

**MOHAVE COUNTY WATER AUTHORITY  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

# MOHAVE COUNTY WATER AUTHORITY

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**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Mohave County Water Authority

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Mohave County Water Authority (Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***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 control 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 opinions 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 from 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 Authority'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 Authority'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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mohave County Water Authority, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1, the Authority implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and budgetary comparison information on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

November 19, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**(Required Supplementary Information)**

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**MOHAVE COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

As management of the Mohave County Water Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013.

**FINANCIAL HIGHLIGHTS**

- The Authority's total net position of governmental activities decreased \$232,885, which represents a 4 percent decrease from the prior fiscal year, as a result of administrative costs exceeding member dues and because pass-through payments to members are recognized when they occur while the associated revenue recognition occurred in a prior period.
- General revenues accounted for \$4,632 in revenue, or 2 percent of all current fiscal year revenues. Program specific revenues in the form of charges for services accounted for \$263,593, or 98 percent of total current fiscal year revenues.
- The Authority had \$501,110 in expenses related to governmental activities, a decrease of 65 percent from the prior fiscal year. The decrease in expenses can be attributed to a reduction in contractual distributions to member entities. Expenses included contractual distributions to member entities, firming agreement payments, and general administrative expenses.
- Among major funds, the General Fund had \$202,474 in current fiscal year revenues, which primarily consisted of firming agreement revenues and \$301,007 in expenditures. The General Fund's fund balance decrease from \$1.2 million at the prior fiscal year end to \$1.1 million at the end of the current fiscal year was primarily due to an increase in firming agreement expenditures as a result of the Authority paying off its water firming agreement ahead of schedule.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

**MOHAVE COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)**

The statement of net position presents information on all of the Authority's assets, liabilities, and deferred inflows/outflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the Authority that are principally supported by intergovernmental revenues. The governmental activities of the Authority include the protection of, acquisition of and transferring of water rights.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Special Revenue Funds, both of which are considered to be major funds.

**MOHAVE COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)**

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's budget process. The Authority adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and Special Revenue Fund as required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$5.1 million at the current fiscal year end.

The Authority's net investment in capital assets reflects its investment in water rights. Additionally, a portion of the Authority's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the Authority's ongoing obligations to its members.

The following table presents a summary of the Authority's net position for the fiscal year ended June 30, 2013 and June 30, 2012.

	As of <u>June 30, 2013</u>	As of <u>June 30, 2012</u>
Current and other assets	\$ 4,647,240	\$ 4,880,387
Capital assets	500,000	500,000
<b>Total assets</b>	<u>5,147,240</u>	<u>5,380,387</u>
Current and other liabilities	<u>472</u>	<u>734</u>
<b>Total liabilities</b>	<u>472</u>	<u>734</u>
<b>Net position:</b>		
Net investment in capital assets	500,000	500,000
Restricted	3,153,910	3,274,826
Unrestricted	<u>1,492,858</u>	<u>1,604,827</u>
<b>Total net position</b>	<u>\$ 5,146,768</u>	<u>\$ 5,379,653</u>

**MOHAVE COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)**

At the end of the current fiscal year the Authority reported positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

The Authority's financial position is the product of financial transactions including the net result of activities. There were no significant current year transactions that had an impact on the Statement of Net Position.

**Changes in net position.** The Authority's total revenues for the current fiscal year were \$268,225. The total cost of all programs and services was \$501,110. The following table presents a summary of the changes in net position for the fiscal year ended June 30, 2013 and June 30, 2012.

	<u>As of June 30, 2013</u>	<u>As of June 30, 2012</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 263,593	\$ 221,519
General revenues:		
Investment income	4,632	980
<b>Total revenues</b>	<u>268,225</u>	<u>222,499</u>
<b>Expenses:</b>		
Payments to members	200,103	1,182,313
Firming agreements	126,496	103,576
Administrative	174,511	155,476
<b>Total expenses</b>	<u>501,110</u>	<u>1,441,365</u>
<b>Change in net position</b>	(232,885)	(1,218,866)
<b>Net position, beginning</b>	<u>5,379,653</u>	<u>6,598,519</u>
<b>Net position, ending</b>	<u>\$ 5,146,768</u>	<u>\$ 5,379,653</u>

The following is a significant current year transaction that had an impact on the change in net position.

In the prior year, the Authority made large payments to member entities from revenues received in previous years but that had not yet been distributed to members. As a result, payments to members decreased \$982,210 in the current year.

**MOHAVE COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)**

The following table presents the cost of the Authority's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs).

	Year Ended June 30, 2013		Year Ended June 30, 2012	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Payments to members	\$ 200,103	\$ (120,917)	\$ 1,182,313	\$ (1,114,083)
Firming agreements	126,496	(13,172)	103,576	(15,434)
Administrative	174,511	(103,428)	155,476	(90,329)
<b>Total</b>	<u>\$ 501,110</u>	<u>\$ (237,517)</u>	<u>\$ 1,441,365</u>	<u>\$ (1,219,846)</u>

- The cost of all governmental activities this year was \$501,110.
- Charges for services subsidized certain programs with firming agreement revenues, member dues, and intergovernmental and local revenues of \$263,593.

**FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

The financial performance of the Authority as a whole is reflected in its governmental funds. As the Authority completed the year, its governmental funds reported a combined fund balance of \$1.2 million, a decrease of \$98,533, due primarily to an increase in firming agreement expenditures as a result of the Authority paying off its water firming agreement ahead of schedule.

The General Fund comprises 99 percent of the total fund balance. Approximately 43 percent or \$492,484 of the General Fund's fund balance constitutes unassigned fund balance.

The General Fund is the principal operating fund of the Authority. The decrease in fund balance of \$98,533 in the General Fund to \$1.1 million as of fiscal year end was a result of an increase in firming agreement expenditures from the Authority paying off its water firming agreement ahead of schedule.

**MOHAVE COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**BUDGETARY HIGHLIGHTS**

A schedule showing the budget amounts compared to the Authority's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The favorable variance of \$521,989 in administrative expenditures was a result of not spending the appropriated contingency of \$500,000.
- The unfavorable variance of \$134,065 in water development fees revenues was a result of member entities deferring water development purchases to future years.

**CAPITAL ASSETS**

**Capital Assets.** At year end, the Authority had invested \$500,000 in water rights. This represents the value at the time of acquisition in December 2009 of \$1,000 per acre foot. Additional information on the Authority's capital assets can be found in Note 1.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Many factors were considered by the Authority's administration during the process of developing the fiscal year 2013-14 budget. The primary factor was the Authority's collection of water development fees and holding charges.

Budgeted expenditures in the General Fund decreased 55 percent to \$541,500 in fiscal year 2013-14, as a result of a decrease in contractual payments to member entities.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our member entities with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives. If you have questions about this report or need additional information, contact Mohave County Water Authority, 2000 McCulloch Boulevard N. Suite B, Lake Havasu City, Arizona 86403.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**MOHAVE COUNTY WATER AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

	Governmental Activities
<b><u>ASSETS</u></b>	
Current assets:	
Cash and investments	\$ 1,154,007
Due from governmental entities	3,493,233
Total current assets	4,647,240
Noncurrent assets:	
Water rights	500,000
Total noncurrent assets	500,000
<b>Total assets</b>	<b>5,147,240</b>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	472
Total current liabilities	472
<b>Total liabilities</b>	<b>472</b>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	500,000
Restricted for:	
Grants	3,153,910
Unrestricted	1,492,858
<b>Total net position</b>	<b>\$ 5,146,768</b>

The notes to the basic financial statements are an integral part of this statement.

**MOHAVE COUNTY WATER AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013**

<b>Functions/Programs</b>	Expenses	Program Revenues	Charges for Services	Net (Expense) Revenue and Changes in Net Position
<b>Governmental activities:</b>				
Payments to members	\$ 200,103	\$ 79,186	\$ (120,917)	
Firming agreements	126,496	113,324	(13,172)	
Administrative	174,511	71,083	(103,428)	
<b>Total governmental activities</b>	<b>\$ 501,110</b>	<b>\$ 263,593</b>	<b>(237,517)</b>	

<b>General revenues:</b>	
Investment income	4,632
<b>Total general revenues</b>	<b>4,632</b>
<b>Changes in net position</b>	(232,885)
<b>Net position, beginning of year</b>	<b>5,379,653</b>
<b>Net position, end of year</b>	<b>\$ 5,146,768</b>

The notes to the basic financial statements are an integral part of this statement.

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**FUND FINANCIAL STATEMENTS**

**MOHAVE COUNTY WATER AUTHORITY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General	Grants Fund	Total Governmental Funds
<b><u>ASSETS</u></b>			
Cash and investments	\$ 1,144,007	\$ 10,000	\$ 1,154,007
Due from governmental entities	349,323	3,143,910	3,493,233
<b>Total assets</b>	<b>\$ 1,493,330</b>	<b>\$ 3,153,910</b>	<b>\$ 4,647,240</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 472	\$	\$ 472
Deferred revenues	349,323	3,143,910	3,493,233
<b>Total liabilities</b>	<b>349,795</b>	<b>3,143,910</b>	<b>3,493,705</b>
Fund balances:			
Restricted		10,000	10,000
Committed	651,051		651,051
Unassigned	492,484		492,484
<b>Total fund balances</b>	<b>1,143,535</b>	<b>10,000</b>	<b>1,153,535</b>
 <b>Total liabilities and fund balances</b>	 <b>\$ 1,493,330</b>	 <b>\$ 3,153,910</b>	 <b>\$ 4,647,240</b>

The notes to the basic financial statements are an integral part of this statement.

**MOHAVE COUNTY WATER AUTHORITY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013**

<b>Total governmental fund balances</b>	<b>\$</b>	<b>1,153,535</b>
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		500,000
Water development fees will not be available to pay for current period expenditures and, therefore, are deferred in the funds.		<u>3,493,233</u>
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>5,146,768</u></b>

**The notes to the basic financial statements are an integral part of this statement.**

**MOHAVE COUNTY WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Grants Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Other local	\$ 8,476	\$ 34,599	\$ 43,075
Water development fees	13,435	120,917	134,352
Firming agreements	113,324		113,324
Member dues	53,240		53,240
Other intergovernmental	13,999	44,587	58,586
<b>Total revenues</b>	<u>202,474</u>	<u>200,103</u>	<u>402,577</u>
<b>Expenditures:</b>			
Current -			
Payments to members		200,103	200,103
Firming agreements	126,496		126,496
Administrative	174,511		174,511
<b>Total expenditures</b>	<u>301,007</u>	<u>200,103</u>	<u>501,110</u>
<b>Changes in fund balances</b>	<u>(98,533)</u>		<u>(98,533)</u>
<b>Fund balances, beginning of year</b>	1,242,068	10,000	1,252,068
<b>Fund balances, end of year</b>	<u>\$ 1,143,535</u>	<u>\$ 10,000</u>	<u>\$ 1,153,535</u>

The notes to the basic financial statements are an integral part of this statement.

**MOHAVE COUNTY WATER AUTHORITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2013**

**Net changes in fund balances - total governmental funds** **\$ (98,533)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Water development fees in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (134,352)

**Change in net position in governmental activities** **\$ (232,885)**

**The notes to the basic financial statements are an integral part of this statement.**

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

The financial statements of the Mohave County Water Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2013, the Authority implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from assets and liabilities.

The more significant of the Authority's accounting policies are described below.

**A. Reporting Entity**

The Authority was created in accordance with Arizona Revised Statutes (A.R.S.) Title 45, Chapter 13. The Authority was formed to provide a means to transfer the 18,500 acre feet of 4<sup>th</sup> priority Colorado River water rights previously held by the City of Kingman, Arizona to other communities and water districts within Mohave County, Arizona who also held original water rights contracts with the United States Bureau of Reclamation.

The Authority is a local government that is governed by a separately appointed Board of Directors. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Authority is a primary government because it is a special-purpose government that has a separately appointed governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Authority for financial statement presentation purposes, and the Authority is not included in any other governmental reporting entity. Consequently, the Authority's financial statements include only the funds of those organizational entities for which its appointed governing board is financially accountable. The Authority's major operations include the acquisition and transferring of water rights.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Authority as a whole. The reported information includes all of the nonfiduciary activities of the Authority. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Authority.

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Governmental activities normally are supported by intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment income not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-Wide Financial Statements** – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues arise when resources are received by the Authority before it has legal claim to them.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

The Authority reports the following major governmental funds:

General Fund – The General Fund is the Authority’s primary operating fund. It accounts for all resources used to finance Authority operations except those required to be accounted for in other funds. The General Fund includes the Authority’s Water Acquisition Fund. This fund is maintained as a separate fund for accounting purposes, but does not meet the criteria for separate reporting.

Grants Fund – The Grants Fund, a Special Revenue Fund, includes monies collected from municipal and other subcontractors for the purchase or lease of land and/or water rights prior to being passed on to the City of Kingman, Arizona or other municipal contractors per contractual agreement.

**D. Cash and Investments**

A.R.S. 45-2283 authorizes the Authority to invest revenues in securities and deposits with a maximum maturity of three years. Eligible investments include: certificates of deposit in eligible depositories as provided in A.R.S. Title 35, Chapter 2, Article 2.1; interest-bearing savings accounts in banks and savings and loan institutions doing business in the State of Arizona whose accounts are insured by federal deposit insurance; repurchase agreements with a maximum maturity of 180 days; bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by agency or instrumentality of the United States; bonds or other evidences of indebtedness of the State of Arizona or any of its counties, incorporated cities or towns or school districts.

The State Board of Deposit provides oversight for the State Treasurer’s pool, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

**E. Investment Income**

Investment income is composed of interest and net changes in the fair value of applicable investments.

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)**

**F. Receivables and Payables**

All receivables are shown net of an allowance for uncollectibles.

**G. Capital Assets**

The main purpose of the Authority is to purchase water rights on behalf of member entities and not for the Authority. Capital assets represent water rights acquired by the Authority, but have not yet been passed on to member entities. The water rights have been set aside for five years as a pool for industrial users who may request water from the Authority. The water rights are valued at \$500,000 and have an indefinite useful life. Capital assets are reported in the government-wide financial statements.

**H. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds.

**I. Net Position Flow Assumption**

In the government-wide fund financial statements the Authority applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

**J. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS (Cont'd)**

***Nonspendable.*** The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact.

***Restricted.*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

***Committed.*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

***Assigned.*** Amounts in the assigned fund balance classification are intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Directors or a management official delegated that authority by the formal action of the Board of Directors. The Authority does not have a formal fund balance policy or procedures for the utilization of assigned fund balance, accordingly no assigned fund balance amounts are reported.

***Unassigned.*** Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Authority applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**MOHAVE COUNTY WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS (Concl'd)**

The table below provides detail of the major components of the Authority's fund balance classifications at year end.

	General Fund	Grants Fund
Fund Balances:		
Restricted:		
Payment to Bullhead City	\$	\$ 5,000
Payment to Lake Havasu City		5,000
Committed:		
Future water purchases	651,051	
Unassigned	492,484	
Total fund balances	\$ 1,143,535	\$ 10,000

**NOTE 3 – CASH AND INVESTMENTS**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure the Authority's deposits may not be returned to the Authority. The Authority's investment policy refers to A.R.S. 35.321-329 which includes information related to custodial credit risk for deposits. At June 30, 2013, the carrying amount of the Authority's deposits was \$523,068 and the bank balance was \$735,110. At year end \$250,000 of the Authority's bank balance was covered by federal depository insurance coverage and \$485,110 was uninsured and uncollateralized.

The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments.

At June 30, 2013, the Authority's investments consisted of the following.

	Average Maturities	Fair Value
State Treasurer's investment pool 7	15 days	\$ 630,939
Total		\$ 630,939

*Interest Rate Risk.* The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 3 – CASH AND INVESTMENTS (Concl'd)**

*Credit Risk.* The Authority's investment policy indicates that investments shall be made with judgment and care under the prevailing circumstances, while considering the probable safety of the investment. Investments in the State Treasurer's Investment pool 7 are securities backed by the U.S. Government AA+ weighted average rating.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority would not be able to recover the value of its investments. The Authority's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the Authority's portion is not identified with specific investments and is not subject to custodial credit risk.

**NOTE 4 – RECEIVABLES**

Due from governmental entities, net of allowance for uncollectibles, as of year end for the Authority's individual major funds were as follows.

	General Fund	Grants Fund
Due from other governmental entities:		
Due from Bullhead City	\$ 191,663	\$ 1,724,971
Due from Lake Havasu City	67,500	607,500
Due from Mohave Water Conservation District	40,160	361,439
Due from Mohave Valley Irrigation and Drainage District	50,000	450,000
Net due from governmental entities	\$ 349,323	\$ 3,143,910

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows.

	Unavailable
Measurable but unavailable revenues (General Fund)	\$ 349,323
Measurable but unavailable revenues (Grants Fund)	3,143,910
Total deferred revenue for governmental funds	\$ 3,493,233

**NOTE 5 – RISK MANAGEMENT**

The Authority continues to carry commercial insurance for all risks of loss, including liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MOHAVE COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 6 – LEASES**

The Authority formed agreements to lease back land acquired from the Cibola Valley Irrigation and Drainage District purchase to farmers conducting operations on the land. The Authority retains 10% of the revenue generated and the remaining funds are accumulated and distributed to Lake Havasu City and Bullhead City. Additionally, the Authority may enter into short-term agreements for temporary use of water. For this period, the only agreement is with Mohave Valley Irrigation and Drainage District for Bella Vista. The Authority retains 50% of the revenue generated and the remaining funds are distributed to the City of Kingman, Arizona. Lease revenue for the year was \$71,300.

**NOTE 7 – FIRING AGREEMENTS**

In fiscal year 2012, an amended firming agreement was approved by the Board which provides for the Authority to enter into subcontracts for firming with various Colorado River users possessing contracts for municipal and industrial water uses with priorities equal to the Central Arizona Project (CAP). Additionally, the Authority executed an agreement to firm their 500 acre feet of Colorado River Water. Lastly, subcontracts were entered into with Lake Havasu and Bullhead cities to firm additional water acquired since the original subcontract was executed.

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL  
(Required Supplementary Information)**

**MOHAVE COUNTY WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL  
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts	Non-GAAP	Variance with Final Budget Positive (Negative)
	Original & Final	Actual	(Negative)
<b>Revenues:</b>			
Other local	\$ 4,000	\$ 3,844	\$ (156)
Water development fees	147,500	13,435	(134,065)
Firming agreements	120,000	113,324	(6,676)
Member dues	53,240	53,240	
Other intergovernmental	12,300	13,999	1,699
<b>Total revenues</b>	<u>337,040</u>	<u>197,842</u>	<u>(139,198)</u>
<b>Expenditures:</b>			
Current -			
Firming agreements	120,000	126,496	(6,496)
Administrative	696,500	174,511	521,989
<b>Total expenditures</b>	<u>816,500</u>	<u>301,007</u>	<u>515,493</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(479,460)</u>	<u>(103,165)</u>	<u>376,295</u>
<b>Other financing sources (uses):</b>			
Transfers out		(3,128)	(3,128)
<b>Total other financing sources (uses):</b>		<u>(3,128)</u>	<u>(3,128)</u>
<b>Changes in fund balances</b>	<u>(479,460)</u>	<u>(106,293)</u>	<u>373,167</u>
<b>Fund balances, beginning of year</b>	1,076,081	598,777	(477,304)
<b>Fund balances, end of year</b>	<u>\$ 596,621</u>	<u>\$ 492,484</u>	<u>\$ (104,137)</u>

See accompanying notes to this schedule.

**MOHAVE COUNTY WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GRANTS FUND  
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original &amp; Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>			
Other local	\$ 38,000	\$ 34,599	\$ (3,401)
Water development fees	1,475,000	120,917	(1,354,083)
Other intergovernmental	34,700	44,587	9,887
<b>Total revenues</b>	<u>1,547,700</u>	<u>200,103</u>	<u>(1,347,597)</u>
<b>Expenditures:</b>			
Current -			
Payments to members	1,540,000	200,103	1,339,897
<b>Total expenditures</b>	<u>1,540,000</u>	<u>200,103</u>	<u>1,339,897</u>
<b>Changes in fund balances</b>	<u>7,700</u>	<u></u>	<u>(7,700)</u>
<b>Fund balances, beginning of year</b>	15,032	10,000	(5,032)
<b>Fund balances, end of year</b>	<u>\$ 22,732</u>	<u>\$ 10,000</u>	<u>\$ (12,732)</u>

See accompanying notes to this schedule.

**MOHAVE COUNTY WATER AUTHORITY  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

The Authority adopts a legal budget for all governmental funds. The adopted budget of the Authority is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). A portion of the General Fund activity is budgeted for separately as a capital projects fund, a fund that accounts for revenues and expenditures budgeted to acquire water rights pursuant to A.R.S. 45-2245. The separate budgeting is a permissible way to account for these activities, but differs from GAAP. The following adjustment was necessary to present fund balance at July 1, 2012 and fund balance at June 30, 2013 on a budgetary basis in order to provide a meaningful comparison.

	<u>Fund Balance, June 30, 2013</u>	<u>Fund Balance, July 1, 2012</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 1,143,535	\$ 1,242,068
Fiscal year 2012-13 activity budgeted as a capital projects fund	<u>(651,051)</u>	<u>(643,291)</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	<u>\$ 492,484</u>	<u>\$ 598,777</u>

## **SUPPLEMENTARY INFORMATION**

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**GOVERNMENTAL FUND**

**MOHAVE COUNTY WATER AUTHORITY  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 ALL CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2013**

	Water Acquisition Fund		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Other local	\$ 1,000	\$ 4,632	\$ 3,632
<b>Total revenues</b>	<u>1,000</u>	<u>4,632</u>	<u>3,632</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>1,000</u>	<u>4,632</u>	<u>3,632</u>
<b>Other financing sources (uses):</b>			
Transfers in		3,128	3,128
<b>Total other financing sources (uses):</b>		<u>3,128</u>	<u>3,128</u>
<b>Changes in fund balances</b>	<u>1,000</u>	<u>7,760</u>	<u>6,760</u>
<b>Fund balances, beginning of year</b>	626,027	643,291	17,264
<b>Fund balances, end of year</b>	<u>\$ 627,027</u>	<u>\$ 651,051</u>	<u>\$ 24,024</u>