

MOJAVE WATER AGENCY

Report on Audit

June 30, 2007 and 2006

BOARD OF DIRECTORS

The Agency is governed by a Board of Directors, consisting of seven members, who are elected to staggered four-year terms. The Board of Directors and Officers of the Agency as of June 30, 2007 were as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
James Ventura, Jr.	President	2010
Michael Page	Vice-President	2010
Kimberly Cox	Secretary	2008
Beverly J. Lowry	Treasurer	2010
Richard Hall	Director	2008
Richard Fortyune	Director	2008
Art Bishop	Director	2008

MOJAVE WATER AGENCY

(A Special District)

June 30, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Mojave Water Agency

We have audited the accompanying statement of net assets of Mojave Water Agency, as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mojave Water Agency, as of June 30, 2007 and 2006, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Our audit was performed for the purpose of forming an opinion on the financial statements of Mojave Water Agency taken as a whole. The accompanying information listed as *additional information* in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The information identified in the accompanying *Management's Discussion and Analysis* is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

December 13, 2007

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17072 Silica Drive, Suite 101 • Victorville • California 92395
(760) 241-6376 • Fax (760) 241-2011

10670 Civic Center Drive, Suite 110 • Rancho Cucamonga • California 91730
(909) 466-0900

messnerandhadley.com

MOJAVE WATER AGENCY

(A Special District)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

THE AGENCY

The Mojave Water Agency was organized July 21, 1960 by an act of the legislature of the State of California known as the Mojave Water Agency Act. This Act commissioned the Agency "to do any and every act necessary to be done so that sufficient water may be available for any present or future beneficial use of the lands and inhabitants of the Agency".

During the year ending June 30, 2002, the Agency adopted a strategic plan, *The Agency as an Enterprise*, to map a course for the Agency to fulfill its commission. Embedded in this strategic plan is an accounting system, *Activity Based Costing*, designed to manage the financial sources and uses for the Agency's current and future projects.

THE BASIC FINANCIAL STATEMENTS

Mojave Water Agency is a special purpose government (special district) engaged only in activities that support themselves through user charges and tax levies. Accordingly, the accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board. As a proprietary fund, the Agency uses the full accrual basis of accounting. Proprietary fund statements offer short-term and long-term financial information about the activities that operate like a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are located immediately after the basic financial statements.

The basic financial statements are made up of the statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. Each statement is described in detail below.

The statement of net assets presents information on the Agency's assets and liabilities. Assets reflect what is owned and liabilities reflect what is owed. The difference between assets and liabilities is reported as net assets. The change in net assets is one way to measure the Agency's financial health. Increases and decreases are indicators of whether its financial health is improving or deteriorating, respectively.

The statement of revenues, expenses and changes in net assets describes the results of the Agency's financial activities during the years reported. It shows the change in net assets by comparing operating and non-operating revenues with operating and non-operating expenses. Operating revenues and expenses relate to the principal business activity of the Agency. All other revenues and expenses are classified as non-operating.

The statement of cash flows describes to the financial statement users how the Agency managed its cash during the year. It tells the user from what sources the Agency received cash and for what purposes cash was used. The statement converts operating income (or loss) from the statement of revenues, expenses and changes in net assets into actual cash provided by and used in operations. Additionally, the statement of cash flows details how the Agency obtains and spends cash for investing financing activities.

MOJAVE WATER AGENCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2007 and 2006

SUMMARY FINANCIAL INFORMATION ANALYSIS

Assets and Liabilities

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	<i>Amounts in millions</i>	
Current assets	\$ 60.0	\$ 34.1
Capital assets	253.3	248.6
Other non-current assets	9.3	9.6
Total Assets	<u>\$ 322.6</u>	<u>\$ 292.3</u>
Current liabilities	15.8	7.1
Non-current liabilities	53.2	55.9
Net assets		
Invested in capital assets, net of related debt	197.3	191.5
Restricted	31.3	19.9
Unrestricted	25.0	17.9
Total net assets	<u>253.6</u>	<u>229.3</u>
Total Liabilities and Net Assets	<u>\$ 322.6</u>	<u>\$ 292.3</u>

Operating Revenue and Expenses

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	<i>Amounts in millions</i>	
Operating Revenues	\$ 11.7	\$ 9.1
Operating Expenses	<u>(21.7)</u>	<u>(20.8)</u>
Operating loss	(10.0)	(11.7)
Non-Operating Revenues	38.2	30.3
Non-Operating Expenses	(3.9)	(3.6)
Property Contributions	-	4.3
Extraordinary Items	<u>-</u>	<u>0.1</u>
Change in Net Assets	<u>\$ 24.3</u>	<u>\$ 19.4</u>

MOJAVE WATER AGENCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2007 and 2006

CAPITAL ASSETS

Existing Capital Assets

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	<i>Amounts in millions</i>	
Land	\$ 7.2	\$ 6.3
Construction in progress	3.5	5.7
Buildings	1.7	1.7
Furniture and equipment	3.9	3.2
Other capital assets	281.9	271.7
Less accumulated dep.	<u>(44.8)</u>	<u>(40.0)</u>
Total utility plant, net	<u>\$ 253.4</u>	<u>\$ 248.6</u>

Future Capital Improvements

State Water Project – In keeping with its purpose to act “so that sufficient water may be available for any present or future beneficial use of the lands and inhabitants of the Agency”, the Agency has a commitment to continue paying for its entitlement in the state water project. According to the Department of Water Resources’ Bulletin 132-07 the commitment for capitalized costs for the years 2007-2035 is estimated to total \$132.5 million.

Regional Recharge and Recovery Project (R³) – The Agency is embarking on a capital project aimed at reducing overdraft of the region’s groundwater supplies by maximizing the use of imported water from the State Water Project (SWP) in conjunction with the available storage capacity in the Mojave River Basin. Water delivered from the SWP will be stored in the Mojave River Basin temporarily and subsequently extracted and delivered to stakeholder partners via a network of conveyance pipelines. The R³ Project will help to fulfill the fundamental objectives of the Integrated Regional Water Management Plan (IRWMP). In early 2007, the Agency was awarded \$25 million in funding from Proposition 50, IRWMP Implementation grant program, which is equivalent to approximately 50% of the total project cost. In June 2007, the Agency selected RBF, Inc., engineering consultant, to begin project design work. During the next year the project should be well into design, permitting and land acquisition. The start of construction is scheduled for June 2009. The project includes a well field in the Upper Mojave Basin along the river located between Rock Springs Road and Bear Valley Road, an east-west pipeline of approximately 9 miles, several pump stations and tanks, and several turnouts. This project is a regional project and will benefit the areas of greater Victor Valley.

MOJAVE WATER AGENCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2007 and 2006

LONG-TERM DEBT

The Agency's long-term debt consists of a General Obligation Bond (GOB) series issued in 2006 to refinance the 1996 series issued for the development of the Morongo Basin pipeline, Certificates of Participation (COPs) issued in 1997 to finance the purchase of additional entitlement in the state water project, three loans from the California Department of Water Resources (DWR) to finance extensions of the Morongo Basin pipeline. Also, in 2004, the Agency refinanced the 1997 COPs in the amount of \$21.8 million.

Principal reduction for the years ending June 30, 2007 and 2006 consisted of:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	<i>Amounts in millions</i>	
General Obligation Bonds	\$ 34.8	\$ 34.8
Certificates of Participation	22.3	23.4
Loans	6.4	6.9
Compensated absences	0.4	0.4
Less current portion	(3.2)	(1.6)
Less deferred amounts	(7.5)	(8.0)
	<u>\$ 53.2</u>	<u>\$ 55.9</u>

The Agency has authorization in its Act for Ad Valorem Tax Assessments to repay the costs of the contract with the State of California, Department of Water Resources and the Agency's administrative costs. In addition, the Act provides for the establishment of Zones of Benefit and Improvement Districts within the Agency.

AD VALOREM TAX ASSESSMENTS

The Agency has established three ad valorem assessments:

- (1) MWA #1 is based on land only and is limited to a maximum rate of \$0.1125 per \$100 assessed value. It is to be used only for the Agency's share of fixed costs of the State water contract and any variable costs required to deliver the State water.
- (2) MWA #2 is based on land and improvements. It is used to pay for the State water contract costs that are not covered by the MWA #1 assessment. It is also used to pay for the Agency's administrative costs and the Berrenda Mesa Project costs.
- (3) Improvement District "M" is based on land and improvements.

The 2006 - 2007 tax rates per \$100 of assessed valuations are as follows:

MWA #1	\$0.1125
MWA #2	\$0.0550
Improvement District "M"	\$0.0850 secured
Improvement District "M"	\$0.0900 unsecured

MOJAVE WATER AGENCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued June 30, 2007 and 2006

ASSESSED VALUATIONS

The net assessed valuations of property within the Agency's taxing area for 2007 as reported by the San Bernardino County Auditor Controller are:

(Amounts in millions)

MWA #1		General	
Land only		Land and improvements	
Local secured	\$ 11,230.4	Local secured	\$ 33,871.8
Secured utility	32.8	Secured utility	519.7
	<u> </u>	Unsecured	<u>450.8</u>
	\$ 11,263.2		<u><u>\$ 34,842.3</u></u>
	<u><u> </u></u>		
MWA #2		Improvement District "M"	
Land and improvements		Land and improvements	
Local secured	\$ 33,794.3	Local secured	\$ 2,556.5
Secured utility	519.6	Secured utility	0.5
Unsecured	450.8	Unsecured	<u>22.4</u>
	<u> </u>		<u> </u>
	\$ 34,764.7		<u><u>\$ 2,579.4</u></u>
	<u><u> </u></u>		

MOJAVE WATER AGENCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2007 and 2006

STATE WATER PROJECT COSTS

	<u>2007</u>	<u>2006</u>
	<i>(Amounts in millions)</i>	
Water deliveries, variable OMP & R for transportation		
Charges	\$ 6.4	\$ 7.2
Adjustments	<u>(0.2)</u>	<u>(2.2)</u>
	6.2	5.0
Off-aqueduct power and facilities, minimum OMP & R		
Charges	1.0	1.2
Adjustments	-	(0.3)
Refunds	<u>(0.3)</u>	<u>-</u>
	0.7	0.9
Minimum OMP & R charges	4.3	4.1
East branch enlargement charges	0.1	-
Natural gas hedging program charges	0.1	0.2
SWC member allocation	<u>0.1</u>	<u>0.1</u>
TOTAL STATE WATER PROJECT COSTS	<u><u>\$ 11.5</u></u>	<u><u>\$ 10.3</u></u>

FINANCIAL STATEMENTS

MOJAVE WATER AGENCY

(A Special District)

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	<i>(Amounts in thousands)</i>	
ASSETS		
Current assets:		
Cash and investments	\$ 49,354	\$ 27,178
Accounts receivable and other current assets	10,371	6,650
Inventory, participation rights in stored water	307	307
Total current assets	<u>60,032</u>	<u>34,135</u>
Non-current assets:		
Utility plant, net	253,305	248,580
Inventory, participation rights in stored water	9,304	9,631
Deposits	23	23
Total non-current assets	<u>262,632</u>	<u>258,234</u>
TOTAL ASSETS	<u>\$ 322,664</u>	<u>\$ 292,369</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other current liabilities	\$ 5,782	\$ 4,970
Current portion of long-term debt	3,188	1,630
Deferred revenue	5,947	-
Interest payable	923	478
Total current liabilities	<u>15,840</u>	<u>7,078</u>
Non-current liabilities, net	<u>53,194</u>	<u>55,922</u>
TOTAL LIABILITIES	<u>69,034</u>	<u>63,000</u>
NET ASSETS		
Invested in capital assets	197,294	191,501
Restricted	31,311	19,938
Unrestricted	<u>25,025</u>	<u>17,930</u>
TOTAL NET ASSETS	<u>253,630</u>	<u>229,369</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 322,664</u>	<u>\$ 292,369</u>

See accompanying notes and auditors' report

MOJAVE WATER AGENCY

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2007 and 2006

	2007	2006
	<i>Amounts in thousands</i>	
OPERATING REVENUE		
Water sales and services	\$ 6,746	\$ 6,033
Watermaster assessments	4,569	2,688
Minimum OMP & R (operations, maintenance, power & replacement)	156	149
Replacement cost	278	276
Total operating revenues	<u>11,749</u>	<u>9,146</u>
OPERATING EXPENSE		
State water project costs	11,501	10,316
Agency operating costs	4,953	4,901
Watermaster operating costs	335	352
Depreciation	4,935	5,197
Total operating expenses	<u>21,724</u>	<u>20,766</u>
OPERATING LOSS	(9,975)	(11,620)
NON-OPERATING REVENUES		
Property taxes	35,198	27,018
Debt service support	813	803
Investment income	805	142
Interest income	1,218	808
Other income	124	1,476
Total non-operating revenues	<u>38,158</u>	<u>30,247</u>
NON-OPERATING EXPENSES		
Collection charges	551	336
Interest expense	2,699	2,811
Other	3	10
(Gain)/Loss on sale of assets	11	(6)
Amortization of bond and certificate issuance costs/deferred loss on refunding	658	459
Total non-operating expenses	<u>3,922</u>	<u>3,610</u>
NON-OPERATING INCOME	<u>34,236</u>	<u>26,637</u>
INCOME BEFORE CONTRIBUTIONS & EXTRAORDINARY ITEMS	24,261	15,017
Property contributions	-	4,273
Litigation settlement recovery	-	139
CHANGE IN NET ASSETS	24,261	19,429
NET ASSETS		
Beginning of year - Restated	<u>229,369</u>	<u>209,940</u>
End of year	<u>\$ 253,630</u>	<u>\$ 229,369</u>

See accompanying notes and auditors' report

MOJAVE WATER AGENCY

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STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

	2007	2006
	<i>(Amounts in thousands)</i>	
Cash flows from operating activities		
Cash received from customers	\$ 8,311	\$ 7,573
Cash payments to suppliers for goods and services	(5,210)	(14,372)
Cash payments to employees and directors for services	(3,657)	(2,314)
Other operating revenues / expenses	-	2,047
	<u> </u>	<u> </u>
Net cash provided by/(used in) operating activities	(556)	(7,066)
Cash flows from non-capital financing activities		
Other cash payments	(405)	-
Cash flows from capital and related financing activities		
Principal paid on long-term debt	(1,631)	(9,404)
Interest paid on long-term debt	(2,378)	(3,512)
Acquisition of capital assets	(9,671)	(13,409)
Property taxes received	35,042	26,749
Capital contributed for construction	-	4,905
	<u> </u>	<u> </u>
Net cash provided by/(used in) capital and related financing activities	21,362	5,329
Cash flows from investing activities		
Interest received	1,775	1,029
NET INCREASE (DECREASE) IN CASH	22,176	(708)
CASH		
Beginning of year	<u>27,178</u>	<u>27,886</u>
End of year	<u>\$ 49,354</u>	<u>\$ 27,178</u>
Reconciliation of operating loss to cash used in operating activities		
Operating loss	\$ (9,975)	\$ (11,620)
Adjustments		
Depreciation	4,935	5,197
Miscellaneous non-operating revenue / expense	-	1,507
(Increase) decrease in assets		
Accounts receivable and other current assets	(3,475)	(1,119)
Inventory	327	(3,330)
Increase in liabilities		
Accrued expenses	1,685	2,299
Deferred revenue	5,947	-
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (556)</u>	<u>\$ (7,066)</u>

See accompanying notes and auditors' report

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Mojave Water Agency (the “Agency”) was organized July 21, 1960 by an act of the legislature of the State of California known as the Mojave Water Agency Act. Within the limits of its power and authority set forth in this act, the purpose of the Agency is to do any and every act necessary to be done so that sufficient water may be available for any present or future beneficial use of the lands and inhabitants of the Agency, including, but not limited to, the construction, maintenance, alteration, purchase, and operation of any and all works or improvements within the Agency necessary or proper to carry out any object or purpose of this act; and the gathering of data for, and the development and implementation of, after consultation and coordination with all public and private water entities who are in any way affected, management and master plans to mitigate the cumulative overdraft of groundwater basins, to monitor the condition of the groundwater basins, to pursue all necessary water conservation measures, and to negotiate for additional water supplies from all state, federal, and other sources.

1963 Feather River Water – The Agency signed a contract with the State of California Department of Water Resources for the delivery of Feather River water to secure a supply of supplemental water for the Agency.

1994 Mojave Basin Area Watermaster – The Agency was appointed by the Superior Court of Riverside as the initial Watermaster in the Mojave River Basin Area groundwater adjudication. The Agency staff functions as administrative staff for the Watermaster. The seven directors of the Watermaster are also board members of Mojave Water Agency. Under this arrangement, Mojave Basin Area Watermaster (the “Watermaster”) is considered and presented as a component unit of the Agency.

1994 – 1995 Groundwater Recharge Facilities – Additional groundwater recharge facilities, funded by loans from the California Department of Water Resources, were completed.

1995 Morongo Basin Pipeline Project – The Agency completed its first major transmission and distribution facility to Yucca Valley, California, known as the Morongo Basin Pipeline Project. The project, in the form of Improvement District “M”, was approved by voter referendum in June of 1990. It was funded by general obligation bonds issued in 1991 and 1992, which were defeased by general obligation bonds issued in 1996.

1996 – The Agency acquired 25,000 acre-feet of additional capacity in the state water project facilities within the California Aqueduct.

1997 Mojave Water Agency Public Facilities Corporation – The Corporation (PFC) was formed to provide financial assistance to the Agency. The seven directors of the PFC are also board members of Mojave Water Agency. Under this arrangement, the PFC is considered and presented as a component unit of the Agency.

2000 Mojave River Pipeline Project – The Agency completed portions of its second major transmission and distribution facility to Barstow, California and beyond, known as the Mojave River Pipeline Project. The project was partially funded by grants and loans from the U.S. Environmental Protection Agency and the California Department of Water Resources.

MOJAVE WATER AGENCY

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NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Uniform Accounting System

The accounts of the Agency have been maintained in accordance with generally accepted accounting principles and in conformity with the California State Controller's uniform system of accounts. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Basis of Accounting

The Agency follows all applicable Governmental Accounting Standards Board (GASB) pronouncements, and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 unless they conflict with or contradict GASB pronouncements. After November 30, 1989 the Agency applies only GASB pronouncements.

On July 1, 2000 the Agency adopted the provisions of Governmental Accounting Standards Board 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 assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

These classifications are defined as follows:

(1) Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation 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 are 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 assets component as the unspent proceeds.

(2) Restricted

This component of net assets consists of constraints placed on net asset 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 law through constitutional provisions or enabling legislation.

(3) Unrestricted Net Assets

This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

On July 1, 2000 the Agency also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, "*Accounting and Financial Reporting for Non-Exchange Transactions*". This statement prescribes methods for recognizing revenue and related assets on transactions in which the District receives value without having to give equal value in exchange. Examples are grants, developer fees, and property taxes.

MOJAVE WATER AGENCY

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NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, Continued

The adoption of Statement No. 33 and Statement No. 34 affected the classification of net assets and the presentation of capital contributions as a change in net assets.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, including restricted assets.

Investments

Investments are stated at cost, which approximates fair value.

Allowance for Uncollectible Accounts

Water accounts receivable have not been reduced by an allowance for estimated un-collectibles as it is expected that all such receivables will be collected.

Inventory of Participation Rights in Stored Water

Inventory of participation rights in stored water (both short and long-term) has historically been stated at cost using an average cost method.

Utility Plant

Utility plant is stated at original cost. Depreciation of utility plant used by the Agency is charged as an expense against its operations. Depreciation has been provided using the straight-line method over the estimated useful lives of five to seventy-five years. Depreciation expense for the years ended June 30, 2007 and 2006 was \$4.9 million and \$5.2 million, respectively. It is the policy of the Agency to capitalize property, plant and equipment with a cost of \$500 or more.

The capital cost component of the transportation charges and the Delta water charge the Agency pays for participation rights in the State Water Project are being capitalized as paid and amortized in accordance with instructions from the Controller of the State of California.

The Agency capitalizes interest relating to certain long-term construction projects and capitalizes a portion of general and administration costs relating to certain long-term projects.

Property Contributions

Property contributions represent cash contributed to the Agency by participating producers that require capital expenditures and capacity commitment, and also, cash contributed to the Agency by Federal and State grants. Depreciation of utility plant additions funded in part by these contributions is charged to operations.

Bond, Certificate and Loan Discounts and Issuance Costs

Bond, certificate and loan discounts and issuance costs are deferred and amortized over the term of the bonds, certificates and loans. The Agency capitalized the amortization of loan fees incurred for borrowing related to certain long-term construction projects.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property Taxes

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date:	March
Levy date:	July 1 to June 30
Due date:	November 1 – first installment March 1 – second installment
Collection date:	December 10 – first installment April 10 – second installment

General property taxes are assessed and collected by the County of San Bernardino at a rate per \$100 of assessed value, plus other increases approved by the voters. General property taxes are pooled and are then allocated to the districts based on formulas. These general property taxes are not restricted for a specific use. In addition, the Agency has established three ad valorem taxes, which are restricted for specific uses.

Property taxes are recognized as revenue when received and/or become available. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60-day period subsequent to the balance sheet date when significant.

Compensated Absences

The Agency's policy is to pay for a variable scale of 30% to 50% of sick time accrued upon retirement, death or termination of eligible employees. Each full-time employee accrues 96 hours of sick time per year.

Employees of the Agency are entitled to paid vacation, depending on length of service. The liability for these benefits has been accrued in these financial statements. Vacation is accrued for all full-time employees beginning on the first day of full-time employment and ranges from ten to twenty working days per year based on longevity with the Agency. The Agency is not liable to pay vacation hours accrued until the employee has passed the probationary period of employment. No employee is allowed to accumulate vacation leave in excess of two full years of their particular vacation schedule, except upon written approval by the General Manager or the Board of Directors.

Classification of Revenues

As an enterprise (proprietary) fund, the Agency classifies its revenues into three classifications: operating revenues, non-operating revenues and contributions.

Operating revenues are defined as revenues realized by the Agency in support of its water-related activities. Non-operating revenues are those derived from property taxes, support of long-term debt, and investment of cash reserves. Donated plant and cash received for capital improvement without the requirement that the Agency give resources in exchange are recorded as contributions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Restricted Resources

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.

NOTE 2 – CASH AND INVESTMENTS

The Agency maintains a cash and investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments. The Agency apportions interest earnings to all funds based on their monthly cash balances.

Cash Deposits

The California Government Code requires California banks and savings and loan associations to secure the Agency's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Agency's name.

The market value of the pledged securities must equal at least 110% of the Agency's deposits. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the Agency's total deposits. The Agency may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The Agency follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

As of June 30, 2007 the bank balance of the Agency's cash deposits was \$4.534 million and the reported amount was \$3.667 million. As of June 30, 2006 the bank balance of the Agency's cash deposits/cash with fiscal agents were \$11.346 million and the reported amount was \$11.251 million.

Investments

Under the provisions of the Agency's investment policy, and in accordance with California Government Code, the following investments were authorized:

<u>Investment Type</u>	<u>Limit</u>	<u>Period</u>
U. S. Treasury Bills, Notes, and Bonds	100%	No Limit
Obligations Issued by the U. S. Government	100%	No Limit
Banker's Acceptances	25%	270 Days
Commercial Paper	15%	45 Days
Negotiable Certificates of Deposit	25%	5 Years
Repurchase Agreements	20 %	1 Year
Local Agency Investment Fund (LAIF)	\$40 mil./acct.	No Limit
Medium Term Notes	30%	5 Years
Money Market Mutual Funds	20%	90 Days
Collateralized Bank Deposits	10%	No Limit
Investment Pools	30%	No Limit

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS, Continued

Interest Rate Risk

The following is a list of the Agency's investments (in thousands) and related maturity schedules as of June 30, 2007 and 2006:

June 30, 2007 Investment maturities (in years)				
Investment Type	Total	< 1	1 - 4	< 4
Money Market Funds	\$ 2,941	\$ 2,941	\$ -	\$ -
Local Agency Investment Fund (LAIF)	34,084	31,596	1,772	716
Government Securities:				
Farmer Mac	250	250	-	-
Federal Farm Credit Bank	225	225	-	-
Federal Home Loan Bank	3,476	3,476	-	-
Commercial Paper	4,711	4,711	-	-
	<u>\$ 45,687</u>	<u>\$ 43,199</u>	<u>\$ 1,772</u>	<u>\$ 716</u>

June 30, 2006 Investment maturities (in years)				
Investment Type	Total	< 1	1 - 4	< 4
Money Market Funds	\$ 146	\$ 146	\$ -	\$ -
Local Agency Investment Fund (LAIF)	12,562	11,959	603	-
Government Securities:				
Farmer Mac	100	-	100	-
Federal Farm Credit Bank	250	-	250	-
Federal Home Loan Bank	3,576	1,103	2,125	348
	<u>\$ 16,634</u>	<u>\$ 13,208</u>	<u>\$ 3,078</u>	<u>\$ 348</u>

Credit Risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Agency's policy to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard & Poor's, Fitch Ratings, and Moody's Investors Service.

Investments in Local Agency Investment Funds

The Agency's investments with the Local Agency Investment Fund (LAIF), a State of California investment pool, at June 30, 2007, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS, Continued

Investments in Local Agency Investment Funds, Continued

Asset-Backed Securities, the bulk of which are mortgaged-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2007, the Agency had \$34,084 million invested in LAIF which had invested 3.5% of the pool investment funds in Structured Notes and Asset-Backed Securities.

NOTE 3 – RECEIVABLES AND OTHER ASSETS

The following summarizes (in thousands) the significant categories of receivables and other assets (current and non-current) at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Receivables:		
Water sales	\$ 5,302	\$ 2,991
Assessments	1,389	262
Employee computer sales and advances	5	18
Property taxes	2,120	1,736
Interest	377	129
Refunds	-	5
Other	822	1,202
	<u>10,015</u>	<u>6,343</u>
Prepaid expenses	356	307
	<u>\$ 10,371</u>	<u>\$ 6,650</u>

Assessments Receivable

The assessments receivable are a part of the Agency's Combined Component Unit (Mojave Basin Area Watermaster). The Watermaster, in response to a Judgment of the Court, assesses producers for their share of excess production, administration and environmental commitments. The assessments receivable are considered by management, in response to the Court Order, to be fully collectible as all uncollected assessments are appropriately liened. Accordingly, no allowance for doubtful accounts has been recorded.

The Watermaster's policy is not to purchase make-up or replacement water until assessments have been collected. In the event that assessments are not collected, then receivables and respective reserves will be reduced and should have no effect on unreserved balances, which are supported by Mojave Water Agency.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 4 – PARTICIPATION RIGHTS IN STORED WATER

In 1994, the Agency completed and adopted its current Regional Water Management Plan, which recognizes the Agency’s Conjunctive Use Program. The Program calls for the conjunctive use of surface water supplies, both local and imported, with groundwater supplies. The Agency acquires Free Production Allowances (FPA) from local sources and State Water Project deliveries to recharge ground water basins in “wet” years to provide relief in dry years. The Agency values (in thousands) its water inventory and computes the cost of water sold using an average cost method for local and state deliveries. The Agency’s policy is to record only variable OMP & R costs for transportation. The Agency’s transportation cost of water sold for the past two fiscal years was computed as follows:

	2006 - 2007		2005-2006	
	Acre-Feet	Cost*	Acre-Feet	Cost*
Local (FPA) Program				
Beginning water inventory	7,978	\$ 307	7,978	\$ 307
Water purchases	-	-	-	-
Water available for sale	7,978	307	7,978	307
Less: ending water inventory	(7,978)	(307)	(7,978)	(307)
Variable cost of water sold	-	\$ -	-	\$ -
	2006 - 2007		2005-2006	
	Acre-Feet	Cost*	Acre-Feet	Cost*
State water project				
Beginning water inventory	118,458	\$ 9,631	95,346	\$ 6,301
Water purchases	22,354	1,831	46,360	5,220
Water available for sale	140,812	11,462	141,706	11,521
Less: ending water inventory	(114,295)	(9,304)	(118,458)	(9,631)
Variable cost of water sold	26,517	\$ 2,158	23,248	\$ 1,890

* Amounts in thousands

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 5 – CAPITAL ASSETS

Capital Assets:	Balance	Additions	Deletions	Balance
	July 1, 2006			June 30, 2007
Land and right of ways	\$ 6,310	\$ 855	\$ -	\$ 7,165
Water Management Plan	3,043	.	.	3,043
State Water Project Entitlement	133,801	4,786	-	138,587
Morongo Pipeline Entitlement	208	.	.	208
Buildings	1,696	9	-	1,705
Equipment	615	33	4	644
Equipment - transportation	549	12	-	561
Leasehold improvements	42	.	.	42
Monitoring wells	1,180	.	.	1,180
Office furniture and equipment	2,078	716	83	2,711
Transmission and distribution facilities	133,368	4,971	-	138,339
Long-term storage plan	.	496	-	496
	<u>282,890</u>	<u>11,878</u>	<u>87</u>	<u>294,681</u>
Less accumulated depreciation	(39,973)	(4,937)	(78)	(44,832)
	<u>242,917</u>	<u>6,941</u>	<u>9</u>	<u>249,849</u>
Construction in progress:				
Alto Subarea-Basin Concept Modeling	50	553	.	603
Ames/Means-Bighorn-DV Recharge	80	165	.	245
Antelope Wash Recharge Ponds	38	15	-	53
Cassia & Helendale PRV Upgrades	7	398	405	.
Cedar St Retention Basin	0	-	0	.
Demang Charge Benefit Analysis	.	129	.	129
Easement Wells2800	132	199	-	331
Existing Facility Data to GIS	.	5	-	5
FEMA Monitoring Well Repair	750	17	.	767
Fish & Game Well Installations	51	179	-	230
GIS/Roll-out of Enterprise	321	227	548	.
Harper Lake/Hinkley Investigation	.	43	43	.
HDWD Site Recharge	1,488	19	1,507	.
Helendale PRV Upgrades	92	1,126	1,184	34
Inventory Claims Program	-	8	.	8
Minimal User Program	46	79	-	125
Mojave River Pipeline SCADA	3	44	.	47
Mojave River Wells & Pipe Proj	0	-	0	.
Mojave Wtr Pipeline As Built	.	195	195	.
MRP-3D,3E-CLSD
MWD LongTerm Storage	444	8	452	.
New Building Headquarters	17	28	.	45
Newberry Springs Monitoring Wells	.	3	-	3
Oeste Subarea-Basin Concept Modeling	101	52	-	153
Oro Grande No. Recharge	.	20	-	20
Oro Grande Pipeline Project	1	3	-	4
Oro Grande Wash Recharge	1,577	33	1,610	-
Reduction Valve Rock Springs	213	0	-	213
Regional Recharge & Recovery R3	-	118	.	118
Rock Springs Facility Imprvmt.	33	17	-	50
So Apple Vly Recharge Basin	44	33	.	77
State of the Basin Report	.	35	-	35
Upgrade at Morongo Basin Pipeline	-	57	57	.
Upper Oro Grande Rechg Ponds	3	12	15	.
Water Deliveries	1	.	1	.
Water Inventory Use Case	24	8	-	32
Water Supply Analysis	-	13	-	13
WaterQualityModeling	100	16	-	116
Work Flow Process Implementation	47	12	59	.
	<u>5,663</u>	<u>3,869</u>	<u>6,076</u>	<u>3,456</u>
TOTAL UTILITY PLANT, NET	<u>\$ 248,580</u>	<u>\$ 10,810</u>	<u>\$ 6,085</u>	<u>\$ 253,305</u>

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 5 – CAPITAL ASSETS, Continued

	Balance			Balance June 30, 2006
	July 1, 2005	Additions	Deletions	
Capital assets:				
Land and right of ways	\$ 6,310	\$ -	\$ -	\$ 6,310
Water Management Plan	1,270	1,773	-	3,043
State Water Project Entitlement	129,254	4,547	-	133,801
Morongo Pipeline Entitlement	208	-	-	208
Buildings	1,678	18	-	1,696
Equipment	575	46	6	615
Equipment - transportation	536	68	55	549
Leasehold improvements	42	-	-	42
Monitoring wells	550	630	-	1,180
Office furniture and equipment	1,910	255	87	2,078
Transmission and distribution facilities	118,693	14,675	-	133,368
	<u>261,026</u>	<u>22,012</u>	<u>148</u>	<u>282,890</u>
Less: accumulated depreciation	(34,919)	(5,197)	(143)	(39,973)
	226,107	16,815	5	242,917
Construction in progress:				
Alto subarea basin concept modeling	28	22	-	50
Ames / Means Bighorn-Desert View recharge	32	48	-	80
Antelope Wash pilot	356	94	450	-
Board room multi-media upgrade	25	36	61	-
Cassia PRV upgrades - phase 2	-	7	-	7
Cedar Street retention basin	-	0	-	-
Deep well implementation	162	5	167	-
FEMA monitoring wells	367	383	-	750
Fish & Game well installation	-	51	-	51
GIS / rollout at Enterprise	128	193	-	321
Hi Desert WD site recharge	181	1,307	-	1,488
Lassie and Helendale PRV	-	92	-	92
Minimal user program	-	46	-	46
Mojave River Pipeline SCADA	-	3	-	3
Mojave River Pipeline - Reach 3	9,911	4,765	14,676	-
Mojave River wells and pipeline	-	0	-	0
MWD exchange	529	41	570	-
MWD long term storage	146	527	229	444
New building headquarters	-	17	-	17
Oeste subarea basin concept modeling	14	87	-	101
Oro Grande pipeline project	-	1	-	1
Oro Grande recharge and monitoring well	601	976	-	1,577
Pioneer Town evaluation	7	3	10	-
Regional water management plan	1,663	110	1,773	-
Renovate servers, stations and website	33	0	33	-
Rock Springs - facility improvement	9	24	-	33
Rock Springs - reduction value	37	176	-	213
So. Apple Valley recharge basin	-	44	-	44
Subsurface flow study	57	206	263	-
Upper Oro Cerande recharge	-	3	-	3
Wash recharge	-	38	-	38
Water deliveries	-	1	-	1
Water inventory use	3	21	-	24
Water quality monitoring	(50)	210	60	100
Wells	-	132	-	132
Work process implementation	26	21	-	47
	<u>14,265</u>	<u>9,690</u>	<u>18,292</u>	<u>5,663</u>
TOTAL UTILITY PLANT, NET	<u>\$ 240,372</u>	<u>\$ 26,505</u>	<u>\$ 18,297</u>	<u>\$ 248,580</u>

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2007 and 2006

NOTE 6 – LONG TERM DEBT

Long-Term Debt Summary

The changes in the Agency's long-term debt obligations (in thousands) during the year consisted of the following:

	Balance July 1, 2006	Additions	Reductions	Due in one year	Long-term balance June 30, 2007
2006 General Obligation Bonds	\$ 34,825	\$ -	\$ -	\$ 1,510	\$ 33,315
2004 Certificates of Participation	23,360	-	1,020	1,050	21,290
Rock Springs Loan	2,480	-	279	287	1,914
Yucca Valley Loan	790	-	83	85	622
Mojave River Pipeline Loan	3,674	-	249	256	3,169
Compensated absences	372	-	1	-	371
Total	65,501	-	1,632	\$ 3,188	60,681
Less deferred amounts:					
Issuance costs/premiums/ discounts/loss	(7,949)		462		(7,487)
Total long-term liabilities, net	\$ 57,552	\$ -	\$ 2,094		\$ 53,194

	Balance July 1, 2005	Additions	Reductions	Due in one year	Long-term balance June 30, 2006
1996 General Obligation Bonds	\$ 40,810	\$ -	\$ 40,810	\$ -	\$ -
2006 General Obligation Bonds	-	34,825	-	-	34,825
2004 Certificates of Participation	24,125	-	765	1,020	22,340
Rock Springs Loan	2,750	-	270	279	2,201
Yucca Valley Loan	870	-	80	82	708
Mojave River Pipeline Loan	3,916	-	242	249	3,425
Compensated absences	91	281	-	-	372
Total	72,562	35,106	42,167	\$ 1,630	63,871
Less deferred amounts:					
Issuance costs/premiums/ discounts/loss	(7,934)	(534)	519		(7,949)
Total long-term liabilities, net	\$ 64,628	\$ 34,572	\$ 42,686		\$ 55,922

General Obligation Bonds

In June 1990, a portion of the Agency voted in favor of forming Improvement District "M" and to incur bonded indebtedness in the principal amount of \$66,500,000. The proceeds of the bonds were used to finance costs of designing, planning, and constructing the Morongo Basin Pipeline Project to bring water from the California Aqueduct in Hesperia to Yucca Valley.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 6 – LONG TERM DEBT, Continued

General Obligation Bonds, Continued

The Agency issued on May 29, 1991 \$12,000,000 and on November 19, 1992 \$40,735,000 aggregated principal general obligation bonds to finance a portion of the costs of the Morongo Basin Pipeline Project. The Agency issued on April 25, 1996 \$51,780,000 aggregated principal general obligation bonds to refund the 1991 and 1992 Series bonds.

The Agency on June 7, 2006 issued \$34,825,000 aggregated principal general obligation bonds for the purpose of refunding the remaining \$40,810,000 of the 1996 general obligation bonds and to pay the costs incurred with the issuance, sale and delivery of the bonds. The new bonds bear interest at 5%, and are due in annual installments ranging from \$1,510,000 to \$3,000,000 through 2022.

The Agency has entered into agreements with four water purveyors who are participants in the pipeline project. The purposes of the agreements are to sell and deliver water available to the Agency to the participants, to sell Project Capacity from the pipeline project to the participants and to sell Project Allotment and Project Capacity among the participants, all within the scope of the Agency's water service policy. During the fiscal year ended June 30, 1995, the Agency acquired 4% of the rights of the project from County service area 70. The participants and their respective percentages of water allotted from the pipeline project are as follows:

<u>Project Participants</u>	<u>Original Percentages</u>	<u>Current Percentages</u>
Hi-Desert Water District	59%	59%
Joshua Basin Water District	27%	27%
Bighorn-Desert View Water Agency	9%	9%
San Bernardino County Service Area: No. 70 Improvement Zone W-1	4%	1%
Improvement Zone W-4	1%	0
Mojave Water Agency	0	4%

Each project participant will pay each June 1st (commencing June 1, 1994) its project allotment percentage of estimated project costs for the then current fiscal year and 25 percent of the debt service of the bonds.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 6 – LONG TERM DEBT, Continued

General Obligation Bonds, Continued

The Agency will levy property taxes upon the taxable property (other than personal property) in Improvement District “M” after fiscal year 1993-1994 in the amount of 70 percent of debt service bonds. The bonds carry an interest rate at 5.0%, and they mature through 2023 as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Maturity</u>
2008	\$ 1,510	\$ 1,704
2009	1,585	1,626
2010	1,665	1,545
2011	1,750	1,460
2012	1,840	1,370
2013 - 2017	10,660	5,338
2018 - 2022	13,620	2,318
2023	2,195	55
Total	<u>\$ 34,825</u>	<u>\$ 15,416</u>

Certificates of Participation (COPs)

On May 1, 1997, the Agency and Mojave Water Agency Public Facilities Corporation (the “Corporation”) entered into an installment purchase agreement. The agreement provided for the Corporation to purchase 25,000 acre-feet of Berrenda Mesa Water District’s current entitlement to the delivery of firm water from the State Water Project, including Berrenda Mesa’s rights to delivery capacity (25,000 acre-feet) in state water project facilities with the California Aqueduct. The Corporation sold to the Agency the entitlement and capacity under an installment purchase agreement. On December 21, 2004, the Agency’s Public Facilities Corporation issued \$24,125,000 in 2004 Refunding Certificates of Participation for the purposes of refunding the remaining \$21,830,000 of the 1997 Certificates of Participation and to pay the costs incurred in connection with the issuance, sale and delivery of the bonds. The new bonds bear interest rates from 2.5% to 5.00% and are due in annual installments ranging from \$765,000 to \$1,855,000 through September 2023. The certificates are payable pursuant to a lease agreement of the Public Facilities Corporation to the Agency. The COPs mature through 2023 as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>
2008	\$ 1,050	\$ 873
2009	1,085	844
2010	1,110	808
2011	1,150	769
2012	1,190	732
2013 - 2017	6,695	2,865
2018 - 2022	8,205	1,321
2023	1,855	41
Total	<u>\$ 22,340</u>	<u>\$ 8,253</u>

MOJAVE WATER AGENCY

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NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 6 – LONG TERM DEBT, Continued

Loans

The Agency took out a series of low interest loans from the state of California, they are the Rock Springs construction loan; interest rate 3.00%; fiscal maturities 1993-2013; Yucca Valley construction loan; interest rate 3.00%; fiscal maturities 1995-2014; and Mojave River Pipeline construction loan; interest rate 2.80%; fiscal maturities 2000-2018. The loans mature as follows (in thousands):

Fiscal Year	Principal	Interest to Maturity
2008	\$ 628	\$ 179
2009	647	160
2010	666	141
2011	686	121
2012	706	101
2013 - 2017	2,488	232
2018 - 2019	512	14
Total	<u>\$ 6,333</u>	<u>\$ 948</u>

NOTE 7 – DEFEASED DEBT

On June 7, 2006, the Agency issued 2006 General Obligation Bonds of \$34,825,000, bearing interest at 5.0%, to advance refund general obligation bonds issued in 1996 totaling \$51,780,000. The net proceeds of \$35,861,187 (after a discount of \$1,347,960 and payment of underwriting fees, insurance and other issue costs), were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 general obligation bonds. As a result, the 1996 general obligation bonds are considered to be defeased and the liability for those bonds is considered to be defeased. The liability for those bonds was removed as a liability of the Agency. As of June 30, 2006, the amount of debt outstanding but removed from the Agency's accounting records amounted to \$40,810,000.

The advance refunding resulted in a difference between the re-acquisition price and the net carrying amount of the old debt of \$5,779,664. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged as a component of amortization through the year 2022 using the straight-line method of amortization.

MOJAVE WATER AGENCY

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NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 8 – NET ASSETS

	2007	2006
	<i>Amounts in thousands</i>	
Capital assets, net	\$ 253,305	\$ 248,580
Debt	(56,011)	(57,079)
Invested in capital assets net of related debt	197,294	191,501
Capital improvements, I.D. "M"	3,293	3,015
State water contract	23,745	13,713
Debt service	3,027	1,719
Watermaster	1,246	1,491
Total restricted net assets	31,311	19,938
Designated:		
Capital improvements, other	6,514	6,514
Water purchase reserve	3,000	3,000
Undesignated	15,511	8,416
Total Unrestricted	25,025	17,930
Total Net Assets	\$ 253,630	\$ 229,369

NOTE 9 – NET ASSETS RESTATEMENT

Net Assets classifications for the year ended June 30, 2006 have been restated to correct accounting errors made in the prior years. Net Assets of the Agency as a whole did not change; however, the classification of each category did.

Investment in Capital Assets

On December 21, 2004 the Agency's Public Facilities Corporation refunded its 1997 certificates of participation. On June 7, 2006 the Agency refunded its 1996 General Obligation Bonds. The original recordings of issuance costs, premiums, discounts and losses were calculated incorrectly. This reclassification of net assets as of June 30, 2006 is as follows:

	<i>Amounts in thousands</i>	
(Decrease) in investment in capital assets	\$	(442)
Increase in restricted net assets		442
Total change in net assets	\$	-

MOJAVE WATER AGENCY

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NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 9 – NET ASSET RESTATEMENT, Continued

Restricted/Unrestricted Net Assets

During the prior years restricted and unrestricted revenues and costs were classified incorrectly. This again did not result in an over or understatement of net assets as a whole. The reclassification from restricted to unrestricted is as follows:

	<i>Amounts in thousands</i>
(Decrease) in restricted net assets	\$ (10,498)
Increase in unrestricted net assets	<u>10,498</u>
Total change in net assets	<u><u>\$ -</u></u>

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Description

The Agency contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

For the year ended June 30, 2007, participants were required to contribute 8% of their annual covered salary, which was \$1,952,511. (However, the Agency pays this amount as part of the employees and directors' compensation.) The Agency was required to contribute an actuarially determined rate of 19.574% of covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

Annual Pension Cost

For the year ended June 30, 2007, the Agency's annual pension cost of \$680,808 for PERS was equal to the Agency's required and actual contributions (not including the portion paid on behalf of employees and directors). The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases of 3.00% attributable to inflation; and (c) a 0.25% across the board increase and merit increases that vary by length of service. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 11 – COMMITMENTS

State Department of Water Resources

The Agency has entered into a contract with the State Department of Water Resources to receive an annual entitlement of water from the State Water Project. As a part of this agreement, the Agency has assumed a proportionate share of the project's capital costs and minimum operations, maintenance, power and replacement (OMP & R) costs of the State facilities in addition to paying variable operations, maintenance, power and replacement costs on a per acre-foot charge for water deliveries received.

The Agency's future commitment for State Water Project costs over the years 2008 to 2035, according to the Department of Water Resources' Bulletin 132-07, is estimated as follows (assuming full delivery of entitlement):

Amounts in thousands

Department of Water Resources Base Charges	
Capital cost component	\$ 40,250
Minimum operations, maintenance, power and replacement component	93,915
Variable operations, maintenance, power and replacement component	<u>427,151</u>
Total	561,316
East Branch enlargement charge	
Capital cost component	36,181
Minimum operations, maintenance, power and replacement component	<u>5,083</u>
Total	41,264
Off-aqueduct power facilities charge	22,645
Delta water charges	59,393
Water system revenue bond surcharge	<u>27,867</u>
 TOTAL STATE WATER PROJECT COSTS	 <u><u>\$ 712,485</u></u>

MOJAVE WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 11 – COMMITMENTS, Continued

Operating Leases

The Agency leases vehicles and office equipment under non-cancelable lease agreements with initial lease terms from 3 to 5 years. Future minimum payments are as follows:

June 30,	
2008	\$ 32,450
2009	<u>20,752</u>
	<u>\$ 53,202</u>

Mojave River Project

The Agency has embarked on the development of a 72-mile pipeline that will deliver water from the California Water Project Aqueduct to communities along the Mojave River. The Agency projects costs of \$74,000,000 and has Federal and State grant commitments of \$48,000,000 as of June 30, 2006. The Agency has also received a loan of \$5,000,000 from the California Department of Water Resources and a loan of \$525,000 from the United States Department of Agriculture to use as matching funds for the first federal grant and second federal grant, respectively, from the Environmental Protection Agency. The Agency will proceed only to the extent funding sources are available.

NOTE 12 – CONTINGENCIES

The Agency is exposed to risks of loss due to weather conditions, earthquakes, accidents, error and omissions, and crime. Management addresses these contingencies by maintaining adequate insurance coverage with commercial carriers.

NOTE 13 – EXCHANGE AGREEMENT

In 2003, the Metropolitan Water District (“MWD”) and the Agency entered into an agreement to develop a demonstration water exchange program. Pursuant to this agreement, MWD has delivered to the Agency 44,874 acre-feet of water from MWD’s share of State Water Project (“SWP”) deliveries. In years when MWD requests return of the previously stored water, the Agency will provide to MWD through exchange of the Agency’s available SWP supplies available for that calendar year, less the Agency’s local firm demands. The 44,874 acre-feet from MWD has been recorded into the “inventory” account, through the “other income” revenue account at the actual cost of water from the SWP at the time of delivery. As of June 30, 2007 the Agency has stored 44,874 acre-feet and has returned 6,500 acre-feet leaving a balance of 38,374 acre-feet which is being returned at a rate of 3,250 acre-feet per month in 2007-08 year.