

**MOJAVE BASIN AREA  
WATERMASTER**

Basic Financial Statements

Year Ended June 30, 2010

## TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
Statement of Net Assets.....	8
Statement of Revenues, Expenses and Changes in Net Assets.....	9
Statement of Cash Flows .....	10
NOTES TO FINANCIAL STATEMENTS .....	12
REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARD.....	20



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Board of Directors  
Mojave Basin Area Watermaster  
Apple Valley, California

## INDEPENDENT AUDITORS' REPORT

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 year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the Watermaster. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partially comparative information has been derived from the financial statements of the Watermaster for the year ended June 30, 2009, and in our report dated January 12, 2010, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Watermaster as of June 30, 2010, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 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,



Board of Directors  
Mojave Basin Area Watermaster  
Page Two

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 considered in assessing the results of our audit.

*Manager Ho-Hoan McClone P.C.*

Irvine, California  
January 14, 2011

## **THE ORGANIZATION**

Mojave Basin Area Watermaster (the "Watermaster") was organized September 23, 1993, to administer a judgment by the Superior Court of the State of California for the County of Riverside. The Judgment divided the Mojave Basin into five distinct but hydrologically interrelated sub-areas named for the Spanish words describing their respective locations in the basin: *Este, Oeste, Alto, Centro, and Baja*. Because the Court found each of these sub-areas to be in overdraft – a condition in which more water is pumped than is naturally replenished – it developed a plan, known as "the Judgment", to manage the water resources of the entire basin.

To maintain proper water balances between the sub-areas, the Judgment established a decreasing *free production allowance* (FPA) in each sub-area during the first five years of the plan, with a provision for the Court to review and adjust the FPA annually thereafter. Each water producer's share of the FPA in a sub-area was determined by verifying the maximum annual production, or *base annual production* (BAP), for each producer during a five-year base period, 1986-1990. This data was compiled for each sub-area and each producer's share of the sub-area's total was calculated. The Judgment requires that producers who pump more than their FPA's replace the excess water. Replacement of excess water can be accomplished by paying the Watermaster for future replacement of the water, or by purchasing the unused FPA of another producer by mutual agreement.

In addition to establishing a policy for the over-pumping of underground water, the Judgment also established a policy for the over-usage of water determined by a measurement of the flow of surface water in the Mojave River. Upstream users deemed to be responsible for a decrease in the surface flow reaching downstream users are assessed a make-up charge. Make-up charges are assessed to producers in a sub-area based upon their percentage share of pumping in the sub-area in a given year.

The Watermaster is responsible for monitoring, verifying production, reporting to the Court, collecting assessments and conducting studies. All producers stipulating to the Judgment are assessed a quarterly administrative fee to offset some of the expense incurred by the Watermaster in executing its responsibilities. Besides the replacement, make-up, and administrative fees, producers are charged a fee for environmental protection.

## **THE BASIC FINANCIAL STATEMENTS**

The Judgment described above appointed Mojave Water Agency (the "Agency") as the initial Watermaster. The Judgment requires the Watermaster to issue separate financial statements. The Watermaster's financial statements are also included in the financial statements of Mojave Water Agency as a component unit.

The accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board (GASB). They consist of three interrelated statements designed to provide the reader with relevant, understandable data about the Organization's financial condition and operating results. These are the statement of net

assets, statement of revenues, expenses and changes in net assets, and the statement of cash flows.

The statement of net assets presents the Organization's assets and liabilities and the difference, or net, between what is owned and what is owed as of the last day of the Organization's fiscal year. The statement of revenues, expenses and changes in net assets describes the financial results of the Organization's operations for the year reported. These results, or changes in net assets, are the increases or decreases in the bottom line of the statement of net assets.

The statement of cash flows conveys to financial statement users how the Organization managed cash resources during the year. This statement converts the change in net assets presented on the statement of revenues, expenses and changes in net assets into actual cash provided by and used for operations. The statement of cash flows also details how the Organization obtains cash through financing and investing activities, and how cash is spent for these purposes.

## **SUMMARY FINANCIAL INFORMATION ANALYSIS**

### **Assets and Liabilities**

**Table 1**  
**Statement of Net Assets**

<b>ASSETS:</b>	<b>2010</b>	<b>2009</b>	<b>\$ Change</b>	<b>% Change</b>
Current Assets	\$ 5,905,557	\$ 7,556,740	\$ (1,651,183)	-22%
Capital Assets, net	\$ -	\$ 15,762	\$ (15,762)	-100%
<b>Total Assets</b>	<b>\$ 5,905,557</b>	<b>\$ 7,572,502</b>	<b>\$ (1,666,945)</b>	<b>-22%</b>
<b>LIABILITIES:</b>				
Current Liabilities	\$ 4,038,469	\$ 6,235,769	\$ (2,197,300)	-35%
Long-term Liabilities	\$ 665,841	\$ 116,579	\$ 549,262	471%
<b>Total Liabilities</b>	<b>\$ 4,704,310</b>	<b>\$ 6,352,348</b>	<b>\$ (1,648,038)</b>	<b>-26%</b>
<b>NET ASSETS:</b>				
Net Invested in Capital Assets	\$ -	\$ 15,762	\$ (15,762)	-100%
Restricted	\$ 1,201,247	\$ 1,204,392	\$ (3,145)	0%
Unrestricted	\$ -	\$ -	\$ -	0%
	<b>\$ 1,201,247</b>	<b>\$ 1,220,154</b>	<b>\$ (18,907)</b>	<b>-2%</b>

Total assets are down \$1.66 million from the previous year due almost entirely from reduced water sales. Offsetting this is a \$1.64 million reduction in liabilities, as all water sold is immediately due to the Mojave Water Agency for the Replacement and Make-Up water.

SUMMARY FINANCIAL INFORMATION ANALYSIS, Continued

Revenues and Expenses

**Table 2**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
Condenses Statements of Revenues, Expenses and Changes in Net Assets

OPERATIONS	2010	2009	\$ Change	% Change
Operating Revenues	\$ 4,686,264	\$ 6,908,932	\$ (2,222,668)	-32.2%
Operating Expenses	\$ (4,736,129)	\$ (6,382,947)	\$ 1,646,818	-25.8%
<b>Net Income from Operations</b>	<b>\$ (49,865)</b>	<b>\$ 525,985</b>	<b>\$ (575,850)</b>	<b>-109.5%</b>
Depreciation/Amortization Exp	\$ -	\$ (5,598)	\$ 5,598	-100.0%
<b>Operating Income/(Loss)</b>	<b>\$ (49,865)</b>	<b>\$ 520,387</b>	<b>\$ (570,252)</b>	<b>-109.6%</b>
<b>NON-OPERATIONS</b>				
Non-Operating Revenues	\$ 30,958	\$ 78,694	\$ (47,736)	-60.7%
Non-Operating Expenses	\$ -	\$ (505)	\$ 505	-100.0%
<b>Non-Operating Income</b>	<b>\$ 30,958</b>	<b>\$ 78,189</b>	<b>\$ (47,231)</b>	<b>-60.4%</b>
<b>Income Before Contributions</b>	<b>\$ (18,907)</b>	<b>\$ 598,576</b>	<b>\$ (617,483)</b>	<b>-103.2%</b>
Capital Contributions	\$ -	\$ (500,000)	\$ 500,000	-100.0%
<b>Change in Net Assets</b>	<b>\$ (18,907)</b>	<b>\$ 98,576</b>	<b>\$ (117,483)</b>	<b>-119.2%</b>
<b>Net Assets, beginning of year</b>	<b>\$ 1,220,154</b>	<b>\$ 1,121,578</b>	<b>\$ 98,576</b>	<b>8.8%</b>
<b>Net Assets, end of year</b>	<b>\$ 1,201,247</b>	<b>\$ 1,220,154</b>	<b>\$ (18,907)</b>	<b>-1.5%</b>

Operating income decreased over fiscal year ending June 30, 2009 by approximately \$570k. Water sales went down \$2.2 million, water purchases went down by \$1.64 million. The difference is between billings and timing for collections.

Non-operating income decreased over the fiscal year ending June 30, 2009 by \$47k due to a decrease in interest income received from the Local Agency Investment Fund (LAIF). During the fiscal year ending June 30, 2010 there was no depreciation expense which is explained below in the Invested in Capital Assets.

During the fiscal year ending June 30, 2009, the Watermaster changed the timing for setting rates, thereby able to collect monies at rates closer to the actual cost of replacement water. In addition, revenues from water sold in Oeste remains with the Watermaster in the restricted net assets, since Mojave Water Agency currently does not have a recharge site in Oeste to replenish the groundwater. When water is able to be recharged, the funds held by the Watermaster will be used for replacement water in Oeste.

**CATEGORIES OF NET ASSETS**

The Watermaster is required to present its net assets in three categories: (1) invested in capital assets, (2) restricted, and (3) unrestricted. Since all assets of the Watermaster are either restricted for use or a small amount is invested in capital assets, only those two categories are reported.



**Invested in Capital Assets**

During the year ended June 30, 2010, it was determined that the Watermaster assets would be transferred to the Mojave Water Agency and in turn the value of the assets was transferred in cash back to the Watermaster. The Mojave Water Agency will purchase and maintain all assets related to both agencies. Total capital assets for the year ended June 30, 2010 is \$0.00 for a decrease of \$15,762 over the prior year.

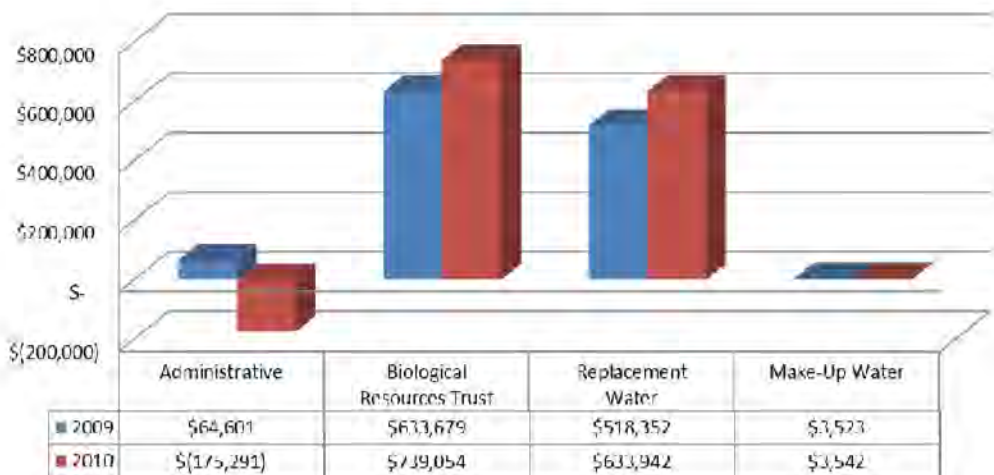
**Restricted Net Assets**

The Agency's restricted net assets consist of net assets 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 Judgment and uses of these funds can only be used for the purposes stated in the Judgment.

During the year ended June 30, 2010, the Biological Resources Trust fund increased by approximately \$105k, due to the collection of Biological Assessment and no payments during the fiscal year ending June 30, 2010. The Replacement Water fund continues to increase this year due to the collection of Replacement Water assessments for the Oeste sub-area. As stated earlier, recharge facilities in Oeste are currently not in place, therefore money received for replacement obligations in that sub-area will remain with the Watermaster until such time as recharge or other water replacement facilities are in place.

The restricted net assets for the administrative fund were reduced by \$240k. A portion of this was related to a reduction in pumping which reduced the amount of administrative assessments. The board took action during the year to subsidize the administrative costs of the reduction in pumping and this will take place in the fiscal year ending June 30, 2011, in which it was budgeted. In addition to the reduction in pumping the Mojave Water Agency participates in a cost sharing of certain expenses and this transfer did not take place until the subsequent year.

**Restricted Net Assets**





FINANCIAL STATEMENTS



MOJAVE BASIN AREA WATERMASTER  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Year Ended June 30, 2010  
 (with comparative totals for year ended June 30, 2009)

	2010	2009
<b>OPERATING REVENUE</b>		
Administrative assessments	\$ 460,528	\$ 489,322
Biological assessments	105,376	113,569
Replacement assessments	4,104,885	6,287,908
Make-up assessments	15,475	18,133
	<hr/>	<hr/>
Total operating revenues	4,686,264	6,908,932
	<hr/>	<hr/>
<b>OPERATING EXPENSE</b>		
Sources of supply: water acquired	4,004,750	6,027,135
General and administrative	731,379	355,812
Depreciation		5,598
	<hr/>	<hr/>
Total operating expenses	4,736,129	6,388,545
	<hr/>	<hr/>
<b>OPERATING INCOME/(LOSS)</b>	(49,865)	520,387
	<hr/>	<hr/>
<b>NON-OPERATING REVENUES</b>		
Interest income	723	78,692
Other income	30,235	2
	<hr/>	<hr/>
Total non-operating revenues	30,958	79,694
	<hr/>	<hr/>
<b>NON-OPERATING EXPENSES</b>		
Other		505
	<hr/>	<hr/>
Total non-operating expenses		505
	<hr/>	<hr/>
<b>NON-OPERATING INCOME</b>	30,958	78,189
	<hr/>	<hr/>
<b>INCOME BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	(18,907)	598,576
Transfers to Mojave Water Agency		(500,000)
	<hr/>	<hr/>
<b>CHANGE IN NET ASSETS</b>	(18,907)	98,577
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Beginning of year	1,220,154	1,121,576
	<hr/>	<hr/>
End of year	<u>\$1,201,247</u>	<u>\$1,220,154</u>

MOJAVE BASIN AREA WATERMASTER  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2009

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	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$6,206,858	\$5,662,673
Cash payments to suppliers for goods and services	(5,944,104)	(7,868,224)
Cash payments to employees for services	(440,063)	(392,437)
Cash received (paid) for other operating activities	(503)	(503)
Net cash provided by (used for) operating activities	<u>(147,074)</u>	<u>(2,598,491)</u>
Cash flows from non-capital financing activities:		
Cash paid to Mojave Water Agency		(500,000)
Cash flows from capital and related financing activities:		
Proceeds for sale of capital assets	15,762	(11,688)
Cash flows from investing activities:		
Investment income received	<u>4,677</u>	<u>85,557</u>
Net increase (decrease) in cash and cash equivalents	(126,635)	(3,024,622)
Cash at the beginning of the year	<u>5,017,547</u>	<u>8,042,169</u>
Cash at the end of the year	<u><u>4,890,912</u></u>	<u><u>\$5,017,547</u></u>

(continued)

See accompanying notes to Financial Statements.

MOJAVE BASIN AREA WATERMASTER  
 STATEMENT OF CASH FLOWS  
 Year Ended June 30, 2009

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(Continued)	<u>2010</u>	<u>2009</u>
<b>Reconciliation of Operating Loss to cash used in operating activities</b>		
Operating Income/(loss)	<u>(49,865)</u>	<u>520,387</u>
<b>Adjustments</b>		
Depreciation	-	5,598
Miscellaneous non-operating revenue / expense	30,235	(503)
<b>(Increase) Decrease in assets</b>		
Accounts Rec. and other current assets	1,520,594	(1,246,259)
<b>Increase (Decrease) in liabilities</b>		
Accounts Payable	<u>(1,648,038)</u>	<u>(1,877,714)</u>
<b>Total Adjustments</b>	<u>(97,209)</u>	<u>(3,118,878)</u>
<b>Net Cash Provided by (Used) in operating activities</b>	<u><u>(\$147,074)</u></u>	<u><u>(\$2,598,491)</u></u>

There were no significant non cash financing or investing activities during the fiscal year ended June 30, 2010.

See accompanying notes to Financial Statements.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

Mojave Water Agency (the “Agency”) was organized July 21, 1960 by an act of the legislature of the State of California known as the Mojave Water Agency Act. Within the limits of its power and authority set forth in this act, the purpose of the Agency is to do any and every act necessary to be done so that sufficient water may be available for any present or future beneficial use of the lands and inhabitants of the Agency, including, but not limited to, the construction, maintenance, alteration, purchase, and operation of any and all works or improvements within the Agency necessary or proper to carry out any object or purpose of this act; and the gathering of data for, and the development and implementation of, after consultation and coordination with all public and private water entities who are in any way affected, management and master plans to mitigate the cumulative overdraft of groundwater basins, to monitor the condition of the groundwater basins, to pursue all necessary water conservation measures, and to negotiate for additional water supplies from all state, federal, and other sources. In 1994, the Agency became the court appointed Mojave Basin Area Watermaster (the “Watermaster”). A requirement of the judgment is to provide audited financial statements of the Watermaster to the court.

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

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

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

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

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

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

**2000 Mojave River Pipeline Project** – The Agency completed portions of its second major transmission and distribution facility to Barstow, California and beyond, known as the Mojave

River Pipeline Project. The project was partially funded by grants and loans from the U.S. Environmental Protection Agency and the California Department of Water Resources.

**B. Basis of Presentation, Measurement Focus, and Financial Statement Disclosure**

The basic financial statements, which include the Statements of Net Assets, the Statements of Activities and Changes in Net Assets, and the Statement of Cash Flows, report information on only the Watermaster enterprise activities of the Agency. The full financial statements of the Agency as a whole are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements, Management's Discussion & Analysis, for State & Local governments & related standards.

The Agency and Watermaster report their respective activities as enterprise funds, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the "economic resource" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Agency and Watermaster distinguish respective operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the Agency's and Watermaster's respective principal ongoing operations. The principal operating revenues of the Agency are water sales to the Watermaster, and the principal operating revenues of the Watermaster are water sales to member water right holders. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions, non-operating revenues, are reported as a separate line item in the Statement of Activities and Changes in Net Assets.

The financial statements of the Watermaster are prepared and presented in accordance with accounting principles generally accepted in the United States of America for proprietary funds of governmental entities. The System applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletin's issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus.

### **C. Major Fund**

The **Watermaster Fund** is a fund that was established as part of the judgment that was the result of an adjudication process over a water rights dispute (*City of Barstow, et al. vs. City of Adelanto, et al.*, Case No. 208568). The judgment requires an annual fiscal report of all activities of the Watermaster, as well as establishing the types of fees the Watermaster may impose and the powers of the Watermaster. The primary revenue sources of this fund are water sales and charges imposed upon users of water in the groundwater basin. The primary activities of this fund are activities associated with the regulation and production of water associated with the Mojave groundwater basin.

### **D. Assets and Liabilities**

#### **Cash and Cash Equivalents**

The Watermaster's cash and cash equivalents are considered to be cash on hand, demand deposits, cash management pools, and highly liquid investments with original maturity of three months or less from the date of acquisition.

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
- Overall
- Custodial Credit Risk
- Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

#### **Allowance for Doubtful Accounts**

Accounts receivable have not been reduced by an allowance for estimated uncollectable accounts as it is expected all such receivables are fully collectable.

#### **Inventories and Prepaid Items**

Inventories are valued at the average cost method.

Payments for membership for state water contractors reflect dues applicable to future accounting periods and are recorded as prepaid items.

MOJAVE BASIN AREA WATERMASTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**Utility Plant**

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

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

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

During the year ended June 30, 2010, it was determined that the Watermaster assets would be transferred to the Mojave Water Agency and in turn the value of the assets was transferred in cash back to the Watermaster. The Mojave Water Agency will purchase and maintain all assets related to both agencies.

**Prior Year Data**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposed only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE 2 CASH AND INVESTMENTS**

Cash and investments as of June 30, 2010 consist of the following:

Deposits with financial institutions	\$3,827,629
Investments	<u>1,063,283</u>
Total cash and investments	<u>\$4,890,912</u>

MOJAVE BASIN AREA WATERMASTER  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy. Although not expressly authorized in the Agency's investment policy, it is the Agency's practice to invest overnight funds held in the Agency's board-approved sweep account in the form of repurchase agreements.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	10%	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	30%	30%
Commercial Paper	Yes	270 days	10%	10%
Negotiable Certificates of Deposit	Yes	5 years	15%	None
Repurchase Agreements (sweep only)	Yes	N/A	N/A	N/A
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes	Yes	5 years	10%	None
Mutual Funds	Yes	90 days	20%	10%
Money Market Mutual Funds	Yes	90 days	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	\$40 million per account
JPA Pools (other investment pools)	Yes	N/A	None	None

\* Based on state law requirements or investment policy requirements, whichever is more restrictive.



**Disclosures Relating to 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 is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Watermaster's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Watermaster's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
State investment pool	\$1,063,283	\$1,063,283	\$ -	\$ -

**Disclosures Relating to Credit Risk**

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

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Not Rated</u>
State investment pool	\$ 1,063,283	None	\$1,063,283

**Concentration of Credit Risk**

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Watermaster did not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments (in total or for each reporting unit).

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Investment in State Investment Pool**

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 3 – RECEIVABLES**

The following summarizes the significant categories of receivables and other current assets at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Receivables:		
Assessments	\$ 1,013,173	\$ 2,531,129
Other	<u>1,472</u>	<u>3,955</u>
	\$ 1,014,645	\$ 2,535,084
Prepaid Expenses		<u>4,109</u>
	<u>\$ 1,014,645</u>	<u>\$ 2,539,193</u>

The Watermaster, in response to a Judgment of the Court, assesses producers for their share of excess production, administration and environmental protection. The assessments receivable are considered by Management, in response to the Court Order, to be fully collectible, as all delinquent assessments are appropriately liened. Accordingly, no allowance for doubtful accounts has been recorded.

MOJAVE BASIN AREA WATERMASTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**NOTE 4 – CURRENT LIABILITIES**

The following summarizes the significant categories of payables and other current liabilities at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Current Liabilities:</b>		
Replacement Water Deliveries	\$ 4,013,045	\$ 6,206,025
Makeup Water Deliveries	9,737	20,134
Other Accounts Payable	15,687	9,610
Due to Mojave Water Agency	<u>665,841</u>	<u>116,579</u>
<b>Total Current Liabilities</b>	<u>\$ 4,704,310</u>	<u>\$ 6,352,348</u>

A payment made for the “Due to Mojave Water Agency” account was made in the subsequent fiscal year ending June 30, 2011 in the amount of \$400,000, bringing the balance down to \$265,841. Payments are normally made in June of each year, however because it did not take place in June 2010, a large variance exists from the 2009 figure.

**NOTE 5 – CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2010 and June 30, 2009 follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
<b>Capital Assets</b>				
Office Furniture and Equipment	\$ 42,729	\$	\$ (42,729)	\$
Less accumulated depreciation	<u>(26,967)</u>		<u>26,967</u>	
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 15,762</u>	<u>\$</u>	<u>\$ (15,762)</u>	<u>\$</u>

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
<b>Capital Assets</b>				
Office Furniture and Equipment	\$ 31,042	\$ 11,687	\$	\$ 42,729
Less accumulated depreciation	<u>(21,369)</u>	<u>(5,598)</u>		<u>(26,967)</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 9,673</u>	<u>\$ 6,089</u>	<u>\$</u>	<u>\$ 15,762</u>



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Board of Directors  
Mojave Basin Area Watermaster  
Apple Valley, California

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

We have audited the financial statements of the Mojave Basin Area Watermaster ("Watermaster"), a component unit of the Mojave Water Agency, as of and for the year ended June 30, 2010 and have issued our report thereon dated January 14, 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.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Watermaster's internal control over financial reporting in order to determine 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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Watermaster's ability to initiate, authorize, record, process, or report financial data reliably in accordance with





Board of Directors  
Mojave Basin Area Watermaster  
Page Two

generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Watermaster's financial statements that is more than inconsequential will not be prevented or detected by the Watermaster's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Watermaster's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be 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.

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

*Mayer Hoffman McCann P.C.*

Irvine, California  
January 14, 2011