

Mojave Basin Area Watermaster
Annual Financial Report
For the Fiscal Years Ended June 30, 2011 and 2010



Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

**Mojave Basin Area Watermaster
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Financial Section



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Independent Auditor's Report

Board of Directors
Mojave Basin Area Watermaster
Apple Valley, California

We have audited the accompanying financial statements of the Mojave Basin Area Watermaster (Watermaster), a component unit of the Mojave Water Agency, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Watermaster's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Watermaster's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The comparative financial information as of June 30, 2010, was audited by other auditors whose report dated January 14, 2011, expressed an unqualified opinion on those basic financial statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Mojave Basin Area Watermaster as of June 30, 2011, and the respective changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2011 on our consideration of the Watermaster's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 20.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, 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.

Independent Auditor's Report, continued

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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Charles Z Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2011

Mojave Basin Area Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Mojave Basin Area Watermaster (Watermaster) provides an introduction to the financial statements of the Watermaster for the fiscal years ended June 30, 2011 and 2010. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The Watermaster's net assets decreased 27.0% or \$323,807 to \$877,440 in fiscal year 2011 as a result of current year operations. In 2010, the Watermaster's net assets decreased 1.5% or \$18,907 to \$1,201,247 primarily as a result of operations.
- The Watermaster's operating revenues decreased 30.6% or \$1,436,215 in 2011 primarily due to a reduction in pumping demand. In 2010, the Watermaster's operating revenues decreased 32.2% or \$2,222,668 in 2010 primarily due to a reduction in pumping demand.
- The Watermaster's operating expenses decreased 26.7% or \$1,264,598 in 2011 primarily due to continuing decrease in demand affecting state water project purchases. In 2010, the Watermaster's operating expenses decreased 25.9% or \$1,652,416 primarily due to a decrease in demand affecting state water project purchases.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the Watermaster using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the Watermaster's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Watermaster and assessing the liquidity and financial flexibility of the Watermaster. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Watermaster's operations over the past year and can be used to determine if the Watermaster has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the Watermaster's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports 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 cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Watermaster

One of the most important questions asked about the Watermaster's finances is, "Is the Watermaster better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Watermaster in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Mojave Basin Area Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Financial Analysis of the Watermaster, continued

These two statements report the Watermaster's *net assets* and changes in net assets. You can think of the Watermaster's net assets – the difference between assets and liabilities – as one way to measure the Watermaster's financial health, or *financial position*. Over time, *increases or decreases* in the Watermaster's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 19.

Statement of Net Assets

| Condensed Statements of Net Assets | | | | | |
|---|---------------------|------------------|--------------------|------------------|--------------------|
| | <u>2011</u> | <u>2010</u> | <u>Change</u> | <u>2009</u> | <u>Change</u> |
| Assets: | | | | | |
| Current assets | \$ 3,784,003 | 5,905,557 | (2,121,554) | 7,556,740 | (1,651,183) |
| Capital assets, net | - | - | - | 15,762 | (15,762) |
| Total assets | <u>3,784,003</u> | <u>5,905,557</u> | <u>(2,121,554)</u> | <u>7,572,502</u> | <u>(1,666,945)</u> |
| Liabilities: | | | | | |
| Current liabilities | 2,906,563 | 4,704,310 | (1,797,747) | 6,352,348 | (1,648,038) |
| Total liabilities | <u>2,906,563</u> | <u>4,704,310</u> | <u>(1,797,747)</u> | <u>6,352,348</u> | <u>(1,648,038)</u> |
| Net assets: | | | | | |
| Invested in capital assets | - | - | - | 15,762 | (15,762) |
| Restricted for watermaster | 877,440 | 1,201,247 | (323,807) | 1,204,392 | (3,145) |
| Total net assets | <u>877,440</u> | <u>1,201,247</u> | <u>(323,807)</u> | <u>1,220,154</u> | <u>(18,907)</u> |
| Total liabilities and net assets | <u>\$ 3,784,003</u> | <u>5,905,557</u> | <u>(2,121,554)</u> | <u>7,572,502</u> | <u>(1,666,945)</u> |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Watermaster, assets of the Watermaster exceeded liabilities by \$877,440 and \$1,201,247 as of June 30, 2011 and 2010, respectively.

At the end of fiscal years 2011 and 2010, the Watermaster showed a balance in its restricted net assets of \$877,440 and \$1,201,247, respectively, which is restricted for a Biological Resources Trust Fund, Watermaster administrative costs, replacement water and make-up water. The sources that feed each of these funds is dictated by the Judgement, and uses of these funds can only be used for the purpose stated in the Judgement.

Mojave Basin Area Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

| | <u>2011</u> | <u>2010</u> | <u>Change</u> | <u>2009</u> | <u>Change</u> |
|--|-------------------|------------------|--------------------|------------------|--------------------|
| Revenues: | | | | | |
| Operating revenues | \$ 3,250,049 | 4,686,264 | (1,436,215) | 6,908,932 | (2,222,668) |
| Non-operating revenues | 14,542 | 46,720 | (32,178) | 78,694 | (31,974) |
| Total revenues | <u>3,264,591</u> | <u>4,732,984</u> | <u>(1,468,393)</u> | <u>6,987,626</u> | <u>(2,254,642)</u> |
| Expenses: | | | | | |
| Operating expenses | 3,471,531 | 4,736,129 | (1,264,598) | 6,382,947 | (1,646,818) |
| Non-operating expenses | 23,074 | - | 23,074 | 505 | (505) |
| Total expenses | <u>3,494,605</u> | <u>4,736,129</u> | <u>(1,241,524)</u> | <u>6,383,452</u> | <u>(1,647,323)</u> |
| Depreciation: | - | - | - | (5,598) | 5,598 |
| Net income(loss) before capital contributions and transfers | <u>(230,014)</u> | <u>(3,145)</u> | <u>(226,869)</u> | <u>598,576</u> | <u>(601,721)</u> |
| Capital contributions | - | - | - | (500,000) | 500,000 |
| Transfers of net assets to(from) | (93,793) | (15,762) | (78,031) | - | (15,762) |
| Change in net assets | <u>(323,807)</u> | <u>(18,907)</u> | <u>(304,900)</u> | <u>98,576</u> | <u>(117,483)</u> |
| Net assets – beginning of year | <u>1,201,247</u> | <u>1,220,154</u> | <u>(18,907)</u> | <u>1,121,578</u> | <u>98,576</u> |
| Net assets – end of year | <u>\$ 877,440</u> | <u>1,201,247</u> | <u>(323,807)</u> | <u>1,220,154</u> | <u>(18,907)</u> |

The statement of revenues, expenses and changes of net assets shows how the Watermaster's net assets changed during the fiscal years. In the case of the Watermaster, net assets decreased by \$323,807 and \$18,907 for the fiscal years ended June 30, 2011 and 2010, respectively.

A closer examination of the sources of changes in net assets reveals that:

Operating revenues decreased 30.6% or \$1,436,215 in 2011 primarily due to a reduction in pumping demand. In 2010, the Watermaster's operating revenues decreased 32.2% or \$2,222,668 in 2010 primarily due to a reduction in pumping demand.

Operating expenses decreased 26.7% or \$1,264,598 in 2011 primarily due to continuing decrease in demand, affecting state water project purchases. In 2010, the Watermaster's operating expenses decreased 25.9% or \$1,652,416 primarily due to a decrease in demand affecting state water project purchases..

Capital Asset Administration

The Watermaster transferred all capital assets to the Mojave Water Agency in fiscal year 2010.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Watermaster's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the Watermaster's funding sources, customers, stakeholders and other interested parties with an overview of the Watermaster'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 Mojave Water Agency's Chief Financial Officer at 13846 Conference Center Drive, Apple Valley, CA 92307.

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Basic Financial Statements

Mojave Area Basin Watermaster
Statements of Net Assets
June 30, 2011 with Comparative Information as of June 30, 2010

| <i>Assets</i> | 2011 | 2010 |
|---|---------------------|------------------|
| Current assets: | | |
| Cash and cash equivalents – restricted (note 2) | \$ 3,718,220 | 4,890,912 |
| Accrued interest receivable | 1,218 | 1,472 |
| Accounts receivable – watermaster assessments | 64,565 | 1,013,173 |
| Total assets | \$ 3,784,003 | 5,905,557 |
| <i>Liabilities and Net Assets</i> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (note 4) | \$ 2,659,602 | 4,038,845 |
| Due to Mojave Water Agency | 246,961 | 665,465 |
| Total current liabilities | 2,906,563 | 4,704,310 |
| Total liabilities | 2,906,563 | 4,704,310 |
| Net assets: (note 5) | | |
| Restricted for watermaster | 877,440 | 1,201,247 |
| Total net assets | 877,440 | 1,201,247 |
| Total liabilities and net assets | \$ 3,784,003 | 5,905,557 |

See accompanying notes to the basic financial statements

Mojave Basin Area Watermaster
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010

| | 2011 | 2010 |
|--|------------------|-----------------|
| Operating revenues: | | |
| Administrative assessments | \$ 454,706 | 460,528 |
| Biological assessments | 104,485 | 105,376 |
| Replacement assessments | 2,673,549 | 4,104,885 |
| Make-up assessments | 17,309 | 15,475 |
| Total operating revenues | 3,250,049 | 4,686,264 |
| Operating expenses: | | |
| State water project importation charges | 2,713,246 | 4,004,750 |
| Operating costs | 392,285 | 731,379 |
| Mitigation projects | 366,000 | - |
| Total operating expenses | 3,471,531 | 4,736,129 |
| Operating loss | (221,482) | (49,865) |
| Non-operating revenue (expense) | | |
| Investment earnings | 4,832 | 2,468 |
| Property tax and assessment collection charges | (17) | - |
| Gain on sale of capital assets | - | 15,762 |
| Other non-operating revenue (expense) | (13,347) | 28,490 |
| Total non-operating revenues, net | (8,532) | 46,720 |
| Net income before transfers | (230,014) | (3,145) |
| Transfers of net assets to Mojave Water Agency | (93,793) | (15,762) |
| Change in net assets | (323,807) | (18,907) |
| Net assets – beginning of year | 1,201,247 | 1,220,154 |
| Net assets – end of year | \$ 877,440 | 1,201,247 |

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010**

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers | \$ 4,208,367 | 6,239,348 |
| Cash paid to vendors and suppliers | (5,232,643) | (6,647,095) |
| Cash paid to employees for salaries and wages | <u>(306,670)</u> | <u>(286,334)</u> |
| Net cash used in operating activities | <u>(1,330,946)</u> | <u>(694,081)</u> |
| Cash flows from non-capital financing activities: | | |
| Transfer from Mojave Water Agency | <u>153,168</u> | <u>547,007</u> |
| Net cash provided by non-capital financing activities | <u>153,168</u> | <u>547,007</u> |
| Cash flows from capital and related financing activities: | | |
| Proceeds from the sale of capital assets | <u>-</u> | <u>15,762</u> |
| Net cash provided by non-capital financing activities | <u>-</u> | <u>15,762</u> |
| Cash flows from investing activities: | | |
| Investment earnings | <u>5,086</u> | <u>4,677</u> |
| Net cash provided by investing activities | <u>5,086</u> | <u>4,677</u> |
| Net decrease in cash and cash equivalents | (1,172,692) | (126,635) |
| Cash and cash equivalents – beginning of year | <u>4,890,912</u> | <u>5,017,547</u> |
| Cash and cash equivalents – end of year | <u>\$ 3,718,220</u> | <u>4,890,912</u> |
| Reconciliation of cash and cash equivalents to statements of financial position: | | |
| Cash and cash equivalents – restricted | <u>\$ 3,718,220</u> | <u>4,890,912</u> |
| Total cash and cash equivalents | <u>\$ 3,718,220</u> | <u>4,890,912</u> |

Continued on next page

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster
Statements of Cash Flows, continued
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010**

| | <u>2011</u> | <u>2010</u> |
|--|------------------------------|-------------------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ <u>(221,482)</u> | <u>(49,865)</u> |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | |
| Other non-operating revenue (expense) | (13,364) | 30,235 |
| Changes in assets and liabilities: | | |
| (Increase) Decrease in assets: | | |
| Accounts receivable – watermaster assessments | 948,608 | 1,522,849 |
| Increase (Decrease) in liabilities: | | |
| Accounts payable and accrued expenses | <u>(2,044,708)</u> | <u>(2,197,300)</u> |
| Total adjustments | <u>(1,109,464)</u> | <u>(644,216)</u> |
| Net cash used in operating activities | \$ <u><u>(1,330,946)</u></u> | <u><u>(694,081)</u></u> |

See accompanying notes to the basic financial statements

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Mojave Water Agency (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 local sources. The Agency is governed by a seven-member Board of Directors who serve overlapping four-year terms.

In 1994, to administer the provisions of the groundwater adjudication judgment, the Superior Court of Riverside appointed the Agency as the Mojave Basin Area Watermaster (Watermaster) and ordered the Watermaster to formulate a plan and program for management of the Basin's resources. Although the Watermaster is legally separate, it is included as a blended component unit of the Agency, as it is in substance part of the Agency's operations as it is governed by the same Board of Directors. Complete financial statements for the Watermaster are available at the Agency's office or upon request of the Agency's Chief Financial Officer at 13846 Conference Center Drive, Apple Valley, California, 92307.

B. Basis of Accounting and Measurement Focus

The Watermaster 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 Watermaster is that the costs of delivering wholesale water to its service area on a continuing basis be financed or recovered primarily through user charges (assessments). 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 related cash flows take place.

Operating revenues and expenses, such as Watermaster assessments result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenues of the Watermaster are water sales (assessments) to member water right holders. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The Watermaster's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the Watermaster, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Watermaster has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

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

3. Investments

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.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The Watermaster extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Watermaster uses the allowance method for the reservation and write-off of those accounts.

5. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets 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.

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

6. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) Cash and Investments

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

| | 2011 | 2010 |
|--|--------------|-------------|
| Restricted – cash and cash equivalents | \$ 3,718,220 | 4,890,912 |
| Total | \$ 3,718,220 | 4,890,912 |

Cash and cash equivalents as of June 30, consist of the following:

| | 2011 | 2010 |
|--------------------------------------|--------------|-------------|
| Deposits with financial institutions | \$ 2,809,853 | 3,827,629 |
| Local Agency Investment Fund (LAIF) | 908,367 | 1,063,283 |
| Total cash and cash equivalents | \$ 3,718,220 | 4,890,912 |

As of June 30, the Watermaster's authorized deposits had the following maturities:

| | 2011 | 2010 |
|---|-------------|-------------|
| Deposits held with California Local Agency Investment Fund (LAIF) | 237 days | 203 Days |

Investment in State Investment Pool

The Watermaster 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 Watermaster'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.

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 California Government Code and the Watermaster's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

**Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010**

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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. Of the bank balances, up to \$250,000 at June 30, 2011 and 2010, were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Watermaster's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the Watermaster's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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 LAIF).

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 that the Watermaster 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 for cash flow requirements and liquidity needed for operations.

Credit Risk

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 Watermaster's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

(3) Capital Assets

The Watermaster transferred all capital assets to the Mojave Water Agency in fiscal year 2010.

(4) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2011, consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|------------------------------|---------------------|------------------|
| Replacement water deliveries | \$ 2,629,092 | 4,013,045 |
| Makeup water deliveries | 17,947 | 9,737 |
| Other accounts payable | 12,563 | 15,687 |
| | <u>\$ 2,659,602</u> | <u>4,038,469</u> |

**Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011
with Comparative Information for the Fiscal Year Ended June 30, 2010**

(5) Net Assets

Calculation of net assets as of June 30, were as follows:

| | 2011 | 2010 |
|-----------------------------|--------------|-------------|
| Restricted net assets: | | |
| Administrative | \$ (119,679) | (175,291) |
| Biological resources trust | 378,873 | 739,054 |
| Replacement water | 613,516 | 633,942 |
| Make-up water | 4,730 | 3,542 |
| Total restricted net assets | \$ 877,440 | 1,201,247 |

(6) Risk Management

The Watermaster is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Watermaster has purchased commercial insurance coverage to limit the risk of loss for the above named sources. Also, the Watermaster has obtained workers' compensation coverage to the statutory limits.

(7) Commitments and Contingencies

Litigation

In the ordinary course of operations, the Watermaster is subject to claims and litigation from outside parties. After consultation with legal counsel, the Watermaster believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(8) Subsequent Events

Events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2011, which is the date the financial statements were available to be issued.

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
 Paul J. Kaymark, CPA
 Christopher J. Brown, CPA

Charles Z. Fedak & Company

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Independent Auditor's Report on Internal Controls 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
 Mojave Basin Area Watermaster
 Apple Valley, California

We have audited the basic financial statements of the Mojave Basin Area Watermaster (Watermaster) as of and for the years ended June 30, 2011 and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Watermaster's internal control over financial reporting as a basis for designing our auditing procedures 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 Watermaster's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Watermaster's internal control over financial reporting.

A deficiency in internal control over financial reporting 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.

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

Compliance and Other Matters

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

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

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
 Cypress, California
 September 30, 2011