



**Mojave Basin Area Watermaster**  
A Component Unit of the Mojave Water Agency

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2015 and 2014**



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Annual Financial Report  
For the Fiscal Years Ended June 30, 2015 and 2014**

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# **Financial Section**



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### **Independent Auditor's Report**

Board of Directors  
Mojave Basin Area Watermaster  
Apple Valley, California

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Mojave Basin Area Watermaster (Watermaster), a component unit of the Mojave Water Agency which comprises the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Watermaster's basic financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mojave Basin Area Watermaster as of June 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report, continued**

### ***Emphasis of Matter***

As described in note 1 to the financial statements, the Watermaster adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the required supplementary information on page 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

### ***Restatement***

As part of our audit of the June 30, 2015, financial statements, we audited the adjustments described in note 5. The Watermaster recognized its proportionate share of net pension liability; and reclassified its proportionate share of employer pension contributions from expense to deferred outflows of resources and recorded a prior period adjustment to restate the beginning net position as of July 1, 2014.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued a report dated November 18, 2015, 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 in considering the Watermaster's internal control over financial reporting and compliance. This report can be found on pages 24 and 25.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California

November 18, 2015

**Mojave Basin Area Watermaster**  
***Management's Discussion and Analysis***  
**For the Fiscal Years Ended June 30, 2015 and 2014**

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, 2015 and 2014. 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 position decreased 39.4% or \$441,293 to \$679,442 in fiscal year 2015, as a result of a \$31,640 increase from ongoing operations, offset by a \$472,933 decrease related to the implementation of GASB 68. See note 5 for further discussion. In fiscal year 2014, the Watermaster's net position decreased 1.6% or \$18,150 to \$1,120,735 as a result of that year's operations.
- The Watermaster's operating revenues increased 18.6% or \$453,403 in 2015 primarily due to an increase of \$467,639 in replacement assessments as a result of an increase in pumping demand. In fiscal year 2014, the Watermaster's operating revenues decreased 11.6% or \$319,053 primarily due to a decrease of \$326,861 in replacement assessments as a result of a reduction in pumping demand.
- The Watermaster's operating expenses increased 23.4% or \$520,245 in 2015 primarily due to increases of \$470,331 in state water project importation charges and \$49,914 in operating costs. In fiscal year 2014, the Watermaster's operating expenses decreased 12.2% or \$309,171 primarily due to a decrease of \$326,680 in state water project importation charges as a result of decreased demand.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements 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 Position includes all of the Watermaster's investments in resources (assets), deferred outflows of resources, and the obligations to creditors (liabilities), deferred inflows of resources. 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 revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. 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 Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Watermaster in a way that helps answer this question.

**Mojave Basin Area Watermaster**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**Financial Analysis of the Watermaster, continued**

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.

These two statements report the Watermaster's *net position* and changes in net position. You can think of the Watermaster's net position – the difference between assets, deferred outflows of resources, and liabilities, and deferred inflows of resources – as one way to measure the Watermaster's financial health, or *financial position*. Over time, *increases or decreases* in the Watermaster's net position 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 10 through 21.

**Statements of Net Position**

	<b>Condensed Statements of Net Position</b>				
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 3,617,659	3,453,134	164,525	3,494,458	(41,324)
<b>Total assets</b>	<u>3,617,659</u>	<u>3,453,134</u>	<u>164,525</u>	<u>3,494,458</u>	<u>(41,324)</u>
<b>Deferred outflows of resources</b>	<u>63,214</u>	<u>-</u>	<u>63,214</u>	<u>-</u>	<u>-</u>
<b>Liabilities:</b>					
Current liabilities	2,862,384	2,332,399	529,985	2,355,573	(23,174)
<b>Total liabilities</b>	<u>2,862,384</u>	<u>2,332,399</u>	<u>529,985</u>	<u>2,355,573</u>	<u>(23,174)</u>
<b>Deferred inflows of resources</b>	<u>139,047</u>	<u>-</u>	<u>139,047</u>	<u>-</u>	<u>-</u>
<b>Net position:</b>					
Restricted for watermaster	<u>679,442</u>	<u>1,120,735</u>	<u>(441,293)</u>	<u>1,138,885</u>	<u>(18,150)</u>
<b>Total net position</b>	<u>\$ 679,442</u>	<u>1,120,735</u>	<u>(441,293)</u>	<u>1,138,885</u>	<u>(18,150)</u>

As noted earlier, net position 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 \$679,442 and \$1,120,735 as of June 30, 2015 and 2014, respectively.

At the end of fiscal years 2015 and 2014, the Watermaster showed a restricted net position balance of \$679,442 and \$1,120,735, respectively, which is restricted for the Biological Resources Trust Fund, Watermaster administrative costs, replacement water and make-up water. The sources that feed each of these funds are dictated by the Judgment. Uses of these funds can only be used for the purpose stated in the Judgment.

**Mojave Basin Area Watermaster**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**Statements of Revenues, Expenses and Changes in Net Position**

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
<b>Revenue:</b>					
Operating revenue	\$ 2,887,177	2,433,774	453,403	2,752,827	(319,053)
Non-operating revenue	2,384	2,230	154	1,891	339
<b>Total revenue</b>	<u>2,889,561</u>	<u>2,436,004</u>	<u>453,557</u>	<u>2,754,718</u>	<u>(318,714)</u>
<b>Expense:</b>					
Operating expense	2,739,385	2,219,140	520,245	2,528,311	(309,171)
Non-operating expense	118,536	235,014	(116,478)	310	234,704
<b>Total expense</b>	<u>2,857,921</u>	<u>2,454,154</u>	<u>403,767</u>	<u>2,528,621</u>	<u>(74,467)</u>
<b>Net income(loss)</b>	<u>31,640</u>	<u>(18,150)</u>	<u>49,790</u>	<u>226,097</u>	<u>(244,247)</u>
<b>Change in net position</b>	<u>31,640</u>	<u>(18,150)</u>	<u>49,790</u>	<u>226,097</u>	<u>(244,247)</u>
<b>Net position – beginning of year</b>	1,120,735	1,138,885	(18,150)	912,788	226,097
<b>Prior period adjustment</b>	<u>(472,933)</u>	<u>-</u>	<u>(472,933)</u>	<u>-</u>	<u>-</u>
<b>Net position, beginning of year – as restated</b>	<u>647,802</u>	<u>1,138,885</u>	<u>(491,083)</u>	<u>912,788</u>	<u>226,097</u>
<b>Net position – end of year</b>	<u>\$ 679,442</u>	<u>1,120,735</u>	<u>(441,293)</u>	<u>1,138,885</u>	<u>(18,150)</u>

The statements of revenues, expenses and changes in net position show how the Watermaster's net position changed during the fiscal years. In the case of the Watermaster, net position decreased by \$679,442 for the fiscal year ended June 30, 2015, as a result of a \$31,640 increase from ongoing operations, offset by a \$472,933 decrease related to the implementation of GASB 68. See note 5 for further discussion. For fiscal year ended June 30, 2014, net position decreased by \$18,150 as a result of that year's operations.

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

In fiscal year 2015, the Watermaster's operating revenues increased 18.6% or \$453,403 in 2015 primarily due to an increase of \$467,639 in replacement assessments as a result of an increase in pumping demand. In fiscal year 2014, the Watermaster's operating revenues decreased 11.6% or \$319,053 primarily due to a decrease of \$326,861 in replacement assessments as a result of a reduction in pumping demand.

In fiscal year 2015, the Watermaster's operating expenses increased 23.4% or \$520,245 in 2015 primarily due to increases of \$470,331 in state water project importation charges and \$49,914 in operating costs. In fiscal year 2014, the Watermaster's operating expenses decreased 12.2% or \$309,171 primarily due to a decrease of \$326,680 in state water project importation charges as a result of decreased demand.

**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 position 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.

# **Basic Financial Statements**

**Mojave Basin Area Watermaster  
Statements of Net Position  
June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Current assets:</b>		
Cash and cash equivalents – restricted (note 2)	\$ 3,515,929	1,568,725
Accrued interest receivable	649	505
Accounts receivable – watermaster assessments	101,081	1,883,904
<b>Total current assets</b>	3,617,659	3,453,134
<b>Deferred outflows of resources:</b>		
Deferred pension outflows (note 4)	63,214	-
<b>Total deferred outflows of resources</b>	63,214	-
<b>Current liabilities:</b>		
Accounts payable and accrued expenses (note 3)	2,456,017	2,063,001
Due to Mojave Water Agency	11,156	269,398
Net pension liability (note 4)	395,211	-
<b>Total current liabilities</b>	2,862,384	2,332,399
<b>Deferred inflows of resources</b>		
Deferred pension inflows (note 4)	139,047	-
<b>Total deferred inflows of resources</b>	139,047	-
<b>Net position: (note 5)</b>		
Restricted for watermaster	679,442	1,120,735
<b>Total net position</b>	\$ 679,442	1,120,735

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating revenues:</b>		
Administrative assessments	\$ 466,322	482,761
Biological assessments	114,099	114,588
Replacement assessments	2,304,064	1,836,425
Make-up assessments	<u>2,692</u>	<u>-</u>
Total operating revenues	<u>2,887,177</u>	<u>2,433,774</u>
<b>Operating expenses:</b>		
State water project importation charges	2,306,756	1,836,425
Operating costs	<u>432,629</u>	<u>382,715</u>
Total operating expenses	<u>2,739,385</u>	<u>2,219,140</u>
<b>Operating income</b>	<u>147,792</u>	<u>214,634</u>
<b>Non-operating revenue(expense)</b>		
Investment earnings	2,384	2,230
Property tax and assessment collection charges	-	(14)
Other non-operating expense	<u>(118,536)</u>	<u>(235,000)</u>
Total non-operating revenues, net	<u>(116,152)</u>	<u>(232,784)</u>
<b>Change in net position</b>	<u>31,640</u>	<u>(18,150)</u>
<b>Net position – beginning of year</b>	1,120,735	1,138,885
<b>Prior period adjustment (note 5)</b>	<u>(472,933)</u>	<u>-</u>
<b>Net position, beginning of year -as restated</b>	<u>647,802</u>	<u>-</u>
<b>Net position – end of year</b>	<u>\$ 679,442</u>	<u>1,120,735</u>

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster  
Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Cash receipts from customers	\$ 4,670,000	618,918
Cash paid to vendors and suppliers	(2,118,967)	(2,338,569)
Cash paid to employees for salaries and wages	(347,827)	(347,827)
Net cash provided(used) by operating activities	2,203,206	(2,067,478)
Cash flows from non-capital financing activities:		
Transfers (to)from Mojave Water Agency	(258,242)	209,068
Net cash provided(used) by non-capital financing activities	(258,242)	209,068
Cash flows from investing activities:		
Investment earnings	2,240	2,280
Net cash provided by investing activities	2,240	2,280
<b>Net increase(decrease) in cash and cash equivalents</b>	1,947,204	(1,856,130)
Cash and cash equivalents – beginning of year	1,568,725	3,424,855
Cash and cash equivalents – end of year	\$ 3,515,929	1,568,725
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents – restricted	\$ 3,515,929	1,568,725
Total cash and cash equivalents	\$ 3,515,929	1,568,725

Continued on next page

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster  
Statements of Cash Flows, continued  
For the Fiscal Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>147,792</u>	<u>214,634</u>
Adjustments to reconcile operating income to net cash provided(used) by operating activities:		
Property tax and assessment collection charges	-	(14)
Other non-operating expense	(118,536)	(235,000)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase) Decrease in assets and deferred outflows of resources:		
Accounts receivable – watermaster assessments	1,782,823	(1,814,856)
Deferred pension outflows	(63,214)	-
Increase (Decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	393,016	(232,242)
Net pension liability	(77,722)	-
Deferred pension inflows	<u>139,047</u>	<u>-</u>
Total adjustments	<u>2,055,414</u>	<u>(2,282,112)</u>
Net cash provided(used) by operating activities	\$ <u><u>2,203,206</u></u>	<u><u>(2,067,478)</u></u>

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster  
Notes to the Financial Statements  
For the Fiscal Years Ended June 30, 2015 and 2014**

**(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 so that sufficient water may be available for any present or future beneficial use of lands and inhabitants of the Agency, including, but not limited to, 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 serves 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, CA 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 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Watermaster solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Watermaster's proprietary fund.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

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

**C. Financial Reporting, continued**

The Watermaster has adopted the following GASB pronouncements in the current year:

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*, effective for financial statements for fiscal years beginning after June 15, 2014. The Watermaster implemented this new pronouncement in the current year. The purpose of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*, effective for financial statements for periods beginning after December 15, 2013. The Watermaster implemented this new pronouncement in the current year. At June 30, 2015, there was no effect of the implementation of this statement to the Watermaster.

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The Watermaster implemented this new pronouncement in the current year. The effect of the implementation of this statement to the Watermaster is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

**Prior Year Financial Data Presentation**

The Watermaster has determined to present the annual financial statements with prior year data for comparative purposes, but not restate the prior year data with regard to the effects of GASB 68 and 71, as all information available to restate prior year amounts was not readily available.

**D. Assets, Liabilities and Net Position**

**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 position 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.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

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

**D. Assets, Liabilities and Net Position, continued**

**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. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

**6. Pension**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2013
- Measurement Date: June 30, 2014
- Measurement Period: July 1, 2013 to June 30, 2014

**7. Deferred Inflows of Resources**

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

**8. Net Position**

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

- **Net Investment in Capital Assets Component of Net Position** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position
- **Restricted Component of Net Position** – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- **Unrestricted Component of Net Position** – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(2) Cash and Cash Equivalents**

***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:

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 is 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.

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

	<b>2015</b>	<b>2014</b>
Restricted – cash and cash equivalents	\$ 3,515,929	1,568,725
Total	\$ 3,515,929	1,568,725

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

	<b>2015</b>	<b>2014</b>
Deposits with financial institutions	\$ 2,597,406	652,442
Local Agency Investment Fund (LAIF)	918,523	916,283
Total cash and cash equivalents	\$ 3,515,929	1,568,725

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

	<b>2015</b>	<b>2014</b>
Deposits held with California Local Agency Investment Fund (LAIF)	239 days	223 days

**Mojave Basin Area Watermaster  
Notes to the Financial Statements, continued  
For the Fiscal Years Ended June 30, 2015 and 2014**

**(2) Cash and Cash Equivalents, continued**

*Custodial Credit Risk, continued*

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 contain 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) Accounts Payable and Accrued Expenses**

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

		<u>2015</u>	<u>2014</u>
Replacement water deliveries	\$	2,397,517	1,929,878
Other accounts payable		<u>58,500</u>	<u>133,123</u>
	\$	<u><u>2,456,017</u></u>	<u><u>2,063,001</u></u>

**(4) Defined Benefit Pension Plan**

*Plan Description*

All qualified permanent and probationary employees are eligible to participate in the Watermaster's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the Watermaster's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(4) Defined Benefit Pension Plan, continued**

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the Agency's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the Agency's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<b>Miscellaneous Plan</b>		
	<b>Classic</b>	<b>New Classic</b>	<b>PEPRA</b>
		On or after January 1,	
	Prior to January 1,	2011 - December 31,	On or after January 1,
Hire date	2011	2012	2013
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule		5 years of service	
Benefit payments		monthly for life	
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.50%
Required employer contribution rates	11.99%	9.35%	6.73%

***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Watermaster is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	<b>Miscellaneous Plan 2015</b>
Contributions – employer	\$ <u>63,214</u>

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(4) Defined Benefit Pension Plan, continued**

*Pension Liability*

As of June 30, 2015, the Watermaster reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	<b>Proportionate Share of Net <u>Pension Liability</u></b>
Miscellaneous Plan	\$ <u>395,211</u>

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

	<b><u>Miscellaneous</u></b>
Proportion – June 30, 2013	0.07279%
Proportion – June 30, 2014	<u>0.05293%</u>
Change – Increase (Decrease)	<u>-0.0199%</u>

***Deferred Outflows/Inflows of Resources Related to Pensions***

For the year ended June 30, 2015, the Watermaster recognized pension expense of \$61,324. At June 30, 2015, the Watermaster reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 63,214	-
Net differences between projected and actual earnings on plan investments	-	(127,462)
Adjustment due to differences in proportions of net pension liability	-	(11,585)
Total	\$ 63,214	(139,047)

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(4) Defined Benefit Pension Plan, continued**

*Deferred Outflows/Inflows of Resources Related to Pensions, continued*

As of June 30, 2015, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$63,214 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Deferred Net Inflows of Resources</b>
2016	\$ 36,002
2017	36,002
2018	35,176
2019	31,867

***Actuarial Assumptions***

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

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

\* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. Further details of the Experience Study can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013, valuation were based on the results of a January 2014, actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(4) Defined Benefit Pension Plan, continued**

***Discount Rate***

The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(6) Defined Benefit Pension Plan, continued**

*Discount Rate, continued*

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 -10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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

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

	<u>Discount Rate - 1% (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>Discount Rate + 1% (8.5%)</u>
Watermaster's Net Pension Liability	\$ <u>717,821</u>	<u>395,211</u>	<u>127,476</u>

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 22 through 23 for the Requirement Supplementary Schedules.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(5) Net Position**

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

	2015	2014
Restricted net position (deficit):		
Administrative	\$ (262,848)	175,818
Biological resources trust	476,299	479,982
Replacement water	465,101	464,047
Make-up water	890	888
Total restricted net position	\$ 679,442	1,120,735

At June 30, 2015, the Watermaster's administrative fund has a deficit fund balance of \$262,848, which is expected to be relieved from future Watermaster assessment income and/or Mojave Water Agency cost-sharing allocation.

**(6) Restatement of Net Position**

***Net Pension Liability – GASB 68 Implementation***

In fiscal year 2015, the Watermaster implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. Following the implementation, the Watermaster recognized the pension liability and recorded a prior period adjustment of \$704,068 to beginning net position at July 1, 2014. The Watermaster recorded a prior period adjustment to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contribution including the Watermaster's side fund payoff totaling \$231,135 at June 30, 2015.

Previously recorded net position of \$1,120,735 has been adjusted to \$647,802 as of June 30, 2014. In addition, the effect of the implementation of GASB 68 is recorded as an adjustment to the beginning net position of June 30, 2015. The effect of the above adjustment is summarized as follows:

The adjustment to net position is as follows:

Net position at June 30, 2014, as previously stated	\$ 1,120,735
Effect of adjustment to record deferred pension outflows	231,135
Effect of adjustment to net pension liability as a result of GASB 68 & 71	(704,068)
Total adjustment to net position	(472,933)
Net position at July 1, 2014	\$ 647,802

**(7) 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.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2015 and 2014**

**(7) Risk Management, continued**

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Watermaster's insurance coverage during the years ending June 30, 2015, 2014, and 2013. Liabilities are recorded when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR and claims payable as of June 30, 2015, 2014, and 2013.

**(8) 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.

**(9) Subsequent Events**

Events occurring after June 30, 2015, have been evaluated for possible adjustment to the financial statements or disclosure as of November 18, 2015, which is the date the financial statements were available to be issued. The Watermaster is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

## **Required Supplementary Information**

**Mojave Basin Area Watermaster**  
**Schedule of the Watermaster's Proportionate Share of the Net Pension Liability**  
**As of June 30, 2015**  
**Last Ten Year\***

	<b>Measurement Date <u>6/30/2014 (a)</u></b>
Watermaster's Proportion of the Net Pension Liability	<u>0.05293%</u>
Watermaster's Proportionate Share of the Net Pension Liability	\$ <u>395,211</u>
Watermaster's Covered-Employee Payroll (b)	\$ <u>381,547</u>
Watermaster's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	<u>103.58%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>81.15%</u>

**Notes:**

- (a) Historical information is required only for measurement periods for which GASB 68 is applicable.
- (b) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll related ratios.
- \* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

**Mojave Basin Area Watermaster  
Schedule of Pension Plan Contributions  
As of June 30, 2015  
Last Ten Years\***

<b><u>Schedule of Pension Plan Contributions (a):</u></b>	<b><u>Measurement Date 2013-2014</u></b>
Actuarially Determined Contribution (b)	\$ 68,205
Contributions in Relation to the Actuarially Determined Contribution (b)	<u>(249,160)</u>
Contribution Deficiency (Excess)	\$ <u>(180,956)</u>
Covered Payroll (c), (d)	\$ <u>381,547</u>
Contribution's as a percentage of Covered-employee Payroll (c)	<u>65.30%</u>

**Notes:**

- (a) Historical information is required only for measurement periods for which GASB 68 is applicable.
  - (b) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employer's may choose to make additional contributions towards their side fund or unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.
  - (c) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.
  - (d) Payroll from prior year (\$370,434) was assumed to increase by the 3.00 percent payroll growth assumption.
- \* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

# **Report on Internal Controls and Compliance**



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**Independent Auditor's Report on Internal Controls Over Financial Reporting  
And on Compliance and Other Matters Based on an Audits of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Mojave Basin Area Watermaster  
Apple Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mojave Basin Area Watermaster (Watermaster) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprises the Watermaster's basic financial statements, and have issued our report thereon dated November 18, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audits of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, continued**

**Purpose of this Report**

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

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
November 18, 2015