

EXHIBIT 27

ANTELOPE VALLEY-EAST KERN WATER AGENCY

**COUNTY OF LOS ANGELES
PALMDALE, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2013**

**BURKEY COX EVANS & BRADFORD
Accountancy Corporation
1058 West Avenue M-14, Suite B
Palmdale, CA 93551**

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
HISTORY, ORGANIZATION AND BOARD OF DIRECTORS
JUNE 30, 2013**

HISTORY AND ORGANIZATION

The Antelope Valley-East Kern Water Agency (AVEK) was granted its charter as regional water agency by the California State Legislature in 1959. In 1962 AVEK signed a water supply contract with the State to assure delivery of imported water through the State Water Project which includes the California Aqueduct System.

AVEK covers a land area of nearly 2,300 square miles. In addition to Northern Los Angeles and Eastern Kern Counties, the Agency's boundaries include a small portion of Ventura County.

The water agency consists of seven divisions, each represented by a director. Directors are elected to four year staggered terms by voters in the divisions in which they live.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Keith Dyas (Division 2)	President	January 2015
George M. Lane (Division 4)	Vice President	January 2017
Andy D. Rutledge (Division 5)	Director	January 2015
Marlon Barnes (Division 6)	Director	January 2017
Charlie O'Loughlin (Division 1)	Director	January 2015
Frank S. Donato (Division 3)	Director	January 2015
Neil Weisenberger (Division 7)	Director	January 2017

GENERAL MANAGER

Daniel Flory

FINANCE MANAGER

Teresa Yates

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
JUNE 30, 2013**

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FINANCIAL INFORMATION



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Antelope Valley-East Kern Water Agency
Palmdale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Antelope Valley-East Kern Water Agency (the Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

Antelope Valley-East Kern Water Agency
Page 2

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 business-type activities of the Agency, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year 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 and other post employment benefit plan – schedule of funding progress and budgetary comparison information on pages 3 – 7 and 32 – 33 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 September 19, 2013, on our consideration of the 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 the Agency's internal control over financial reporting and compliance.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
September 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Antelope Valley-East Kern Water Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 2012**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Antelope Valley-East Kern Water Agency provides an introduction to the financial statements of the Agency for the fiscal years ended June 30, 2013 and 2012. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues and Expenses and Statement of Cash Flows provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies through the application of a single enterprise fund.

The Statement of Net Position includes all of the Agency's investment in resources (assets) and the obligations to creditors (liabilities). This information provides for the evaluation of the capital structure of the Agency and assesses its liquidity and financial flexibility. All of the current year's revenues and expenses are accounted for in the Statement of Revenues and Expenses. This statement measures the success of the Agency's operations over the past year and can be used to determine if the Agency has successfully recovered all of its costs through its rates and other charges. The final required financial statement is the Statement of Cash Flows, which provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Financial Analysis of the Agency

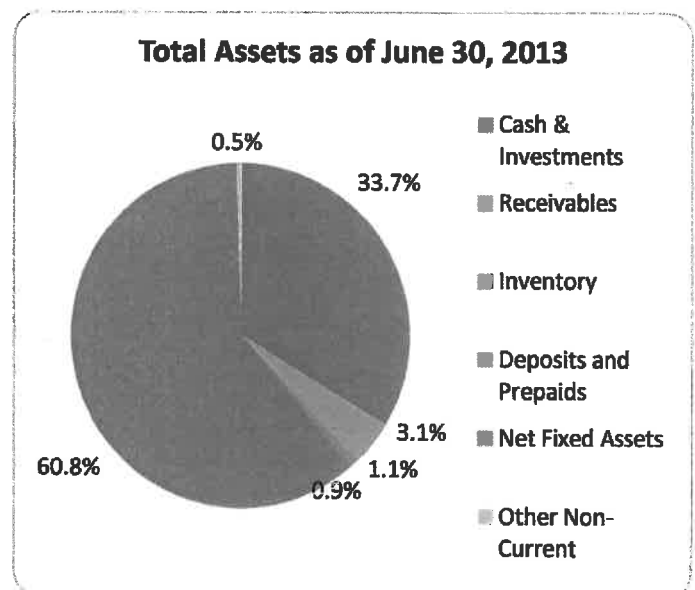
The main question asked about the Agency's finances is, "is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues and Expenses report information about the Agency in a way that helps answer this question. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. This accounting method reports all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Agency's net position and changes to it. The Agency's net position, the difference between assets and liabilities, are one way to measure its health and financial position. Over time, increases or decreases in the Agency's net position can be an indicator of whether its financial health is improving or deteriorating keeping in mind other factors such as economic conditions, population growth and changes in government regulations. Information presented in these statements follows in a condensed format.

**Antelope Valley-East Kern Water Agency
Condensed Statements of Net Position
June 30, 2013 and 2012**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Change</u>
Assets:			
Current Assets	\$164,577,027	\$172,397,470	(\$7,820,443)
Non-Current Assets	1,995,083	2,006,033	(10,950)
Capital Assets, Net of Accumulated Depreciation	258,340,090	244,642,204	13,697,886
Total Assets	<u>424,912,200</u>	<u>419,045,707</u>	<u>5,866,493</u>
Liabilities:			
Current Liabilities	10,548,255	13,700,005	(3,151,750)
Long-Term Liabilities	146,898,988	150,055,966	(3,156,978)
Total Liabilities	<u>157,447,243</u>	<u>163,755,971</u>	<u>(6,308,728)</u>
Net Position:			
Invested in Capital Assets, Net of Related Debt	193,270,090	177,982,204	15,287,886
Unrestricted	74,194,867	77,307,532	(3,112,665)
Total Net Position	<u>267,464,957</u>	<u>255,289,736</u>	<u>12,175,221</u>
Total Liabilities and Net Position	<u>\$424,912,200</u>	<u>\$419,045,707</u>	<u>\$5,866,493</u>

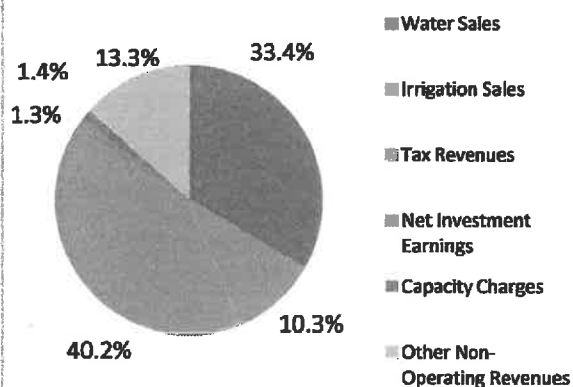
- Total Assets of the Agency exceeded Total Liabilities by \$267,464,957 and \$255,289,736 as of June 30, 2013 and 2012.
- The Agency remains highly liquid as Current Assets represented 38.7% and 41.1% of Total Assets as of June 30, 2013 and 2012. The chart to the right displays the nature of Agency Total Assets as of June 30, 2013.
- Total Liabilities decreased by \$6,308,728 from \$163,755,971 as of June 30, 2012 to \$157,447,243 as of June 30, 2013.
- The majority of the Agency's Net Position reflects its investment in Capital Assets which was 72.3% as of June 30, 2013 and 69.7% as of June 30, 2012.
- Total Net Position increased by \$12,175,221 from \$255,289,736 as of June 30, 2012 to \$267,464,957 as of June 30, 2013.



**Antelope Valley-East Kern Water Agency
Condensed Statements of Revenues and Expenses
June 30, 2013 and 2012**

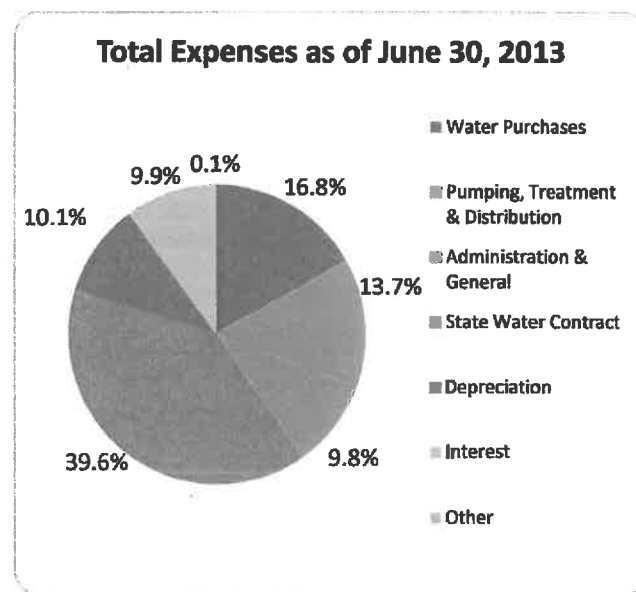
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Change</u>
Operations:			
Operating Revenues	\$26,415,955	\$22,628,985	\$3,786,970
Operating Expenses	19,426,883	19,355,684	71,199
Net Income from Operations	<u>6,989,072</u>	<u>3,273,301</u>	<u>3,715,771</u>
Depreciation Expense	4,887,331	4,809,036	78,295
Operating Income	<u>2,101,741</u>	<u>(1,535,735)</u>	<u>3,637,476</u>
Non-Operations:			
Tax Revenues	24,302,666	20,153,331	4,149,335
Net Investment Earnings	784,276	1,586,078	(801,802)
Other Non-Operating Revenues	8,881,940	724,781	8,157,159
State Water Contract Expense	(19,083,117)	(17,919,022)	(1,164,095)
Interest Expense	(4,769,287)	(4,976,491)	207,204
Other Non-Operating Expenses	(42,998)	(41,291)	(1,707)
Net Income from Non-Operations	<u>10,073,480</u>	<u>(472,614)</u>	<u>12,463,290</u>
Change In Net Position	<u>12,175,221</u>	<u>(2,008,349)</u>	<u>14,183,570</u>
Net Position, Beginning of Year	<u>255,289,736</u>	<u>257,298,085</u>	<u>(2,008,349)</u>
Net Position, End of Year	<u>\$267,464,957</u>	<u>\$255,289,736</u>	<u>\$12,175,221</u>

Total Revenues as of June 30, 2013



- Operating Revenues increased by \$3,786,970 from \$22,628,985 as of June 30, 2012 to \$26,415,955 as of June 30, 2013. Of this increase \$2,327,537 represents an increase in Water Sales and \$1,459,433 is an increase in Irrigation Sales.
- Tax Revenue for the year ending June 30, 2013 increased by 20.6% from the prior year.
- As a result of a continued declining interest rate environment Net Investment Earnings for the year ending June 30, 2013 decreased by 50.6% from the prior year.

- Total Expenses except for depreciation for the year ending June 30, 2013 increased by 2.43% from the prior year. Total Expenses were \$43,322,285 for the year ending June 30, 2013 and \$42,292,488 for the year ending June 30, 2012.
- Depreciation Expense for the year ending June 30, 2013 increased by 1.63% from the prior year. Depreciation Expense for the year ending June 30, 2013 was \$4,887,331 and \$4,809,036 for the prior year.
- The State Water Contract increased by \$1,164,095 from a total of \$17,919,022 for the year ending June 30, 2012 to \$19,083,117 for the year ending June 30, 2013.



Budget Analysis

Operating and Non-Operating Revenues were both over budget for the year ending June 30, 2013 by \$3,037,555 and \$6,094,052 respectively. Other Revenues is included in Non-Operating Revenues and totaled \$7,920,406 over its budgeted amount for the fiscal year. This was due to the receipt of grant funds in the amount of \$1,258,161 as well as receipt of payments of shared costs on capital projects in the amount of \$6,575,322.

For the year ending June 30, 2013, Operating Expenses were under budget by \$1,844,538, while Non-Operating Expenses were under budget by \$964,596. This difference was mainly due to the Cost of Water on water purchased from the State Water Project being over budgeted by \$1,758,158.

Capital Asset Administration

Total Agency Capital Assets as of June 30, 2013 were \$324,602,344 before the consideration of depreciation. The Agency's additions to Capital Assets for the year ending June 30, 2013 were \$21,497,764. Of these additions, new construction in progress for the year totaled \$20,832,336, additions to furniture and equipment totaled \$520,056 and new land acquisitions totaled \$145,372. Several projects including the administration building parking lot expansion, Quartz Hill Water Treatment Plant Tank 1 Recoating, 80th & H Disinfection Station and the Palmdale Water District-Acton Water Treatment Plant Intertie were completed in the current year and transferred out of construction in progress. Total Capital Assets net of Accumulated Depreciation increased to \$258,340,090 as of June 30, 2013 from \$244,642,204 at June 30, 2012.

Debt Administration

Changes in long-term debt amounts for the fiscal year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Additions	Principal Payments	Balance June 30, 2013
Long-Term Debt				
COP Series 2007 A-1	\$68,190,000		\$1,530,000	\$66,660,000
COP Series 2008 A-1	32,730,000		1,775,000	30,955,000
COP Series 2008 A-2	45,000,000			45,000,000
Total Long-Term Debt	\$145,920,000	\$0	\$3,305,000	\$142,615,000

Changes in long-term debt amounts for the fiscal year ended June 30, 2012 were as follows:

	Balance June 30, 2011	Additions	Principal Payments	Balance June 30, 2012
Long-Term Debt				
COP Series 2007 A-1	\$69,660,000		\$1,470,000	\$68,190,000
COP Series 2008 A-1	34,440,000		1,710,000	32,730,000
COP Series 2008 A-2	45,000,000			45,000,000
Total Long-Term Debt	\$149,100,000	\$0	\$3,180,000	\$145,920,000

The Agency did not incur any new debt in the fiscal years ended June 30, 2013 and 2012. Principal payments for the year ending June 30, 2013 decreased Long-Term Debt by \$3,305,000 and by \$3,180,000 for the year ending June 30, 2012. In addition to the debt listed above, the Agency has also accrued Long-Term Debt to meet its Post Employment Benefit Obligation. As of June 30, 2013 this amount was \$3,831,666, which was an increase from June 30, 2012 of \$123,165 when the balance was \$3,708,501.

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the Agency's financial position, net position, or operating results in future periods.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Finance Manager at 6500 W. Avenue N, Palmdale, California 93551.

BASIC FINANCIAL STATEMENTS

ANTELOPE VALLEY-EAST KERN WATER AGENCY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2012

ASSETS	ENTERPRISE FUND	
	JUNE 30, 2013	JUNE 30, 2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,531,325	\$ 7,504,772
Investments	137,600,591	147,610,595
Receivables:		
Taxes	5,601,565	4,588,344
Interest	470,730	697,760
Services	7,142,792	5,854,803
Other	53,972	75,670
Inventory	4,507,163	2,451,798
Deposits and Prepaid Expenses	3,668,889	3,613,728
Total Current Assets	<u>164,577,027</u>	<u>172,397,470</u>
NON-CURRENT ASSETS		
Property, Plant and Equipment,		
Net of Accumulated Depreciation	258,340,090	244,642,204
OTHER NON-CURRENT ASSETS		
Cash and Investments - Restricted	169,453	137,405
Unamortized Bond Issuance Costs	1,825,630	1,868,628
Total Other Non-Current Assets	<u>1,995,083</u>	<u>2,006,033</u>
Total Non-Current Assets	<u>260,335,173</u>	<u>246,648,237</u>
Total Assets	<u>424,912,200</u>	<u>419,045,707</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	5,823,690	6,559,051
Accrued Liabilities	511,593	511,742
Current Portion of Long-Term Debt	3,435,000	3,305,000
Collections in Advance on Projects	15,803	2,632,723
Compensated Absences	720,014	648,521
Escheated Funds	42,155	42,968
Total Current Liabilities	<u>10,548,255</u>	<u>13,700,005</u>
LONG-TERM LIABILITIES		
Payable from Restricted Assets	3,887,322	3,732,465
Post Employment Benefit Liability	3,831,666	3,708,501
Certificates of Participation, Series 2007A-1	65,070,000	66,660,000
Certificates of Participation, Series 2008A-1	29,110,000	30,955,000
Certificates of Participation, Series 2008A-2	45,000,000	45,000,000
Total Long-Term Liabilities	<u>146,898,988</u>	<u>150,055,966</u>
Total Liabilities	<u>157,447,243</u>	<u>163,755,971</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	193,270,090	177,982,204
Unrestricted	74,194,867	77,307,532
Total Net Position	<u>\$ 267,464,957</u>	<u>\$ 255,289,736</u>

See independent auditors' report and accompanying notes to financial statements.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2012

		ENTERPRISE FUND	
		JUNE 30, 2013	JUNE 30, 2012
OPERATING REVENUES			
Water Sales		\$ 20,178,313	\$ 17,850,776
Irrigation Sales		6,237,642	4,778,209
Total Operating Revenues		<u>26,415,955</u>	<u>22,628,985</u>
OPERATING EXPENSES			
Water Purchases		8,109,842	8,610,897
Pumping		1,099,109	1,528,780
Water Treatment		5,372,819	4,597,215
Transmission and Distribution		124,954	126,319
Customer Accounts		0	2,996
Administration and General		4,718,974	4,469,809
Groundwater Survey		1,185	19,668
Depreciation		4,887,331	4,809,036
Total Operating Expenses		<u>24,314,214</u>	<u>24,164,720</u>
Operating Income		<u>2,101,741</u>	<u>(1,535,735)</u>
NON-OPERATING REVENUES			
Tax Revenues		24,302,666	20,153,331
Net Investment Earnings		784,276	1,586,078
Other Revenues		8,019,606	183,072
Capacity Charges		862,334	541,709
Total Non-Operating Revenues		<u>33,968,882</u>	<u>22,464,190</u>
NON-OPERATING EXPENSES			
State Water Contract		19,083,117	17,919,022
Interest Expense		4,769,287	4,976,491
Amortization		42,998	41,291
Total Non-Operating Expenses		<u>23,895,402</u>	<u>22,936,804</u>
Non-Operating Income		<u>10,073,480</u>	<u>(472,614)</u>
Increase (Decrease) in Net Position		12,175,221	(2,008,349)
NET POSITION - BEGINNING OF YEAR		<u>255,289,736</u>	<u>257,298,085</u>
NET POSITION - END OF YEAR		<u>\$ 267,464,957</u>	<u>\$ 255,289,736</u>

See independent auditors' report and accompanying notes to financial statements.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2012

	ENTERPRISE FUND	
	JUNE 30, 2013	JUNE 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 25,149,664	\$ 26,875,011
Cash Paid for Supplies to Suppliers	(21,413,226)	(18,868,271)
Cash Paid to Employees	(3,362,122)	(2,945,551)
Net Cash Provided (Used) by Operating Activities	<u>374,316</u>	<u>5,061,189</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of Property Taxes	23,289,445	21,191,189
Receipt of Capacity Charges and Other Revenue	8,881,940	680,581
Payment of State Water Contract	(19,083,117)	(17,919,022)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>13,088,268</u>	<u>3,952,748</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition/Disposition of Property and Equipment (Net)	(18,585,217)	(7,737,198)
Principal Repayment of Bonds Payable	(3,377,660)	(3,243,201)
Proceeds/(Payment) of Post Employment Benefit Debt (Net)	195,825	195,825
Proceeds/(Payment) of Restricted Debt and Projects	154,857	(668,303)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(21,612,195)</u>	<u>(11,452,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest and Investment Income	1,010,493	17,713,043
Payment of Interest Expense	(4,812,285)	(5,017,782)
Acquisition/Disposition of Investments	10,010,004	(27,551,441)
Net Cash Provided (Used) by Investing Activities	<u>6,208,212</u>	<u>(14,856,180)</u>
Net Change in Cash and Cash Equivalents	(1,941,399)	(17,295,120)
Cash and Cash Equivalents - Beginning	7,642,177	24,937,297
Cash and Cash Equivalents - Ending	<u>\$ 5,700,778</u>	<u>\$ 7,642,177</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and Equivalents - Unrestricted	\$ 5,531,325	\$ 7,504,772
Cash and Equivalents - Restricted	169,453	137,405
Total Cash and Cash Equivalents	<u>\$ 5,700,778</u>	<u>\$ 7,642,177</u>

See independent auditors' report and accompanying notes to financial statements.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2012

	ENTERPRISE FUND	
	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED (USED)		
BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 2,101,741	\$ (1,535,735)
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	4,887,331	4,809,036
Changes in Assets - (Increase)/Decrease in:		
Services Receivable	(1,287,989)	(813,714)
Other Receivables	21,698	5,015,540
Inventory	(2,055,365)	(1,485,828)
Deposits and Prepaid Expenses	(55,161)	104,374
Unamortized Bond Issuance Costs	42,998	41,291
Changes in Liabilities - Increase/(Decrease) in:		
Accounts Payable	(735,361)	2,679,667
Accrued Liabilities	(149)	7,553
Compensated Absences	71,493	83,878
Collections in Advance on Projects	(2,616,920)	(3,844,873)
Net Cash Provided (Used) by Operating Activities	<u>\$ 374,316</u>	<u>\$ 5,061,189</u>

See independent auditors' report and accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Antelope Valley-East Kern Water Agency's (the Agency) financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Description of the Reporting Entity

The Antelope Valley-East Kern Water Agency was formed by the California Legislature in 1959 to supply local water users, as a wholesaler, with water from the State Water Project. The Agency derives its powers from the Antelope Valley-East Kern Water Agency Law, as set forth in Section 49-96 inclusive of Act 9095 of Water-Uncodified Acts of the State of California. The Agency serves portions of Los Angeles, Kern and Ventura Counties.

In evaluating how to define the Agency, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Agency is able to exercise oversight responsibilities. Based upon the application of these criteria the Agency has no potential component units.

The Antelope Valley-East Kern Water Agency, for financial purposes, includes all funds relevant to the operations of the Agency. The Board of Directors has governance responsibilities over all activities related to the Agency. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the Agency is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

B. Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges from water sales and services. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the cash flows take place.

Operating revenues, such as water sales and service fees, result from exchange transactions associated with the principal activities of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funds and investment income, result from non-exchange transactions, in which, the Agency gives or receives value without directly receiving or giving value in exchange.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The accounts of the Agency are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances or net position, revenues and expenditures or expenses, as appropriate. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency's accounts are organized into major and fiduciary funds as follows:

PROPRIETARY FUNDS

1. Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The Agency has only one enterprise fund which accounts for all of the activity.

D. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Utility Plant	30 - 60 years
Site Improvements	20 - 30 years
Building and Improvements	25 -50 years
Furniture and Equipment	5 - 15 years
Vehicles	5 years

E. Cash and Cash Equivalents

Substantially all of the Agency's cash is invested in interest bearing accounts. The Agency considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

F. Deposits and Investments

The Agency adopted an investment policy directing management to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

G. Accounts Receivable

The Agency extends credit to customers in the normal course of operations. No allowance for doubtful accounts has been established since management believes that substantially all amounts are collectible.

H. Inventory

The Agency does not maintain an inventory of parts and supplies. All parts and supplies are expensed upon acquisition.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

J. Bond Issuance Costs, Net of Accumulated Amortization

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

K. Restricted Assets

Certain assets of the Agency are restricted for use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net position. The Agency uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

L. Compensated Absences

The Agency's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and portions of sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated. The dollar value of such accumulations was determined to be \$720,014 as of June 30, 2013.

M. Special Assessment District

The Agency maintains a Community Facilities District (CFD 90-1) assessment district. This Community Facilities District was established under the Mello-Roos Community Facilities Act of 1982 and financed with Mello-Roos Community Facilities Act bonds. Accounting for CFD 90-1 follows the Governmental Accounting Standards for Accounting and Financial Reporting for Special Assessments, which states that Enterprise Funds such as that of the Agency are to account for special assessment financing debt on the books of the Agency only if one of the following conditions exists:

- 1) The Agency is not directly liable for the special assessment debt, but the debt is expected to be repaid from revenues of the Agency.
- 2) The Agency is directly liable for the special assessment debt.

Since the Agency is not directly liable for the CFD 90-1 debt and it is expected all such debt will be repaid from landowner assessments and not Agency revenues, the CFD 90-1 debt is not included in the Agency's financial statements. The Agency acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Community Facilities District 90-1 Bonds outstanding at June 30, 2013 totaled \$8,145,000.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States require 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.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Net Position

The financial statements utilize a net asset presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted 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*.

P. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has not been accrued as it was determined by management to have an insignificant impact on the financial statements as a whole.

Q. Reclassification

The Agency has reclassified certain prior year information to confirm to current year presentation.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 143,131,916
Restricted Cash and Investments	<u>169,453</u>
Total Cash and Investments	<u><u>\$ 143,301,369</u></u>

The restricted and unrestricted cash and investments consisted of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Totals</u>
Cash on Hand	\$ 500	\$ -	\$ 500
Cash in Banks	5,530,825	169,453	5,700,278
Investments	<u>137,600,591</u>	<u>-</u>	<u>137,600,591</u>
Total Cash and Investments	<u><u>\$ 143,131,916</u></u>	<u><u>\$ 169,453</u></u>	<u><u>\$ 143,301,369</u></u>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

The following table identifies the investment types that are authorized by the Agency in accordance with 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 the Agency's investment policy, where more restrictive that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	30%
U.S. Treasury Notes	5 years **	100%	None
Federal Agency Obligations	5 years **	100%	30%
Banker's Acceptances	180 days	40%	10%
Time CD's	1 year	40%	15%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	20%	10%
Medium-Term Notes	5 years	30%	10%
Shares of Beneficial Interest Issued by Diversified Management Companies	N/A	20%	20%
Shares of Beneficial Interest Issued by a JPA	N/A	20%	20%
Repurchase Agreements	30 days	50%	20% (under 30 days); 10% (over 30 days)
Money Market Funds	N/A	20%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions

** Except when authorized by the Agency's legislative body in accordance with Government Code Section 53601

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 will 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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the State of California (LAIF) and CalTrust Investment Pools.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

Investment in External Investment Pools

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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 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.

The Agency is a voluntary participant in the CalTrust Investment Pool (CalTrust) that is regulated by the California Government Code 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 CalTrust for the entire CalTrust portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTrust, which are recorded on an amortized cost basis.

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. One of the ways the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Agency's investments to market rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity date.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments at June 30, 2013, consisted of the following:

Investment Type	Amount	Remaining Maturity (in Months)		
		12 months or less	13 to 36 months	37 to 60 months
Cash on Hand and in Banks	\$ 3,529,756	\$ 3,529,756	\$ -	\$ -
U.S. Treasury Notes	12,172,660	-	9,257,636	2,915,024
U.S. Government Agency Bonds	42,629,747	450,452	15,311,035	26,868,260
US Government Money Market	2,001,569	2,001,569	-	-
Certificates of Deposits	17,483,540	6,480,203	9,657,283	1,346,054
Corporate Bonds	42,366,915	-	26,496,283	15,870,632
Pooled Investments - LAIF	2,823,810	2,823,810	-	-
Pooled Investments - CalTrust	20,123,919	-	20,123,919	-
Pooled Investments - LAIF - Restricted	169,453	169,453	-	-
Total	\$ 143,301,369	\$ 15,455,243	\$ 80,846,156	\$ 46,999,970

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by, where applicable, the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

Credit ratings as of June 30, 2013, consisted of the following:

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	Ratings							Not Rated
				AAA	AA+	AA	AA-	A-1+	A+	A	
Cash on Hand and in Banks	\$ 3,529,756	N/A	\$ 3,529,756	-	-	-	-	-	-	-	-
U.S. Treasury Notes	12,172,660	N/A	-	-	12,172,660	-	-	-	-	-	-
U.S. Government Agency Bonds	42,629,747	N/A	-	-	39,411,436	-	-	-	-	-	-
US Government Money Market	2,001,569	N/A	2,001,569	-	-	-	-	-	-	-	3,218,311
Certificates of Deposits	17,483,540	N/A	6,641,761	-	-	-	-	-	-	-	-
Corporate Bonds	42,366,915	N/A	-	145,066	8,347,523	1,481,712	621,980	600,527	9,619,272	-	-
Pooled Investments - LAIF	2,993,263	N/A	2,993,263	-	-	-	5,112,517	-	15,913,063	11,367,034	-
Pooled Investments - CalTrust	20,123,919	N/A	20,123,919	-	-	-	-	-	-	-	-
Totals	\$ 143,301,369		\$ 35,290,268	\$ 145,066	\$ 59,931,619	\$ 1,481,712	\$ 5,734,497	\$ 600,527	\$ 25,532,335	\$ 11,367,034	\$ 3,218,311

Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are as follows:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corp.	U.S. Government Mortgage - Backed Securities	\$ 22,961,791
Federal Farm Credit System	U.S. Government Mortgage - Backed Securities	\$ 15,306,795
U.S. Treasury Notes	U.S. Government - U.S. Treasury Note	\$ 12,172,660
Wells Fargo Bank	Corporate Bonds	\$ 9,235,604
General Electric Cap Corp	Corporate Bonds	\$ 8,574,147
Bank of Nova Scotia	Negotiable Certificate of Deposit and Commercial Paper	\$ 9,019,299

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

<u>Proprietary Fund</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
<u>Capital Assets Not Being Depreciated:</u>					
Land	\$ 28,079,114	\$ 145,372	\$ -	\$ -	\$ 28,224,486
Water Rights	3,522,879	-	-	-	3,522,879
Intangible Plant	269,983	-	-	-	269,983
Construction in Progress	13,502,613	20,832,336	(10,621,144)	-	23,713,805
Total Capital Assets Not Being Depreciated:	<u>45,374,589</u>	<u>20,977,708</u>	<u>(10,621,144)</u>	<u>-</u>	<u>55,731,153</u>
<u>Capital Assets Being Depreciated:</u>					
Utility Plant	257,247,894	-	10,621,144	(2,912,547)	264,956,491
Furniture and Equipment	3,414,125	520,056	-	(19,481)	3,914,700
Total Capital Assets Being Depreciated:	<u>260,662,019</u>	<u>520,056</u>	<u>10,621,144</u>	<u>(2,932,028)</u>	<u>268,871,191</u>
Total Capital Assets	<u>306,036,608</u>	<u>21,497,764</u>	<u>-</u>	<u>(2,932,028)</u>	<u>324,602,344</u>
<u>Less: Accumulated Depreciation</u>	<u>(61,394,404)</u>	<u>(4,887,331)</u>	<u>-</u>	<u>19,481</u>	<u>(66,262,254)</u>
Governmental Activities					
Capital Assets - Net	<u>\$ 244,642,204</u>	<u>\$ 16,610,433</u>	<u>\$ -</u>	<u>\$ (2,912,547)</u>	<u>\$ 258,340,090</u>

NOTE 4 – SCHEDULE OF LONG-TERM DEBT

	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>	<u>Total</u> <u>Amount</u>
COP Series 2007 A-1	\$ 1,590,000	\$ 65,070,000	\$ 66,660,000
COP Series 2008 A-1	1,845,000	29,110,000	30,955,000
COP Series 2008 A-2	-	45,000,000	45,000,000
Post Employment Obligations	-	3,831,666	3,831,666
Totals	<u>\$ 3,435,000</u>	<u>\$ 143,011,666</u>	<u>\$ 146,446,666</u>

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – SCHEDULE OF LONG-TERM DEBT (Continued)

Changes in long-term debt for the year ended June 30, 2013 is shown below:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Current Portion
COP Series 2007 A-1	\$ 68,190,000	\$ -	\$ 1,530,000	\$ 66,660,000	\$ 1,590,000
COP Series 2008 A-1	32,730,000	-	1,775,000	30,955,000	1,845,000
COP Series 2008 A-2	45,000,000	-	-	45,000,000	-
Post Employment Benefits	3,708,501	195,825	72,660	3,831,666	-
Totals of Long-Term Debt	\$ 149,628,501	\$ 195,825	\$ 3,377,660	\$ 146,446,666	\$ 3,435,000

Annual requirements to amortize long-term debt (excluding post employment benefits) including interest are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 3,435,000	\$ 4,521,515	\$ 7,956,515
2015	3,590,000	4,368,215	7,958,215
2016	3,750,000	4,208,504	7,958,504
2017	3,915,000	4,040,365	7,955,365
2018	4,075,000	3,883,764	7,958,764
2019 - 2023	23,330,000	16,458,516	39,788,516
2024 - 2028	28,705,000	10,853,194	39,558,194
2029 - 2033	35,985,000	6,566,554	42,551,554
2034 - 2037	35,830,000	2,041,656	37,871,656
	\$ 142,615,000	\$ 56,942,283	\$ 199,557,283

Current Portion	Long-Term Portion	Total Amount
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Certificates of Participation

Original issue of \$75,000,000 Certificates of Participation
2007 A-1 bearing interest at a rate of 4.0%.

\$ 1,590,000 \$ 65,070,000 \$ 66,660,000

Original issue of \$39,150,000 Certificates of Participation
2008 A-1 bearing assumed interest rate of 4.0%.

1,845,000 29,110,000 30,955,000

Original issue of \$45,000,000 Certificates of Participation
2008 A-2 bearing interest at a rate of 5.0%.

- 45,000,000 45,000,000

Totals **\$ 3,435,000** **\$ 139,180,000** **\$ 142,615,000**

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – SCHEDULE OF LONG-TERM DEBT (Continued)

Certificates of Participation Series 2007 A-1

In March of 2007 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of \$75,000,000 with interest rate of 4.0 percent. At June 30, 2013, the principal balance outstanding of the Certificates of Participation was \$66,660,000.

The annual requirements to amortize the Certificates of Participation Series 2007 A-1 outstanding as of June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,590,000	\$ 2,955,588	\$ 4,545,588
2015	1,670,000	2,876,088	4,546,088
2016	1,755,000	2,792,588	4,547,588
2017	1,840,000	2,704,838	4,544,838
2018	1,915,000	2,631,237	4,546,237
2019 - 2023	10,940,000	11,787,700	22,727,700
2024 - 2028	13,680,000	9,048,300	22,728,300
2029 - 2033	16,910,000	5,817,637	22,727,637
2034 - 2037	16,360,000	1,827,655	18,187,655
	<u>\$ 66,660,000</u>	<u>\$ 42,441,631</u>	<u>\$ 109,101,631</u>

Certificates of Participation Series 2008 A-1

In May of 2008 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of \$39,150,000 with an interest rate of 4.0 percent. At June 30, 2013, the principal balance outstanding of the Certificates of Participation was \$30,955,000.

The annual requirements to amortize the Certificates of Participation Series 2008 A-1 outstanding as of June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,845,000	\$ 1,350,881	\$ 3,195,881
2015	1,920,000	1,277,081	3,197,081
2016	1,995,000	1,200,281	3,195,281
2017	2,075,000	1,120,481	3,195,481
2018	2,160,000	1,037,481	3,197,481
2019 - 2023	12,390,000	3,594,406	15,984,406
2024 - 2028	8,570,000	745,252	9,315,252
	<u>\$ 30,955,000</u>	<u>\$ 10,325,863</u>	<u>\$ 41,280,863</u>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – SCHEDULE OF LONG-TERM DEBT (Continued)

Certificates of Participation Series 2008 A-2

In May of 2008 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of \$45,000,000 with the interest rate initially calculated using a weekly rate (variable rate). At June 30, 2013, the principal balance outstanding of the Certificates of Participation was \$45,000,000.

The schedule below assumes an interest rate ranging from 4.0 percent to 5.0 percent.

The annual requirements to amortize the Certificates of Participation Series 2008 A-2 outstanding as of June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 215,046	\$ 215,046
2015	-	215,046	215,046
2016	-	215,635	215,635
2017	-	215,046	215,046
2018	-	215,046	215,046
2019 - 2023	-	1,076,410	1,076,410
2024 - 2028	6,455,000	1,059,642	7,514,642
2029 - 2033	19,075,000	748,917	19,823,917
2034 - 2037	19,470,000	214,001	19,684,001
	<u>\$ 45,000,000</u>	<u>\$ 4,174,789</u>	<u>\$ 49,174,789</u>

NOTE 5 – CONTRIBUTED CAPITAL

Donated Utility Plant

The Agency has consistently maintained a policy which requires the user to contribute (dedicate) plant/ equipment to the Agency. Under this policy an individual or developer bears the cost of installing all lines needed to service the individual or developer facility with water. The individual or developer then dedicates the plant/equipment to the Agency and from that time on, it is the Agency's responsibility to maintain this plant/equipment. The total contributed plant/equipment during the 2013 fiscal year was \$0.

The Agency recognizes capital contributions to proprietary funds as revenues and not contributed capital.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Certain assets of the Agency have been restricted for customer deposits and CFD debt which is not considered an obligation of the Agency. The earnings from the assets are credited respectively to the customer deposits, deferred compensation, and the CFD accounts. These assets consist of cash and investment in State Treasurer's Investment Pool (See Note 2) restricted as follows:

Customer Deposits	\$ -
CFD Funds Held for Debt Repayment	<u>119,017</u>
Total	<u>\$ 119,017</u>

NOTE 7 – COMMITMENTS/LEASES

The Agency has entered into operating leases for equipment as of June 30, 2013 that require payments extending for a period longer than twelve months. Future payments as of June 30, 2013 are as follows:

Year Ending June 30,	Amount
2014	\$ 4,572
2015	4,572
2016	4,445
2017	<u>1,524</u>
Total	<u>\$ 15,113</u>

The Agency has not entered into any capital leases which provide for title to pass to the Agency upon expiration of the lease term.

NOTE 8 – COMMUNITY FACILITIES DISTRICT BOND ISSUES (CFD 90-1)

	<u>Original Issue</u>	<u>Outstanding June 30, 2013</u>
<u>Special Tax Bonds</u>		
Community Facilities District No. 90-1	<u>\$ 13,800,000</u>	<u>\$ 8,145,000</u>

There are two outstanding Community Facilities District bond issues – Special Tax Bonds – 1990 Series A and 1991 Series A. The Special Tax Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, to finance the acquisition and construction of certain public waterworks improvements, together with appurtenant work, to serve property located within the Community Facilities District No. 90-1 (Acton area). The bonds are payable from the proceeds of an annual special tax to be levied and collected from property within the

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 – COMMUNITY FACILITIES DISTRICT BOND ISSUES (CFD 90-1) (Continued)

District. Under terms of the Community Facilities District bonds, the Agency has custody of certain property tax funds, to be used for district interest and principal bond payments. The Agency is only acting as agent for the property owners in collecting special tax assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate.

As discussed in Note 1, the Agency has no obligation beyond the balances in the designated agency fund for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the Agency has no duty to pay the delinquency out of any available funds of the Agency. Neither the faith, credit, nor taxing power of the Agency is pledged to the payment of the bonds: and, therefore, the bonded indebtedness is not shown in the financial statements of the Agency.

Because the Agency is not obligated in any manner on the outstanding bonds and because the Agency is not benefiting from any of the new construction, the tax funds have been accounted for on a trust accounting basis.

CFD 90-1 Special Tax Bond – 1990 Series A

On January 1, 1991, the Agency issued \$8,340,000 of Community Facilities District 90-1 Special Tax Bonds. The principal balance matures annually each September 1 through 2021 and bears interest at variable rates which range from 6.85% to 8.60%. As of June 30, 2013, \$4,960,000 of the bonds remained outstanding.

CFD 90-1 Special Tax Bond – 1991 Series A

On April 1, 1991, the Agency issued an additional \$5,460,000 of Community Facilities District 90-1 Special Tax Bonds. The principal balance matures annually each September 1 through 2021 and bears interest at variable rates which range from 6.10% to 8.60%. As of June 30, 2013, \$3,185,000 of the bonds remained outstanding.

NOTE 9 – RETIREMENT PLANS

Profit Sharing / 401(K) Pension Plan

The Agency provides pension benefits for all its full-time employees by sponsoring a 401(K) and Thrift Defined Contribution Plan maintained by the trustee, Fidelity Management Trust Company. The employees may elect to have a portion of their compensation, not to exceed 50%, contributed to the Plan on a before-tax basis pursuant to Internal Revenue Code Section 401(K). The Agency's contribution rate is fixed at 10% of the employee's base compensation.

Current Year Information

The Agency's total payroll in the 2012/2013 fiscal year was \$3,433,615. The total contribution to the plan was based on a compensation of \$3,085,829 for the year ended June 30, 2013. Total contributions made by the Agency to the plan and reflected as expense for the year ended June 30, 2013 was \$320,283. Elective employee contributions for the year ended June 30, 2013 was \$201,566.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

In addition to the pension benefits described in Note 9, the Agency provides postretirement health care benefits, in accordance with Agency policy, to all employees who retire from the Agency and meet certain eligibility requirements.

Eligibility for Agency-paid Benefits

To be eligible to retiree health benefits, an employee must retire from the Agency on or after the age 55 and who have completed at least 10 years of service; employees who complete 10 or more years of service and separate from the Agency due to permanent disability; former directors who served in office after January 1, 1981, who were first elected prior to January 1, 1995, and who have completed at least 12 years of service. Currently nine retirees meet these eligibility requirements. Expenditures for post retirement health care benefits are expensed as paid, and during the fiscal year ended June 30, 2013, a total of \$201,925 was paid to seven retired employees and \$27,717 was paid to two former directors for these benefits.

Funding Policy

Effective 2009 the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 45. In accordance with GASB 45 an actuary will determine the Agency's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. However, the Agency has elected not to establish an irrevocable trust at this time.

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the Agency's Annual OPEB cost for the fiscal year ended June 30, 2013, the amount actually contributed to the plan and the changes in the Agency's Net OPEB Obligation/ (Asset):

	<u>JUNE 30, 2013</u>
Annual Required Contributions	\$ 195,825
Interest on Net OPEB Obligation/(Asset)	-
Adjustment to Annual Required Contributions	-
	<hr/>
Annual OPEB cost (expense)	195,825
Contributions made	(72,660)
	<hr/>
Increase in Net OPEB Obligation/(Asset)	123,165
Net OPEB Obligation/(Asset) - Beginning of Year	3,708,501
	<hr/>
Net OPEB Obligation/(Asset) - End of Year	<u>\$ 3,831,666</u>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

The Agency's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan, and the Net OPEB Obligation/ (Asset) for the fiscal year ended June 30, 2013 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
6/30/2009	\$143,810	\$49,928	34.72%	\$3,359,133
6/30/2010	\$143,810	\$59,158	41.14%	\$3,443,785
6/30/2011	\$195,825	\$63,733	32.55%	\$3,575,877
6/30/2012	\$195,825	\$63,201	32.27%	\$3,708,501
6/30/2013	\$195,825	\$72,660	37.10%	\$3,831,666

Actuarial Method and Assumptions

Actuarial Cost Method: Entry Age Normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the average age at hire for eligible employees. The attribution period is determined as the difference between the average retirement age and the average age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

Amortization Methods: the level percentage of payroll method to allocate amortization cost by year, a 30 year amortization period. Because there has not been a previous valuation to comply with GASB 45, it was not necessary at this time for AVEK Water Agency to make an election with respect to whether to use an "open" or "closed" amortization period; or whether to use different amortization periods for different sources of the UAAL.

Substantive Plan: as required under GASB 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by AVEK Water Agency regarding practices with respect to employer and employee contributions and other relevant factors as described below:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

Inflation: Assumed 3% per year.

Investment Return/Discount Rate: Assumed 5% per year. This is based on assumed long-term return on plan assets or employer assets. The "Building Block Method" as described in ASOP 27 Paragraph 3.6.2. The assessment of long-term returns for employer assets is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Trend: Assumed 4% per year. The long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

Payroll Increase: Assumed 3% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

Actuarial Asset Valuation: There were no plan assets on the valuation date.

NOTE 11 – STATE WATER SUPPLY CONTRACT

On August 3, 1962, the Agency entered into a water supply contract with the State of California Department of Water Resources (DWR) to pay for a share of the State's construction, operation, and maintenance of facilities for the storage and conveyance of water (facilities commonly referred to as the California Aqueduct). This agreement provides for yearly payments to the DWR for 75 years. Cumulative payments made pursuant to the contract through June 30, 2013 are as follows:

Total amounts paid on State water supply contract through June 30, 2012	\$ 383,845,344
Amount paid during the fiscal year ended June 30, 2013	19,083,117
Total amounts paid on State water supply contract through June 30, 2013	<u><u>\$ 402,928,461</u></u>

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES

There are various claims and legal actions pending against the Agency for which no provision has been made in the financial statements. In the opinion of the Agency attorneys and other Agency officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The Agency has entered into various construction commitments. Such contracts include contracts for additions and improvements to facilities. Several of these contracts were in progress but not completed as of June 30, 2013. The total contractual commitments outstanding as of June 30, 2013 aggregated approximately \$10,007,987. The Agency has sufficient funds available to cover these commitments.

Self-Insurance

The Agency's insurance coverage consists of both self-insured programs and policies maintained with the ACWA/Joint Powers Insurance Authority (see Note 13).

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Mello-Roos Negotiations / Litigation

As discussed in Note 8, the Agency maintains Community Facilities District 90-1, which was financed with Mello-Roos Bonds. Since the Agency is not directly liable for the CFD 90-1 debt and it is expected all such debt will be repaid from landowner assessments and not Agency revenues, the CFD 90-1 debt is not included in the Agency's financial statements. The Agency acts solely as an agent for the bondholders in collecting and forwarding the special assessments.

Economic conditions surrounding the Agency's service area have changed significantly since the issue of the Mello-Roos Bonds in 1990-91. Appraised property values have declined and residential and commercial construction are substantially below levels originally projected. These factors have contributed to a condition where the CFD negotiated an agreement in fiscal year 2001 with the bondholders (three separate bondholders hold 100% of the total outstanding bonds) to defease \$390,000 of the September 1, 2000 and September 1, 2001 outstanding bonds. In addition, the bondholders agreed to waive principal and interest payments due to them in exchange for the CFD not to levy a tax on a portion of the parcels until September 1, 2003.

While, as discussed above, the Agency is not directly liable for the Mello-Roos Bonds, the nonpayment of this debt and the potential foreclosure by the bondholders on the landowners will have a detrimental impact on the CFD finances. In addition, resolution of this situation could draw the Agency into significant litigation. Any potential adverse impact on the Agency's future financial statements as a result of these conditions cannot be estimated at this time.

NOTE 13 – JOINT POWERS AGREEMENT (ACWA/JPIA)

The Agency participates in a Joint Powers Agreement (JPA): the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). The relationship between the Agency and the JPA is such that the JPA is not a component unit of the Agency for financial reporting purposes.

The JPA is governed by a board, consisting of a representative from each district. The JPA Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the governing board. The insurance group arranges for and provides property and liability insurance for its members. The Agency pays a premium commensurate with the level of coverage requested.

Members of the JPA share surpluses and deficits proportionately to their participation in the JPA.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. Budgets are not subject to any approval other than that of the governing board.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 13 – JOINT POWERS AGREEMENT (ACWA/JPIA) (Continued)

Below is the condensed financial information of the JPA for the years ended September 30:

The Agency's share of year-end assets, liabilities or fund equity has not been calculated. Complete separate financial statements for the ACWA/JPIA may be obtained at 5620 Birdcage Street, Suite 200, Citrus Heights, California 95610-7632.

	<u>2012</u>	<u>2011</u>	<u>ACWA/JPIA</u> <u>2010</u>	<u>2009</u>	<u>2008</u>
Total Assets	<u>\$ 188,033,750</u>	<u>\$ 126,769,966</u>	<u>\$ 127,965,405</u>	<u>\$ 124,067,027</u>	<u>\$ 117,864,564</u>
Total Liabilities	<u>\$ 100,670,416</u>	<u>\$ 79,457,922</u>	<u>\$ 83,963,531</u>	<u>\$ 83,993,363</u>	<u>\$ 79,504,265</u>
Net Assets	<u>87,363,334</u>	<u>47,312,044</u>	<u>44,001,874</u>	<u>40,073,664</u>	<u>38,360,299</u>
	<u>\$ 188,033,750</u>	<u>\$ 126,769,966</u>	<u>\$ 127,965,405</u>	<u>\$ 124,067,027</u>	<u>\$ 117,864,564</u>
Total Revenues	<u>\$ 95,122,401</u>	<u>\$ 29,596,400</u>	<u>\$ 29,937,467</u>	<u>\$ 27,377,336</u>	<u>\$ 28,445,936</u>
Total Expenses	<u>55,071,111</u>	<u>26,286,230</u>	<u>26,009,257</u>	<u>25,663,970</u>	<u>21,611,505</u>
Net Income	<u>\$ 40,051,290</u>	<u>\$ 3,310,170</u>	<u>\$ 3,928,210</u>	<u>\$ 1,713,366</u>	<u>\$ 6,834,431</u>

NOTE 14 – ECONOMIC DEPENDENCY

As discussed in Note 11, the Agency has a water supply contract with the State of California Department of Water Resources. The Agency purchases 100% of its water supplies pursuant to this contract.

NOTE 15 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations as of June 30, 2013 were as follows:

Water Treatment	\$ 775,169
Distribution and Transmission	\$ 9,054
Amortization	\$ 1,698

NOTE 16– SUBSEQUENT EVENTS

The Agency had no reportable subsequent events as of the date of the auditors' report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**ANTELOPE VALLEY-EAST KERN WATER AGENCY
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2013**

The funded status of the plan as of June 30, 2013, the end of the first year of GASB 45 applicability, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 1, 2008	\$ -	\$ 3,246,786	\$ 3,246,786	0.00%	\$ 2,746,420	118.22%
February 1, 2011	\$ -	\$ 4,421,117	\$ 4,421,117	0.00%	\$ 2,722,344	162.40%

Actuarial valuations of an ongoing plan involve estimates of the value 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 funding status of the plan the Annual Required Contributions of the Agency 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, as presented, shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2010 was the year of implementation of GASB No. 45, only two years are presented in the schedule at this time. In future years, required three year trend analysis will be presented.

OTHER SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY-EAST KERN WATER AGENCY
SCHEDULE OF REVENUES AND EXPENSES - PROPRIETARY FUND TYPE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	ORIGINAL BUDGET	FINAL BUDGET	2012-2013 ACTUAL	OVER/(UNDER) BUDGET
OPERATING REVENUES				
Water Sales	\$ 19,020,000	\$ 19,020,000	\$ 20,178,313	\$ 1,158,313
Irrigation Sales	4,358,400	4,358,400	6,237,642	1,879,242
Total Operating Revenues	<u>23,378,400</u>	<u>23,378,400</u>	<u>26,415,955</u>	<u>3,037,555</u>
OPERATING EXPENSES				
Water Purchases	9,868,000	9,868,000	8,109,842	(1,758,158)
Pumping	1,594,600	1,594,600	1,099,109	(495,491)
Water Treatment	4,597,650	4,597,650	5,372,819	775,169
Distribution and Transmission	115,900	115,900	124,954	9,054
Customer Accounts	3,200	3,200	-	(3,200)
Administration and General	4,931,100	4,931,100	4,718,974	(212,126)
Groundwater Survey	50,000	50,000	1,185	(48,815)
Depreciation	5,000,000	5,000,000	4,887,331	(112,669)
Amortization	41,300	41,300	42,998	1,698
Total Operating Expenses	<u>26,201,750</u>	<u>26,201,750</u>	<u>24,357,212</u>	<u>(1,844,538)</u>
Operating Income (Loss)	<u>(2,823,350)</u>	<u>(2,823,350)</u>	<u>2,058,743</u>	<u>4,882,093</u>
NON-OPERATING REVENUES				
Tax Revenues	24,550,130	24,550,130	24,302,666	(247,464)
Net Investment Earnings	3,225,500	3,225,500	784,276	(2,441,224)
Other Revenues	99,200	99,200	8,019,606	7,920,406
Capacity Charges	-	-	862,334	862,334
Total Non-Operating Revenues	<u>27,874,830</u>	<u>27,874,830</u>	<u>33,968,882</u>	<u>6,094,052</u>
NON-OPERATING EXPENSES				
State Water Contract	19,944,000	19,944,000	19,083,117	(860,883)
Interest Expense	4,873,000	4,873,000	4,769,287	(103,713)
Total Non-Operating Expenses	<u>24,817,000</u>	<u>24,817,000</u>	<u>23,852,404</u>	<u>(964,596)</u>
Non-Operating Income (Loss)	<u>3,057,830</u>	<u>3,057,830</u>	<u>10,116,478</u>	<u>7,058,648</u>
Increase (Decrease) in Net Assets	<u>\$ 234,480</u>	<u>\$ 234,480</u>	<u>\$ 12,175,221</u>	<u>\$ 11,940,741</u>

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT



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

Board of Directors
Antelope Valley-East Kern Water Agency
Palmdale, 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 business-type activities of Antelope Valley-East Kern Water Agency (the Agency), as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated September 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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*.

Antelope Valley-East Kern Water Agency
Page 2

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

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
September 19, 2013