

**Mojave Basin Area Watermaster**

**Report on Audit**

**June 30, 2008 and 2007**

# Mojave Basin Area Watermaster

June 30, 2008 and 2007

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Paul S. Messner, CPA  
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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Mojave Basin Area Watermaster

We have audited the accompanying statements of net assets of Mojave Basin Area Watermaster, as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Mojave Basin Area Watermaster's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mojave Basin Area Watermaster, as of June 30, 2008 and 2007, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

*Messner & Hadley, LLP.*

Messner & Hadley, LLP  
Certified Public Accountants

September 30, 2008

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## Mojave Basin Area Watermaster

Management's Discussion and Analysis  
June 30, 2008 and 2007

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### 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 shares in the sub-area's overall FPA.

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. This means that while the management of the Watermaster issues the separate financial statements included here, 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.

## Mojave Basin Area Watermaster

Management's Discussion and Analysis, Continued  
June 30, 2008 and 2007

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### THE BASIC FINANCIAL STATEMENTS, Continued

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

The organization's assets consist of cash, assessments receivable, and equipment. The change of \$3,529,126 in total assets is comprised primarily of an increase in cash and accounts receivable of \$3,538,038.

The \$3,481,643 increase in liabilities is a combination of an increase of \$4,197,035 in Accounts Payable and a \$715,392 decrease in due to Mojave Water Agency.

#### FINANCIAL STATEMENT SUMMARY

|             | <u>June 30, 2008</u> | <u>June 30, 2007</u> |
|-------------|----------------------|----------------------|
| Assets      |                      |                      |
| Current     | \$ 9,341,967         | \$ 5,803,929         |
| Fixed       | <u>9,673</u>         | <u>14,982</u>        |
| Total       | <u>\$ 9,351,640</u>  | <u>\$ 5,818,911</u>  |
| Liabilities | \$ 8,230,062         | \$ 4,748,419         |
| Net assets  | <u>1,121,578</u>     | <u>1,070,492</u>     |
| Total       | <u>\$ 9,351,640</u>  | <u>\$ 5,818,911</u>  |

#### Revenues and Expenses

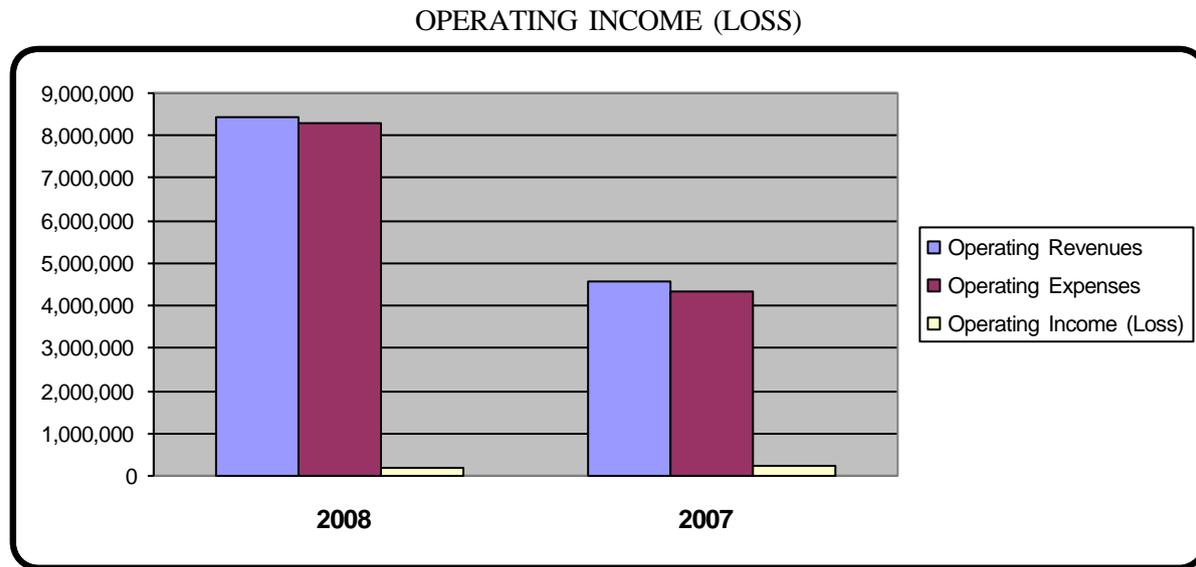
For the year ending June 30, 2008, the Organization's operating income increased significantly from operating income for the year ending June 30, 2007.

## Mojave Basin Area Watermaster

Management's Discussion and Analysis, Continued  
June 30, 2008 and 2007

### SUMMARY FINANCIAL INFORMATION ANALYSIS, Continued

#### Revenues and Expenses, Continued



As the graph immediately above illustrates, both operating revenues and operating expenses increased at June 30, 2008.

|                             | <u>June 30, 2008</u>     | <u>June 30, 2007</u>     |
|-----------------------------|--------------------------|--------------------------|
| Operating revenues          | \$ 8,447,402             | \$ 4,568,632             |
| Operating expenses          | <u>(8,281,066)</u>       | <u>(4,337,549)</u>       |
| Operating income/(loss)     | 166,336                  | 231,083                  |
| Non-operating revenues      | 103,848                  | 81,528                   |
| Non-operating expenses      | <u>(50,053)</u>          | <u>(3,243)</u>           |
| Non-operating income/(loss) | 53,795                   | 78,285                   |
| <b>Change in Net Assets</b> | <u><u>\$ 220,131</u></u> | <u><u>\$ 309,368</u></u> |

#### Non-Operating Revenues

Non-operating revenues for the fiscal year ended June 30, 2008 was interest income. The increase is due to higher rates paid by the Local Agency Investment Fund (LAIF) as well as a higher cash balance.

## Mojave Basin Area Watermaster

Management's Discussion and Analysis, Continued  
June 30, 2008 and 2007

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### CATEGORIES OF NET ASSETS

The Organization is required to present its net assets in three categories: (1) invested in capital assets, (2) restricted, and (3) unrestricted.

#### Invested in Capital Assets

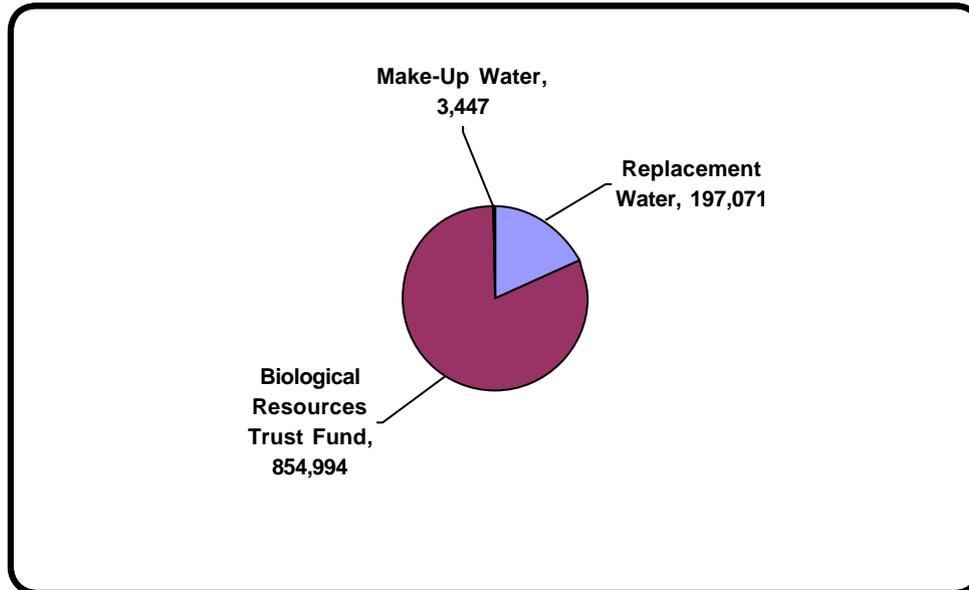
During the year ended June 30, 2008, the Watermaster had current year depreciation of \$6,768. Total capital assets, net of accumulated depreciation, equal \$9,673.

#### Restricted Net Assets

The Organization's restricted net assets consist of net assets restricted for a Biological Resources Trust Fund (\$854,994), net assets restricted for replacement water (\$197,071) and net assets restricted for make-up water (\$3,447). Net assets restricted for the Biological Resources Trust Fund are derived from assessments collected from producers less amounts spent by the Department of Fish and Game for projects pursuant to Exhibit H of the Judgment. Net assets restricted for replacement and make-up water are comprised of assessments collected from producers less purchases of water from the Agency.

At June 30, 2008, the composition of restricted net assets is as follows:

#### RESTRICTED NET ASSETS



#### Unrestricted Net Assets

The Watermaster calculates its unrestricted net assets by deducting its administrative costs from the administrative assessments it collects. This category of net assets increased from a deficit balance of \$(190,845), at June 30, 2007 to a balance of \$51,086 at June 30, 2008.

## FINANCIAL STATEMENTS

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## Mojave Basin Area Watermaster

Statements of Net Assets  
June 30, 2008 and 2007

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|  | <u>2008</u>                | <u>2007</u>                |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>                                |                            |                            |
| Current assets:                              |                            |                            |
| Cash and cash equivalents                    | \$ 8,042,169               | \$ 4,393,159               |
| Accounts receivable and other current assets | <u>1,299,798</u>           | <u>1,410,770</u>           |
| Total current assets                         | 9,341,967                  | 5,803,929                  |
| Non-current assets:                          |                            |                            |
| Utility plant, net                           | <u>9,673</u>               | <u>14,982</u>              |
| <b>TOTAL ASSETS</b>                          | <u><u>\$ 9,351,640</u></u> | <u><u>\$ 5,818,911</u></u> |
| <br>   |                            |                            |
| <b>LIABILITIES</b>                           |                            |                            |
| Current liabilities:                         |                            |                            |
| Accounts payable                             | \$ 8,015,901               | \$ 4,033,027               |
| Due to Mojave Water Agency                   | <u>214,161</u>             | <u>715,392</u>             |
| Total liabilities                            | <u>8,230,062</u>           | <u>4,748,419</u>           |
| <br>   |                            |                            |
| <b>NET ASSETS</b>                            |                            |                            |
| Invested in capital assets                   | 14,980                     | 18,585                     |
| Restricted                                   | 1,055,512                  | 1,246,355                  |
| Unrestricted                                 | <u>51,086</u>              | <u>(194,448)</u>           |
| Total net assets                             | <u>1,121,578</u>           | <u>1,070,492</u>           |
| <br>   |                            |                            |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>      | <u><u>\$ 9,351,640</u></u> | <u><u>\$ 5,818,911</u></u> |

See accompanying notes and auditors' report

## Mojave Basin Area Watermaster

Statements of Revenues, Expenses and Changes in Net Assets  
For the Years Ended June 30, 2008 and 2007

|  | 2008                       | 2007                       |
|--|----------------------------|----------------------------|
| <b>OPERATING REVENUES</b>                                      |                            |                            |
| Administrative assessments                                     | \$ 510,177                 | \$ 462,597                 |
| Biological assessments   | 116,130                    | 109,382                    |
| Replacement assessments  | 7,811,213                  | 3,987,788                  |
| Make-up assessments  | 9,882                      | 8,865                      |
| Total operating revenues                                       | <u>8,447,402</u>           | <u>4,568,632</u>           |
| <b>OPERATING EXPENSES</b>                                      |                            |                            |
| Sources of supply: water acquired                              | 7,820,116                  | 3,996,653                  |
| General and administrative                                     | 454,182                    | 334,584                    |
| Depreciation   | 6,768                      | 6,312                      |
| Total operating expenses                                       | <u>8,281,066</u>           | <u>4,337,549</u>           |
| <b>OPERATING INCOME (LOSS)</b>                                 | 166,336                    | 231,083                    |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                       |                            |                            |
| Interest income  | 103,535                    | 81,480                     |
| Other expenses   | (50,043)                   | (3,243)                    |
| Collection charges   | (10)                       | -                          |
| Other income   | 313                        | 48                         |
| Total non-operating revenues                                   | <u>53,795</u>              | <u>78,285</u>              |
| <b>INCOME BEFORE CONTRIBUTIONS<br/>AND EXTRAORDINARY ITEMS</b> | 220,131                    | 309,368                    |
| Transfers in / (out)   | <u>(169,045)</u>           | <u>-</u>                   |
| <b>CHANGE IN NET ASSETS</b>                                    | 51,086                     | 309,368                    |
| <b>NET ASSETS</b>  |                            |                            |
| Beginning of year  | <u>1,070,492</u>           | <u>761,124</u>             |
| End of year  | <u><u>\$ 1,121,578</u></u> | <u><u>\$ 1,070,492</u></u> |

See accompanying notes and auditors' report

## Mojave Basin Area Watermaster

Statements of Cash Flows  
For the Years Ended June 30, 2008 and 2007

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities</b>   |                     |                     |
| Cash received from producers  | \$ 8,547,920        | \$ 3,437,684        |
| Cash payments to suppliers for goods and services                                     | (4,410,702)         | (2,759,495)         |
| Other operating revenues / expenses   | (49,730)            | -                   |
| Cash payments to employees and directors for services                                 | (381,955)           | -                   |
|   | <u>3,705,533</u>    | <u>678,189</u>      |
| <b>Cash flows from non-capital financing activities</b>                               |                     |                     |
| Other non-capital sources   | (169,045)           | (1,939)             |
| <b>Cash flows from capital and related financing activities</b>                       |                     |                     |
| Acquisition of capital assets   | (1,471)             | (5,966)             |
| <b>Cash flows from investing activities</b>   |                     |                     |
| Interest received   | 113,992             | 81,841              |
| <b>NET INCREASE IN CASH</b>   | 3,649,009           | 752,125             |
| <b>CASH</b>   |                     |                     |
| Beginning of year   | 4,393,160           | 3,641,035           |
| End of year   | <u>\$ 8,042,169</u> | <u>\$ 4,393,160</u> |
| <b>Reconciliation of operating income (loss) to cash used in operating activities</b> |                     |                     |
| Operating income (loss)   | \$ 166,336          | \$ 231,083          |
| <b>Adjustments</b>  |                     |                     |
| Depreciation  | 6,768               | 6,312               |
| Miscellaneous non-operating revenue / expense   | (49,730)            | -                   |
| <b>(Increase) decrease in assets</b>  |                     |                     |
| Accounts receivable and other current assets  | 100,518             | (1,130,948)         |
| <b>Increase in liabilities</b>  |                     |                     |
| Accrued expenses  | 3,481,641           | 1,694,357           |
| Due to Mojave Water Agency  | -                   | (122,615)           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                      | <u>\$ 3,705,533</u> | <u>\$ 678,189</u>   |

See accompanying notes and auditors' report

## Mojave Basin Area Watermaster

Notes to Financial Statements  
June 30, 2008 and 2007

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Mojave Basin Area Watermaster (the “Watermaster”) was organized September 22, 1993, pursuant to a Stipulated Judgment by the Superior Court of the State of California for the County of Riverside. In the Judgment, Mojave Water Agency (the “Agency”) was appointed as the initial Watermaster, which is responsible for administering the Judgment of the Court. Since the Watermaster meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the Watermaster’s financial statements have also been included in the financial statements of Mojave Water Agency as a “component unit” for the fiscal years ended June 30, 2008 and 2007. The Watermaster is responsible for monitoring, verifying production, reporting to the Court, collecting assessments and conducting studies.

#### Uniform Accounting System

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

#### Basis of Accounting

On July 1, 2000, the Watermaster adopted the provisions of Governmental Accounting Standards Board Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted. These classifications are defined as follows:

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

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

(2) **Restricted**

This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

(3) **Unrestricted Net Assets**

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

## Mojave Basin Area Watermaster

Notes to Financial Statements, Continued  
June 30, 2008 and 2007

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### Basis of Accounting, Continued

On July 1, 2000, the Watermaster also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, “*Accounting and Financial Reporting for Non-Exchange Transactions*”. This statement requires that capital contributions to the Agency be presented as a change in net assets.

The Watermaster follows all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 unless they conflict with or contradict GASB pronouncements. The Watermaster applies all GASB pronouncements issued after November 30, 1989.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of three months or less.

#### Use of Restricted Resources

The Watermaster uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Accounts Receivable and Allowance for Bad Debts

The Watermaster considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been made.

#### Utility Plant

Utility plant is stated at original cost. Depreciation of utility plant use by the Watermaster 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.

### NOTE 2 – PERSONNEL

The Watermaster is governed by a Board of Directors consisting of the seven members of Mojave Water Agency’s Board of Directors. Watermaster operations are supervised by an appointed Executive Officer. Mojave Water Agency’s employees perform administrative services for the Watermaster.

As of June 30, 2008, the Executive Officers were as follows:

#### OFFICERS

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|                 |                   |
|-----------------|-------------------|
| Kirby Brill     | Executive Officer |
| Kathy Cortner   | Treasurer         |
| Joanne Lowrance | Secretary         |

## Mojave Basin Area Watermaster

Notes to Financial Statements, Continued  
June 30, 2008 and 2007

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### NOTE 2 – PERSONNEL, Continued

As of June 30, 2008, the Board of Directors was as follows:

#### BOARD OF DIRECTORS

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|                    |               |
|--------------------|---------------|
| Kimberly Cox       | Chairman      |
| Art Bishop         | Vice-Chairman |
| Richard Fortyune   | Member        |
| Richard D. Hall    | Member        |
| Beverly J. Lowry   | Member        |
| Michael Page       | Member        |
| James Ventura, Jr. | Member        |

### NOTE 3 – CASH AND INVESTMENTS

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

#### Cash Deposits

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

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

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

As of June 30, 2008 the bank balance of the Agency's cash deposits was \$6.960 million and the reported amount was \$6,950,600. As of June 30, 2007 the bank balance of the Agency's cash deposits was \$2.767 million and the reported amount was \$2,758,404.

## Mojave Basin Area Watermaster

Notes to Financial Statements, Continued  
June 30, 2008 and 2007

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### NOTE 3 – CASH AND INVESTMENTS, Continued

#### Investments

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

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

#### Interest Rate Risk

The following is a list of the Agency's investments (in thousands) and related maturity schedules as of June 30, 2008 and 2007:

#### **June 30, 2008 Investment maturities (in years)**

| <u>Investment Type</u>              | <u>Total</u>        | <u>&lt; 1</u>     | <u>1 - 4</u>      | <u>&lt; 4</u>   |
|-------------------------------------|---------------------|-------------------|-------------------|-----------------|
| Local Agency Investment Fund (LAIF) | <u>\$ 1,091,569</u> | <u>\$ 956,214</u> | <u>\$ 127,714</u> | <u>\$ 7,641</u> |

#### **June 30, 2007 Investment maturities (in years)**

| <u>Investment Type</u>              | <u>Total</u>        | <u>&lt; 1</u>       | <u>1 - 4</u>     | <u>&lt; 4</u>    |
|-------------------------------------|---------------------|---------------------|------------------|------------------|
| Local Agency Investment Fund (LAIF) | <u>\$ 1,634,755</u> | <u>\$ 1,520,320</u> | <u>\$ 81,738</u> | <u>\$ 32,697</u> |

#### Credit Risk

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

## Mojave Basin Area Watermaster

Notes to Financial Statements, Continued  
June 30, 2008 and 2007

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### NOTE 3 – CASH AND INVESTMENTS, Continued

#### Investments in Local Agency Investment Funds

The Agency's investments with the Local Agency Investment Fund (LAIF), a State of California investment pool, at June 30, 2008, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

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

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

As of June 30, 2008, the Agency had \$1,091,569 invested in LAIF which had invested 11.12% of the pool investment funds in Structured Notes and Asset-Backed Securities.

### NOTE 4 – RECEIVABLES

The following summarizes the significant categories of receivables and other current assets at June 30, 2008 and 2007:

|              | <u>2008</u>         | <u>2007</u>         |
|--------------|---------------------|---------------------|
| Receivables: |                     |                     |
| Assessments  | \$ 1,288,980        | \$ 1,389,495        |
| Other        | <u>10,818</u>       | <u>21,275</u>       |
|              | <u>\$ 1,299,798</u> | <u>\$ 1,410,770</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, Continued  
June 30, 2008 and 2007

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### NOTE 5 – UTILITY PLANT

A summary of changes in utility plant for the year ended June 30, 2008 is as follows:

|                                | Balance<br>July 1, 2007 | Additions         | Deletions   | Balance<br>June 30, 2008 |
|--------------------------------|-------------------------|-------------------|-------------|--------------------------|
| <b>Capital Assets</b>          |                         |                   |             |                          |
| Office furniture and equipment | \$ 31,042               | \$ -              | \$ -        | \$ 31,042                |
| Less accumulated depreciation  | <u>(14,601)</u>         | <u>(6,768)</u>    | <u>-</u>    | <u>(21,369)</u>          |
| TOTAL UTILITY PLANT, NET       | <u>\$ 16,441</u>        | <u>\$ (6,768)</u> | <u>\$ -</u> | <u>\$ 9,673</u>          |

A summary of changes in utility plant for the year ended June 30, 2007 is as follows:

|                                | Balance<br>July 1, 2006 | Additions         | Deletions   | Balance<br>June 30, 2007 |
|--------------------------------|-------------------------|-------------------|-------------|--------------------------|
| <b>Capital Assets:</b>         |                         |                   |             |                          |
| Office furniture and equipment | \$ 25,234               | \$ 5,808          | \$ -        | \$ 31,042                |
| Less accumulated depreciation  | <u>(8,289)</u>          | <u>(7,771)</u>    | <u>-</u>    | <u>(16,060)</u>          |
| TOTAL UTILITY PLANT, NET       | <u>\$ 16,945</u>        | <u>\$ (1,963)</u> | <u>\$ -</u> | <u>\$ 14,982</u>         |