65 establishes accounting and financial reporting standards to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This statement is effective for periods beginning after December 15, 2012. See Note 10 for the effect on net position for the prior period adjustment as a result of adopting Statement No. 65 for the year ended December 31, 2013.

Fund accounting:

The Authority utilizes a proprietary enterprise fund category to account for its activities. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Other items not properly included among operating revenues are reported as non-operating revenues. All assets and liabilities associated with an enterprise fund's activities are included on its statement of net position.

Basis of accounting:

The accompanying financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows.

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 reporting of assets and liabilities and revenue and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Pension plan:

Employees of the Authority may participate in the 457 deferred compensation plan, and employees with at least one year of service are eligible for the 401(a) employer match program. Maximum annual contributions to the 457 plan, as established by the Internal Revenue Service, were $17,500 for the years ended 2014 and 2013. The employer match by the Authority is 100% of the employee's annual deferred compensation, up to 6% of the employee's annual salary, in 2014 and 2013. Subject to eligibility requirements, employees are vested in the 401(a) employer match contribution at 25% per year of employment, whereby they are fully vested at the end of the fourth year of employment. For the years ended 2014 and 2013, the plan expense was $26,641 and $28,070, respectively.

Property, plant and equipment, and depreciation:

The straight-line method has been used to determine depreciation based on the following estimated useful lives:

	Years
Wells - recovery	39
Canals and related facilities	20-50
Earthwork - recharge	20-50
Pumps - recharge	20-25
Roads and fences	10-50
Equipment	7
Office equipment and furniture	5
Trucks/autos	5

Property, plant and equipment are capitalized at cost and updated for additions and retirements during the year. The Authority maintains a capitalization threshold of $10,000. Maintenance and repairs of property and equipment that do not add to the value of the asset or materially extend the asset's life are charged to operations; major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and the gain or loss is included in operations.

Deposits and investments:

Cash and cash equivalents

For purposes of reporting cash flows, the Authority considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. The Authority utilizes a financial institution to service bonded debt as principal and interest payments come due. The balances in these accounts are presented on the financial statements as "Restricted Assets". Cash and cash equivalents also include cash on hand and amounts deposited with banks and Kern County's investment pool money fund. Investments are reported at fair value, which is based on quoted market prices.

Cash deposits

The Authority has adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3". This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit policies related to the risks identified in this statement also are required to be disclosed.

The Authority's cash deposits at December 31, 2014 and 2013 were either entirely insured by appropriate federal depository insurance, partially insured up to the federal limit and the remainder collateralized, or fully collateralized with collateral held by the pledging financial institution's trust department or agent in the Authority's name in accordance with provisions of the California Government Code. The carrying amount and bank balance of the Authority's deposits at December 31, 2014 and 2013 are as follows:

	2014		***2013***	
	Carrying Amount	***Bank Balance***	***Carrying Amount***	***Bank Balance***
Insured	$ 422,436	$ 500,000	$ 414,935	$ 500,000
Uninsured and collateralized with securities held by the pledging financial institution	1,325,953	1,325,952	1,555,894	1,555,894
Uncollateralized	-	-	-	-
Kern County's investment pool	12,288,358	12,338,358	11,175,899	11,209,498
	$ 14,036,747	$ 14,164,310	$ 13,146,728	$ 13,265,392

Cash funds deposited with Kern County are in a pooled money fund. Funds are pooled with other agencies in the county. Investments are made in accordance with California Government Code Section 53635.

Pooled funds may be invested in: (1) direct obligations of the United States government, the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit at savings and loan associations and federally insured banks when secured by acceptable collateral and (3) savings accounts at savings and loan associations and banks, to the extent fully insured.

Cash flows:

GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting" states, for all purposes of preparing the statement of cash flows, all transactions not classified as capital and related financing activities or investing activities are classified as operating activities. The adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities include other income (expense) which consists of unrestricted non-operating revenues and expenses.

Water banking revenue and assessments:

Water banking revenue

Water banking revenue to cover the costs of recharging and recovering water is received from the Participants. The amount charged per acre-foot recharged or recovered is set after considering actual cost incurred in the most recent year for recharge and recovery operations. Any revenue collected in excess of actual expenses is refunded to the Participants in the following year. If the amount collected is less than the recharge and recovery expenses incurred by the Authority, the Participants will be billed for their proportionate share of the shortage.

In 1999, the Authority began billing the Participants capital fees for their recharge and recovery use of the facilities. These fees are distributed annually to the Participants based on their ownership shares in the Authority.

General administrative assessment revenue

Assessments for general and administrative, general maintenance, and land management expenses are collected from the Participants. The amount of the assessment is determined by the Board based on the operating budget and the amount of cash that is available. Each Participant pays its proportionate share of the operating assessments based on ownership shares. For the years ended 2014 and 2013, the Authority recorded general administrative assessment revenue of $2,366,928 and $1,387,500, respectively.

Reclassifications:

Certain amounts in 2013 have been reclassified to conform with the 2014 presentation.

Note 2. Property, Plant and Equipment

Property, plant and equipment consist of land and the accumulated costs to build the ponds, basins, and roads used for collection and storage of the water; wells used for recovery of the water; canals, pump station, pipelines, pumps, and equipment used for transportation of the water; and office equipment and furniture.

Title transfer of assets from the DWR to the Authority was completed on August 9, 1996. Upon the exchange of water entitlements by the Participants to the DWR, reflected as contribution of capital in the amount of $27,858,500 by the respective Participants, the Participants received Kern Fan Element lands and 42,830 acre-feet of banked water. The 42,830 acre-feet of water was subsequently transferred to each of the Participants in proportion to their ownership shares in the Authority.

The following is a summary of changes in the Authority's property, plant and equipment for the years ended December 31, 2014 and 2013:

	Assets			
	Balance 12/31/13	***Additions***	***Transfers/ Retirements***	***Balance 12/31/14***
Land	$ 23,613,500	$ -	$ -	$ 23,613,500
Wells-recovery	30,776,304	2,436,219	-	33,212,523
Canals and related facilities	12,086,593	-	-	12,086,593
Earthwork – recharge	3,174,279	-	-	3,174,279
Pumps – recharge	358,153	-	-	358,153
Roads and fences	638,061	-	-	638,061
Equipment	6,235	-	-	6,235
Office equipment and furniture	91,538	-	(40,511)	51,027
Trucks/autos	93,890	32,372	-	126,262
Construction in progress	1,706,888	256,412	(1,706,888)	256,412
	$ 72,545,441	$ 2,725,003	$ (1,747,399)	$ 73,523,045

	Accumulated Depreciation			
	Balance 12/31/13	***Expense***	***Transfers/ Retirements***	***Balance 12/31/14***
Wells-recovery	$ 9,782,757	$ 842,818	$ -	$ 10,625,575
Canals and related facilities	5,539,650	443,813	-	5,983,463
Earthwork – recharge	1,029,884	65,366	-	1,095,250
Pumps – recharge	175,361	17,020	-	192,381
Roads and fences	247,641	42,883	-	290,524
Equipment	6,235	-	-	6,235
Office equipment and furniture	82,138	2,051	(40,511)	43,678
Trucks/autos	62,793	18,778	-	81,571
	$ 16,926,459	$ 1,432,729	$ (40,511)	$ 18,318,677

	Assets			
	Balance 12/31/12	***Additions***	***Transfers/ Retirements***	***Balance 12/31/13***
Land	$ 23,613,500	$ -	$ -	$ 23,613,500
Wells-recovery	30,218,304	558,000	-	30,776,304
Canals and related facilities	12,086,593	-	-	12,086,593
Earthwork – recharge	3,174,279	-	-	3,174,279
Pumps – recharge	358,153	-	-	358,153
Roads and fences	607,613	30,448	-	638,061
Equipment	6,235	-	-	6,235
Office equipment and furniture	81,283	10,255	-	91,538
Trucks/autos	89,955	3,935	-	93,890
Construction in progress	673,324	1,033,564	-	1,706,888
	$ 70,909,239	$ 1,636,202	$ -	$ 72,545,441

	Accumulated Depreciation			
	Balance 12/31/12	***Expense***	***Transfers/ Retirements***	***Balance 12/31/13***
Wells-recovery	$ 9,002,726	$ 780,031	$ -	$ 9,782,757
Canals and related facilities	5,095,837	443,813	-	5,539,650
Earthwork – recharge	964,518	65,366	-	1,029,884
Pumps – recharge	158,342	17,019	-	175,361
Roads and fences	206,788	40,853	-	247,641
Equipment	6,235	-	-	6,235
Office equipment and furniture	81,283	855	-	82,138
Trucks/autos	44,081	18,712	-	62,793
	$ 15,559,810	$ 1,366,649	$ -	$ 16,926,459

Note 3. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements.

Restricted cash:

As part of the Authority's 2000 loan agreement with the DWR, the Authority executed a Fiscal Services Agent Agreement with Bank of America to collect monthly deposits for the semi-annual principal and interest payments to DWR. The Authority also agreed to accumulate a Reserve Fund equal to at least two semi-annual payments within the first ten years of the repayment period. Beginning April 1, 2002, the Authority deposited $2,710 per month into the Fiscal Services Agent Account and accumulated a $325,200 reserve over the 10-year period.

As part of the Authority's 2003 Bond Indenture for two series of variable rate demand bonds, the Authority agreed to maintain a debt service reserve of $1,000,000 with the bond trustee, Zions First National Bank. This reserve was funded as part of the bond closing in November 2003.

The following schedule summarizes the restricted assets at December 31, 2014 and 2013:

	2014	***2013***
Cash, Wells Fargo Bank - debt retirement	$ 210,719	$ 415,639
Cash, Zions First National Bank - debt retirement	6,827	6,725
Cash, Zions First National Bank - reserve fund	1,000,000	1,000,000
Cash, Bank of America - debt retirement	462,388	488,608
	$ 1,679,934	$ 1,910,972

Note 4. Loans for Master Plan

DWR Proposition 204 Construction Loan:

In March 2000, the Authority and the DWR executed a contract for a $5,000,000 "Groundwater Recharge Construction Loan under the Safe, Clean, Reliable Water Supply Act."

After all conditions were met, the DWR began disbursing the loan commitment to the Authority in 2001. At December 31, 2002, the DWR had advanced the full loan commitment to the Authority. In 2014 and 2013, interest expense on the loan principal balance was $63,180 and $69,616, respectively.

The interest rate is 2.7% per annum on the unpaid balance, and the DWR bills the Authority's Fiscal Services Agent, Bank of America, for semi-annual principal and interest payments until the principal is repaid. Principal repayment commenced upon completion of the initial project and will continue at semi-annual intervals for a period not to exceed 20 years.

Variable Rate Demand Revenue Bonds - Series "A" and "B":

On November 25, 2003, the Authority issued Series 2003A (tax exempt) and Series 2003B (taxable) variable rate demand revenue bonds, pursuant to an Indenture of Trust dated November 1, 2003 between the Authority and Zions First National Bank, as Trustee. The 2003 Bonds were identified in the Official Statement as:

A. Series 2003A	$10,800,000 – CUSIP: 492291 AA7
B. Series 2003B	$16,200,000 – CUSIP: 492291 AB5

The 2003 Bonds were issued to provide funds to (a) prepay in full the principal amount owed by the Authority to Bank of America under the 1999 Loan Agreement; (b) finance certain capital expenditures of the Authority; (c) fund a $1,000,000 Reserve Fund; (d) fund a deposit to the Interest Fund to pay capitalized interest on the bonds; and (e) pay costs of issuance. The bonds will mature in 2028.

The Indenture of Trust, executed by the Authority and Zions First National Bank, as Trustee, documented that the Trustee received $27,870,412 on the date of closing as the aggregate purchase price of the bonds, including $1,000,000 relating to repayment of the Bank of America loan. The Trustee transferred $19,000,000 as repayment of the principal for the Bank of America loan, and the remaining proceeds were deposited by the Trustee as follows:

Project Fund	-	$ 6,166,332
Reserve Fund	-	$ 1,000,000
Costs of Issuance Fund	-	$ 704,080
Interest Fund	-	$ 1,000,000

The bonds bear interest at variable rates determined weekly which is paid semi-annually to the Trustee for the benefit of the bond holders. The Participants are assessed semi-annually for their proportionate share of the interest due to bond holders. Interest expense for the years ended December 31, 2014 and 2013 was $568,600 and $627,908, respectively. The interest rates in effect as of December 31, 2014 and 2013 were 0.04% and 0.16% and 0.03% and 0.17%, for Series 2003A (tax exempt) and Series 2003B (taxable) bonds, respectively.

On July 27, 2005, the Authority entered into an Interest Rate Master Agreement with Wells Fargo Bank, N.A. which established a fixed interest rate swap on the outstanding balance of the Series A and Series B bonds through July 1, 2023 at 3.86% and 4.75%, respectively. These rates were used to calculate the interest rate swap, net in the "Summary of long-term debt" schedule of this note. Also, see Note 5 regarding derivatives.

Equal portions of the bonds are subject to mandatory redemption annually, on July 1, until they reach maturity in 2028. The bonds are selected by lot and are redeemed by Authority revenues at a redemption price equal to the principal amount to be redeemed. The annual redemption amount for Series 2003A (tax exempt) and Series 2003B (taxable) bonds is $432,000 and $648,000, respectively.

While the bonds are outstanding, the Authority is required, with certain exceptions, to maintain a Letter of Credit, currently provided by Wells Fargo Bank, or alternate credit facility to provide security and/or liquidity. The Wells Fargo Letter of Credit (LOC) was issued for $27,434,959 and expired on November 1, 2014; however, the LOC is automatically extended every year on November 1 unless notice is given by Wells Fargo Bank to the contrary. The Authority is required to meet certain loan covenants. At December 31, 2014, the Authority was in compliance with these covenants.

Summary of long-term debt:

The following summarizes long-term debt transactions for the years ended December 31, 2014 and 2013:

	Payable 12/31/13	***Additions***	***Deletions***	***Payable 12/31/14***	***Amount Due Within One Year***
Bond principal	$ 16,200,000	$ -	$ (1,080,000)	$ 15,120,000	$ 1,080,000
Loan, DWR	2,453,615	-	(260,487)	2,193,128	267,503
Fair value of interest rate swap	1,620,936	-	(74,049)	1,546,887	-
	$ 20,274,551	$ -	$ (1,414,536)	$ 18,860,015	$ 1,347,503

	Payable 12/31/12	*Additions*	*Deletions*	*Payable 12/31/13*	*Amount Due Within One Year*
Bond principal	$ 17,280,000	$ -	$ (1,080,000)	$ 16,200,000	$ 1,080,000
Loan, DWR	2,707,259	-	(253,644)	2,453,615	260,424
Fair value of interest rate swap	2,617,566	-	(996,630)	1,620,936	-
	$ 22,604,825	$ -	$ (2,330,274)	$ 20,274,551	$ 1,340,424

The annual requirements to amortize all debt outstanding as of December 31, 2014 are as follows:

Years Ending December 31,	*Principal*	*Interest*	*Interest Rate Swap, net*	*Total Debt Service*
2015	$ 1,347,503	$ 72,013	$ 491,258	$ 1,910,774
2016	1,354,774	63,662	433,463	1,851,899
2017	1,362,243	55,113	375,668	1,793,024
2018	1,369,915	46,361	317,873	1,734,149
2019	1,377,796	37,400	260,078	1,675,274
2020-2024	6,180,897	67,053	462,360	6,710,310
2025-2028	4,320,000	8,640	-	4,328,640
	$ 17,313,128	$ 350,242	$ 2,340,700	$ 20,004,070

Note 5. Derivatives

The Authority accounts for derivatives under GASB Statement No. 53. The objectives and terms of the Authority's hedging derivative instruments outstanding at December 31, 2014 are listed below:

Type	***Objective***	***Notional Amount***	***Effective Date***	***Maturity Date***	***Terms***	***Fair Value***
Pay-fixed interest rate swap	Hedge of changes in interest rates of the Series 2003A Bonds	$ 4,860,000	8/1/2005	7/1/2023	Pay 3.86%, receive BMA	$ (553,045)
Pay-fixed interest rate swap	Hedge of changes in interest rates of the Series 2003B Bonds	$ 7,290,000	8/1/2005	7/1/2023	Pay 4.75%, receive LIBOR	(993,842)
						$ (1,546,887)

The objectives and terms of the Authority's hedging derivative instruments outstanding at December 31, 2013 are listed below:

Type	***Objective***	***Notional Amount***	***Effective Date***	***Maturity Date***	***Terms***	***Fair Value***
Pay-fixed interest rate swap	Hedge of changes in interest rates of the Series 2003A Bonds	$ 5,400,000	8/1/2005	7/1/2023	Pay 3.86%, receive BMA	$ (575,059)
Pay-fixed interest rate swap	Hedge of changes in interest rates of the Series 2003B Bonds	$ 8,100,000	8/1/2005	7/1/2023	Pay 4.75%, receive LIBOR	(1,045,877)
						$ (1,620,936)

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The above swaps were classified as deferred outflows on the statements of net position. The total change in fair value for the years ended December 31, 2014 and 2013was $(74,049) and $(996,630), respectively. The balance at December 31, 2014 and 2013 was $1,546,887 and $1,620,936, respectively.

Risks

Credit Risk - Credit risk is the risk that Wells Fargo Bank cannot fulfill the terms and obligations specified in the swaps agreements. Because the swap had a negative fair value as of December 31, 2014 and 2013, the Authority did not have exposure related to credit risk on its swaps with Wells Fargo Bank. However, the Authority would have exposure related to credit risk in the amount of the swaps' positive fair value if interest rates increased to cause the fair value of the swaps to become positive. The credit ratings of Wells Fargo Bank are AA- and Aa3 by S&P and Moody's, respectively.

Basis Risk - The Authority is exposed to basis risk on its pay-fixed interest rate swaps because the variable rate payments received are based on an index other than the interest rates the Authority pays on its Series 2003A and 2003B revenue bonds. As of December 31, 2014, the weighted average interest rate on the Authority's hedged variable rate bonds was 0.04% and 0.16 %, respectively, while the Bond Market Association (BMA) rate was 0.02% and London Interbank Offered Rate (LIBOR) was 0.15%. As of December 31, 2013, the weighted average interest rate on the Authority's hedged variable rate bonds was 0.06% and 0.17%, respectively, while the BMA rate was 0.03% and LIBOR was 0.17%.

Termination Risk - Neither party may terminate the transaction prior to its maturity date, unless the Authority or Wells Fargo Bank fails to make any payment when due or otherwise fails to perform any of its obligations with respect to the swap agreement. The non-defaulting party may terminate the swap agreement. If at the time of termination, a derivative instrument is in a liability position, the Authority would be liable to Wells Fargo Bank for a payment equal to the liability, plus interest.

Note 6. Self-Insurance

The Authority is a member of the Association of California Water Agencies, Joint Powers Insurance Authority (JPIA). JPIA is a group of California Water Districts who have pooled funds to provide self-insurance coverage as follows:

	Limits per Occurrence			
Type of Coverage	***Self-Insurance***		***Excess Insurance***	
General, automobile and public officials liability	$	2,000,000	$	58,000,000
Buildings, fixed equipment, personal property and licensed vehicles	$	100,000	$	100,000,000
Fidelity coverage	$	100,000	$	-
Workers' Compensation	$	2,000,000	$	2,000,000

The Authority is in a group that has a $2,500 retention level (deductible) per occurrence for property damage due to theft and natural causes. Property includes buildings, personal property, fixed equipment, mobile equipment, licensed vehicles, and turbine generators and transformers. For mechanical damages to turbines, generators and transformers, the deductible ranges from $25,000 to $50,000. For fidelity coverage, the deductible is $1,000. Claims over the retention levels are insured by the group up to the self-insurance limits (see above) and by policies purchased by JPIA from the Evanston Insurance Company, Great American Insurance Co. of New York, Starr Indemnity and Liability Company, Endurance Risk Solutions Assurance Company, Arch Insurance Company, and Liberty Mutual Insurance Company for the excess.

JPIA bills the Authority a deposit premium at the beginning of each policy year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are charged against the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the Authority is retrospectively billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the Authority.

Note 7. Commitments

Leases:

The Authority entered into a lease agreement for office space commencing on November 1, 2008. The base rent for the first year of the agreement required monthly payments of $4,882 and are adjusted at the end of each year of the lease. Total rent expense related to this lease for the years ended December 31, 2014 and 2013 was $66,155 and $65,235, respectively. The initial agreement expired on October 31, 2013; however, the Authority exercised an option to renew for another five year period ending October 31, 2018.

Future minimum lease payments are as follows:

Years Ending December 31,		
2015	$	67,603
2016		69,632
2017		71,720
2018		61,254
	$	270,209

Note 8. Contingent Liabilities

Covered Species Viability Fund:

On October 2, 1997, the Authority received a 75-year Federal Fish and Wildlife Permit, the purpose of which is to authorize incidental "take" of endangered species subject to the terms and conditions of the Kern Water Bank Authority Habitat Conservation Plan/Natural Community Conservation Plan (KWBA HCP/NCCP) and the California Endangered Species Act Management Authorization, also executed on October 2, 1997. In accordance with the Implementation Agreement (IA) of the KWBA HCP/NCCP, in 1997 the Authority established the KWBA Covered Species Viability Fund (Viability Fund) with the Treasurer of Kern County for $50,000. The Wildlife Agencies may draw up to $10,000 per year, not to exceed $75,000, from this account to fund preservation of covered species not undertaken by the Authority. If necessary, on January 1 of each year during the term of the KWBA HCP/NCCP, the Authority will deposit up to $10,000 to restore this fund to $50,000, however, the Authority is not obligated to make additional deposits above a cumulative contribution of $75,000. As of December 31, 2014, the Wildlife Agencies had made no withdrawals from this fund and no additional principal had been deposited by the Authority. Interest earned on the required $50,000 principal may be withdrawn by the Authority annually. Withdrawals of $-0- were made during the years ended December 31, 2014 and 2013. In 2014 and 2013, interest earned was $185 and $227, respectively.

Financial guarantees:

The KWBA HCP/NCCP is designed to achieve both water conservation and environmental objectives, including protection of the sensitive habitat. In addition to the agreement with the United States Fish and Wildlife Service and the California Department of Fish and Game (Wildlife Agencies), and in accordance with the KWBA HCP/NCCP and IA, the Authority executed financial guarantees with the Wildlife Agencies in 1997. The purpose of the guarantees is to ensure the Authority's performance of mutually agreed upon covenants, conditions, and obligations. The guarantees include two promissory notes with principal amounts of $200,000 and $300,000 which are secured by Deeds of Trust and Subordination Agreements.

The $200,000 Ongoing Management Note requires the Authority to pay principal and interest on demand if the Authority violates any provision of the KWBA HCP/NCCP or IA while the 75-year permit is in effect.

The $300,000 Permanent Management Note requires the Authority to pay principal and interest if the Wildlife Agencies choose to call the note after the 75-year permit terminates, or following revocation of the permit, or following the Authority's relinquishment of the permit, whichever occurs first.

Litigation:

The Authority was involved in the mediation phase process regarding litigation involving the propriety of a series of amendments to the contracts between the State Water Project contractors and the DWR in 1995. In 2003, the Court approved a settlement agreement which, among other things, confirms that the Authority will continue to own and control the Kern Water Bank. Pursuant to the settlement, the Plaintiffs agreed to dismiss the validation cause of action without prejudice and to not re-file it if conditions of the settlement agreement were fulfilled. A new Environmental Impact Report (EIR) was finalized in May 2010 by the DWR. As expected, litigation challenging the new EIR and amendments was filed. The first phase of that litigation, again challenging the propriety of the contract amendments and transfer of the Kern Fan Element lands to the Kern County Water Agency (which was in turn transferred to the Authority), was dismissed by the trial court on January 25, 2013 for not being timely filed. The second phase was regarding the adequacy of the EIR and on March 5, 2014, the Court rejected all Plaintiff's claims that the new EIR was deficient, except as to a claim that the EIR was deficient in not adequately evaluating future impacts of operation of the Kern Water Bank on groundwater. On September 5, 2014, the Court held a hearing on the remedy for the deficient EIR. On October 2, 2014, the Court issued its ruling confirming that DWR would prepare a Supplemental EIR to address the groundwater issues and that the Kern Water Bank could continue to operate pursuant to an interim operating plan that was developed by the Authority and neighboring districts that were Plaintiffs in the action. Since the ultimate outcome of the litigation and its impact on the Authority are unknown at this time, no specific reserve for any potential liability has been recorded.

Note 9. Kern Integrated Regional Water Management Implementation Grant

In 2014, the Kern Integrated Regional Water Management project proposal received final approval by the DWR. The Authority's portion of the project has an estimated cost of $3 million. The Authority requested $2,311,458 in grant funding and will provide a 25% match of $770,572. The Authority will be the lead agency with the DWR on the project. As of December 31, 2014, no grant funds had been received.

Note 10. Prior Period Change in Accounting Principle

For the year ended 2013, the Authority was required to implement GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities,” which reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, and inflows of resources. Concepts statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance. This statement was not implemented until the year ended 2014.

As a result of applying Statement No. 65, the Authority was required to write-off all previously capitalized bond issuance costs, net of amortization. The impact was a decrease in net position and a corresponding decrease in intangible assets of $554,515. The financial statements have been restated to reflect the cumulative effect of applying this accounting principle for the year ended December 31, 2012. The 2013 statements of net position, revenue and expenses, and cash flows have been restated for the aforementioned prior period adjustment and the impact of that restatement is as follows on the 2013 financial statements:

	Previously Stated	*Restated Amount*	*Change*
Total Assets	$ 71,056,379	$ 70,537,797	$ 518,582
Net Position	$ 40,272,307	$ 39,753,725	$ 518,582
Change in Net Position	$ 1,262,075	$ 1,298,008	$ (35,933)

Note 11. Subsequent Events

The date to which events occurring after December 31, 2014, have been evaluated for possible adjustments to the financial statements or disclosures is April 1, 2015, which is the date that the financial statements were available to be issued.

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON THE ADDITIONAL INFORMATION

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Kern Water Bank Authority
Bakersfield, California

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Kern Water Bank Authority. The additional information as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of revenues and schedules of expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the schedules of revenues and schedules of expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong Accountancy Corporation

Bakersfield, California
April 1, 2015

Kern Water Bank Authority

Schedules of Revenues
For the Years Ended December 31, 2014 and 2013

	2014	2013 (Restated)
Operating revenues:		
Recharge/recovery revenues:		
Water banking O & M	$ 1,592,820	$ 1,658,372
Water banking capital use fees	3,742,388	3,938,892
Energy fees	13,113,004	9,018,632
Third party conveyance	311,980	330,965
	18,760,192	14,946,861
Other operating revenues:		
Assessments - general and administrative	2,366,928	1,387,500
Assessments - well replacement and refurbishment	374,166	1,395,112
Cattle and sheep grazing	6,974	36,509
Easements	44,282	37,633
Conservation credits	360,000	535,000
Loan principal charges received from Participants	1,340,487	1,333,644
	4,492,837	4,725,398
Total operating revenues	23,253,029	19,672,259
Participant refunds:		
Participant refund	(6,485,834)	(5,481,255)
Net operating revenues	16,767,195	14,191,004
Non-operating revenues:		
Loan interest charges received from Participants	64,702	95,936
Line of credit bond fees from Participants	887,120	937,780
Interest income	40,653	39,594
Other non-operating income	256,580	123,185
Total non-operating revenues	1,249,055	1,196,495
Total revenues	$ 18,016,250	$ 15,387,499

Kern Water Bank Authority

Schedules of Expenses
For the Years Ended December 31, 2014 and 2013

	2014	2013 (Restated)
Operating expenses:		
General and administrative	$ 1,857,571	$ 1,266,985
Depreciation	1,432,729	1,366,649
Operating and maintenance - Participants	12,274,358	9,465,605
Operating and maintenance - general	946,521	1,046,039
Total operating expenses	16,511,179	13,145,278
Non-operating expenses:		
Interest expense	631,780	697,524
Finance charges	302,258	246,689
Total non-operating expenses	934,038	944,213
Total expenses	$ 17,445,217	$ 14,089,491

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BROWN ARMSTRONG
Certified Public Accountants

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

Board of Directors
Kern Water Bank Authority
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 the Kern Water Bank Authority (the Authority), which comprise the statement of net position, as of December 31, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements, as of and for the year ended December 31, 2014, and have issued our report thereon dated April 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
April 1, 2015