



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

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012



**Mojave Basin Area Watermaster
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012**

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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, 2013 and 2012, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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.

Independent Auditor's Report, continued

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, 2013 and 2012, 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.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated October 31, 2013 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 17 and 18.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

October 31, 2013

Mojave Basin Area Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 increased 24.8% or \$226,097 to \$1,138,885 in fiscal year 2013 as a result of the current years' operations. In fiscal year 2012, the Watermaster's net position increased 4.0% or \$35,348 to \$912,788 as a result of current year operations.
- The Watermaster's operating revenues increased 41.8% or \$811,201 in 2013 primarily due to an increase in pumping demand. In 2012, the Watermaster's operating revenues decreased 40.3% or \$1,308,423 primarily due to a reduction in pumping demand.
- The Watermaster's operating expenses increased 32.6% or \$621,374 in 2013 primarily due to an increase in demand affecting state water project purchases. In 2012, the Watermaster's operating expenses decreased 45.1% or \$1,564,594 primarily due to a continuing decrease in demand affecting state water project purchases.

Required Financial Statements

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

The Statement of Net Position includes all of the Watermaster's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Watermaster and assessing the liquidity and financial flexibility of the Watermaster. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net 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.

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

**Mojave Basin Area Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012**

Financial Analysis of the Watermaster, continued

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 and liabilities – as one way to measure the Watermaster's financial health, or *financial position*. Over time, *increases or decreases* in the Watermaster's net 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 16.

Statement of Net Position

	Condensed Statements of Net Position				
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Assets:					
Current assets	\$ 3,494,458	2,586,748	907,710	3,784,003	(1,197,255)
Total assets	<u>3,494,458</u>	<u>2,586,748</u>	<u>907,710</u>	<u>3,784,003</u>	<u>(1,197,255)</u>
Liabilities:					
Current liabilities	2,355,573	1,673,960	681,613	2,906,563	(1,232,603)
Total liabilities	<u>2,355,573</u>	<u>1,673,960</u>	<u>681,613</u>	<u>2,906,563</u>	<u>(1,232,603)</u>
Net position:					
Restricted for watermaster	1,138,885	912,788	226,097	877,440	35,348
Total net position	<u>1,138,885</u>	<u>912,788</u>	<u>226,097</u>	<u>877,440</u>	<u>35,348</u>
Total liabilities and net position	<u>\$ 3,494,458</u>	<u>2,586,748</u>	<u>907,710</u>	<u>3,784,003</u>	<u>(1,197,255)</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 \$1,138,885 and \$912,788 as of June 30, 2013 and 2012, respectively.

At the end of fiscal years 2013 and 2012, the Watermaster showed a balance in its restricted net position of \$1,138,885 and \$912,788, respectively, which is restricted for a Biological Resources Trust Fund, Watermaster administrative costs, replacement water and make-up water. The sources that feed each of these funds 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
For the Fiscal Years Ended June 30, 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 2,752,827	1,941,626	811,201	3,250,049	(1,308,423)
Non-operating revenue	1,891	4,371	(2,480)	14,542	(10,171)
Total revenue	<u>2,754,718</u>	<u>1,945,997</u>	<u>808,721</u>	<u>3,264,591</u>	<u>(1,318,594)</u>
Expense:					
Operating expense	2,528,311	1,906,937	621,374	3,471,531	(1,564,594)
Non-operating expense	310	3,712	(3,402)	23,074	(19,362)
Total expense	<u>2,528,621</u>	<u>1,910,649</u>	<u>617,972</u>	<u>3,494,605</u>	<u>(1,583,956)</u>
Net income(loss) before capital contributions and transfers	<u>226,097</u>	<u>35,348</u>	<u>190,749</u>	<u>(230,014)</u>	<u>265,362</u>
Transfers of net position to(from)	-	-	-	(93,793)	93,793
Change in net position	226,097	35,348	190,749	(323,807)	359,155
Net position – beginning of year	<u>912,788</u>	<u>877,440</u>	<u>35,348</u>	<u>1,201,247</u>	<u>(323,807)</u>
Net position – end of year	<u>\$ 1,138,885</u>	<u>912,788</u>	<u>226,097</u>	<u>877,440</u>	<u>35,348</u>

The statement of revenues, expenses and changes of net position shows how the Watermaster's net position changed during the fiscal years. In the case of the Watermaster, net position increased by \$226,097 and \$35,348 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

In 2013, operating revenues increased 41.8% or \$811,201 in 2013 primarily due to an increase in pumping demand. In 2012, the Watermaster's operating revenues decreased 40.3% or \$1,308,423 primarily due to a reduction in pumping demand.

In 2013, operating expenses increased 32.6% or \$621,374 in 2013 primarily due to an increase in demand affecting state water project purchases. In 2012, the Watermaster's operating expenses decreased 45.1% or \$1,564,594 primarily due to a continuing decrease in demand affecting state water project purchases.

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.

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Basic Financial Statements

**Mojave Area Basin Watermaster
Statements of Net Position
June 30, 2013 and 2012**

<i>Assets</i>	2013	2012
Current assets:		
Cash and cash equivalents – restricted (note 2)	\$ 3,424,855	2,308,608
Accrued interest receivable	555	809
Accounts receivable – watermaster assessments	69,048	277,331
Total assets	\$ 3,494,458	2,586,748
<i>Liabilities and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses (note 3)	\$ 2,295,243	1,504,699
Due to Mojave Water Agency	60,330	169,261
Total current liabilities	2,355,573	1,673,960
Total liabilities	2,355,573	1,673,960
Net position: (note 4)		
Restricted for watermaster	1,138,885	912,788
Total net position	1,138,885	912,788
Total liabilities and net position	\$ 3,494,458	2,586,748

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, 2013 and 2012

	2013	2012
Operating revenues:		
Administrative assessments	\$ 476,875	453,688
Biological assessments	112,846	106,228
Replacement assessments	2,163,106	1,381,710
Total operating revenues	2,752,827	1,941,626
Operating expenses:		
State water project importation charges	2,163,105	1,536,618
Operating costs	365,206	370,319
Total operating expenses	2,528,311	1,906,937
Operating income(loss)	224,516	34,689
Non-operating revenue(expense)		
Investment earnings	1,883	3,088
Property tax and assessment collection charges	-	(19)
Other non-operating revenue	8	1,283
Other non-operating expense	(310)	(3,693)
Total non-operating revenues, net	1,581	659
Change in net position	226,097	35,348
Net position – beginning of year	912,788	877,440
Net position – end of year	\$ 1,138,885	912,788

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012**

	2013	2012
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,961,118	1,730,143
Cash paid to vendors and suppliers	(1,417,555)	(2,755,602)
Cash paid to employees for salaries and wages	(320,522)	(309,950)
Net cash provided(used) by operating activities	1,223,041	(1,335,409)
Cash flows from non-capital financing activities:		
Transfers (to)from Mojave Water Agency	(108,931)	(77,700)
Net cash used by non-capital financing activities	(108,931)	(77,700)
Cash flows from investing activities:		
Investment earnings	2,137	3,497
Net cash provided by investing activities	2,137	3,497
Net increase(decrease) in cash and cash equivalents	1,116,247	(1,409,612)
Cash and cash equivalents – beginning of year	2,308,608	3,718,220
Cash and cash equivalents – end of year	\$ 3,424,855	2,308,608
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents – restricted	\$ 3,424,855	2,308,608
Total cash and cash equivalents	\$ 3,424,855	2,308,608

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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$ <u>224,516</u>	<u>34,689</u>
Adjustments to reconcile operating income to net cash used in operating activities:		
Property tax and assessment collection charges	-	(19)
Other non-operating revenue	8	1,283
Other non-operating expense	(310)	(3,693)
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable – watermaster assessments	208,283	(212,766)
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	<u>790,544</u>	<u>(1,154,903)</u>
Total adjustments	<u>998,525</u>	<u>(1,370,098)</u>
Net cash provided(used) by operating activities	\$ <u><u>1,223,041</u></u>	<u><u>(1,335,409)</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, 2013 and 2012**

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

In 1994, to administer the provisions of the groundwater adjudication judgment, the Superior Court of Riverside appointed the Agency as the Mojave Basin Area Watermaster (Watermaster) and ordered the Watermaster to formulate a plan and program for management of the Basin's resources. Although the Watermaster is legally separate, it is included as a blended component unit of the Agency, as it is in substance part of the Agency's operations as it is governed by the same Board of Directors. Complete financial statements for the Watermaster are available at the Agency's office or upon request of the Agency's Chief Financial Officer at 13846 Conference Center Drive, Apple Valley, 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 are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

C. Financial Reporting

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The Watermaster implemented this new pronouncement in the current year. The effect of the implementation of this statement to the Watermaster is limited to renaming of *Net Assets* to *Net Position*.

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.

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. Net Position

The financial statements utilize a net position presentation. Net position are 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
For the Fiscal Years Ended June 30, 2013 and 2012**

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

E. Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the District implemented the following Governmental Accounting Standards Board pronouncements:

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. No service concession arrangements were noted in the fiscal years transactions.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

E. Implementation of New Accounting Pronouncements, continued

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(2) Cash and Cash Equivalents

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

	2013	2012
Restricted – cash and cash equivalents	\$ 3,424,855	2,308,608
Total	\$ 3,424,855	2,308,608

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

	2013	2012
Deposits with financial institutions	\$ 2,510,852	1,396,743
Local Agency Investment Fund (LAIF)	914,003	911,865
Total cash and cash equivalents	\$ 3,424,855	2,308,608

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

	2013	2012
Deposits held with California Local Agency Investment Fund (LAIF)	278 days	270 days

Investment in State Investment Pool

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Watermaster's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

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 was 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.

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(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:

	2013	2012
Replacement water deliveries	\$ 2,264,009	1,478,664
Makeup water deliveries	-	5,717
Other accounts payable	31,234	20,318
	\$ 2,295,243	1,504,699

(4) Net Position

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

	2013	2012
Restricted net position:		
Administrative	\$ 75,309	(38,340)
Biological resources trust	599,608	486,060
Replacement water	463,082	461,501
Make-up water	886	3,567
Total restricted net position	\$ 1,138,885	912,788

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(5) 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.

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, 2013, 2012, and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the 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 claims payable as of June 30, 2013, 2012, and 2011.

(6) 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.

(7) Subsequent Events

Events occurring after June 30, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2013, 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.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2013—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to Watermaster's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement 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.

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 68, continued

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to Watermaster's financial statements has not been assessed at this time.

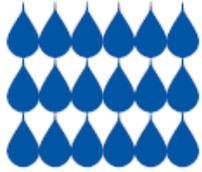
Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to Watermaster's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to Agency's financial statements has not been assessed at this time.

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 Audit 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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Watermaster's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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*.

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

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation

Cypress, California

October 31, 2013