



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

Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016



**Mojave Basin Area Watermaster
Annual Financial Report
For the Fiscal Years Ended June 30, 2017 and 2016**

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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 of the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Watermaster's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller 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 audits 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 controls 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mojave Basin Area Watermaster as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated October 26, 2017, 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 21 and 22.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
October 26, 2017

Mojave Basin Area Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017 and 2016. 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

- In fiscal year 2017, the Watermaster's net position increased 12.6% or \$142,833 to \$1,277,859 as a result of an increase from ongoing operations. In fiscal year 2016, the Watermaster's net position increased 67.1% or \$455,584 to \$1,135,026 as a result of a \$15,460 decrease from ongoing operations, offset by an increase of \$471,044 due to a transfer of net position to the Mojave Water Agency.
- In fiscal year 2017, the Watermaster's operating revenues increased 0.8% or \$4,540 to \$556,395 primarily due to increases of \$12,030 in administrative assessments and \$3,248 in make-up assessments, which were offset by a decrease of \$12,634 in replacement assessments. In fiscal year 2016, the Watermaster's operating revenues decreased 80.9% or \$2,335,322 to \$551,855 primarily due to a decrease of replacement assessments as a result of water conservation efforts.
- In fiscal year 2017, the Watermaster's operating expenses decreased 22.5% or \$134,564 to \$463,091 primarily due to a decrease of \$167,879 in state water project importation charges, which was offset by an increase of \$33,315 in operating costs. In fiscal year 2016, the Watermaster's operating expenses decreased 78.2% or \$2,141,730 to \$597,655 primarily due to decreases of \$2,127,026 in state water project importation charges.

Required Financial Statements

This annual report consists of a series of comparative 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 for the fiscal years 2017 and 2016.

Due to the comparative nature of this report, the following financial statements include information that reflects the current year and prior year. The Statement of Net Position includes all of the Watermaster's investments in resources (assets) and 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 revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Watermaster's operations over the past years and can be used to determine if the Watermaster has successfully recovered all of its costs through its rates and other charges. These statements 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 periods. The Statement of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provide 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.

Mojave Basin Area Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

These two statements report the Watermaster's *net position* and changes in net position. You can think of the Watermaster's net position – the difference between assets 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 11 through 20.

Statements of Net Position

Condensed Statements of Net Position					
	2017	2016	Change	2015	Change
Assets:					
Current assets	\$ 1,407,225	1,346,242	60,983	3,617,659	(2,271,417)
Total assets	1,407,225	1,346,242	60,983	3,617,659	(2,271,417)
Liabilities:					
Current liabilities	129,366	211,216	(81,850)	2,862,384	(2,651,168)
Total liabilities	129,366	211,216	(81,850)	2,862,384	(2,651,168)
Net position:					
Restricted for watermaster	1,277,859	1,135,026	142,833	679,442	455,584
Total net position	\$ 1,277,859	1,135,026	142,833	679,442	455,584

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 \$1,277,859 and \$1,135,026 as of June 30, 2017 and 2016, respectively.

At the end of fiscal years 2017 and 2016, the Watermaster showed a restricted net position balance of \$1,277,859 and \$1,135,026, respectively, which is restricted for the Biological Resources Trust Fund, Watermaster administrative costs, replacement water and make-up water. The sources that feed each of these funds are dictated by the Judgment. Uses of these funds can only be used for the purpose stated in the Judgment.

Mojave Basin Area Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 556,395	551,855	4,540	2,887,177	(2,335,322)
Non-operating revenue	62,749	74,453	(11,704)	2,384	72,069
Total revenue	<u>619,144</u>	<u>626,308</u>	<u>(7,164)</u>	<u>2,889,561</u>	<u>(2,263,253)</u>
Expense:					
Operating expense	463,091	597,655	(134,564)	2,739,385	(2,141,730)
Non-operating expense	13,220	44,113	(30,893)	118,536	(74,423)
Total expense	<u>476,311</u>	<u>641,768</u>	<u>(165,457)</u>	<u>2,857,921</u>	<u>(2,334,689)</u>
Operating income(loss)	<u>142,833</u>	<u>(15,460)</u>	<u>158,293</u>	<u>31,640</u>	<u>71,436</u>
Transfers in of net position	<u>-</u>	<u>471,044</u>	<u>(471,044)</u>	<u>-</u>	<u>471,044</u>
Change in net position	<u>142,833</u>	<u>455,584</u>	<u>(312,751)</u>	<u>31,640</u>	<u>542,480</u>
Net position – beginning of year	<u>1,135,026</u>	<u>679,442</u>	<u>455,584</u>	<u>1,120,735</u>	<u>(441,293)</u>
Net position – end of year	<u>\$ 1,277,859</u>	<u>1,135,026</u>	<u>142,833</u>	<u>679,442</u>	<u>455,584</u>

The statement of revenues, expenses and changes in net position show how the Watermaster's net position changed during the fiscal years. In the case of the Watermaster, net position increased by \$142,833 for the fiscal year ended June 30, 2017, as result of ongoing operations. For the fiscal year ended June 30, 2016, net position increased by \$455,584 as a result of a \$15,460 decrease from ongoing operations, offset by an increase of \$471,044 due to a transfer in of net position from the Mojave Water Agency. See note 5 for further discussion.

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

In fiscal year 2017, the Watermaster's total revenues decreased 1.1%, or \$7,164, to \$619,144 primarily due to an \$11,704 decrease in non-operating revenue, which was offset by a \$4,540 increase in operating revenue. In fiscal year 2016, the Watermaster's total revenues decreased 78.3% or \$2,263,253, to \$626,308 due to a \$2,335,322 decrease in operating revenues as a result of water conservation efforts, which was offset by a \$72,069 increase in non-operating revenue.

In fiscal year 2017, the Watermaster's total expenses decreased 25.8%, or \$165,457, to \$476,311 primarily due to a \$167,789 decrease in state water project importation charges and a \$30,893 decrease in non-operating expense, which was offset by a \$33,315 increase in operating costs. In fiscal year 2016, the Watermaster's total expenses decreased 81.7% or \$2,334,689 to \$641,768 primarily due to a \$2,127,026 decrease in state water project importation charges, a \$74,423 decrease in non-operating expense, and a \$14,704 decrease in operating costs.

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.

Mojave Basin Area Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Requests for Information

This financial report is designed to provide the Watermaster's funding sources, customers, stakeholders and other interested parties with an overview of the Watermaster's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Mojave Water Agency's Chief Financial Officer at 13846 Conference Center Drive, Apple Valley, CA 92307.

Basic Financial Statements

**Mojave Basin Area Watermaster
Statement of Net Position
June 30, 2017 and 2016**

	2017	2016
Current assets:		
Cash and cash equivalents – restricted (note 2)	\$ 1,377,329	1,258,956
Accrued interest receivable	2,136	1,254
Accounts receivable – Watermaster assessments	27,760	84,362
Due from Mojave Water Agency	-	1,670
Total current assets	1,407,225	1,346,242
Current liabilities:		
Accounts payable and accrued expenses (note 3)	129,366	211,216
Total current liabilities	129,366	211,216
Net position (note 4):		
Restricted for watermaster	1,277,859	1,135,026
Total net position	\$ 1,277,859	1,135,026

See accompanying notes to the basic financial statements

Mojave Basin Area Watermaster
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Administrative assessments	\$ 433,524	421,494
Biological assessments	110,254	108,358
Replacement assessments	7,210	19,844
Make-up assessments	5,407	2,159
Total operating revenues	556,395	551,855
Operating expenses:		
State water project importation charges	11,851	179,730
Operating costs	451,240	417,925
Total operating expenses	463,091	597,655
Operating income(loss)	93,304	(45,800)
Non-operating revenue(expense)		
Investment earnings	5,055	4,480
Other non-operating revenue	57,694	69,973
Other non-operating expense	(13,220)	(44,113)
Total non-operating revenues, net	49,529	30,340
Transfers of net position to Mojave Water Agency (note 5)	-	471,044
Change in net position	142,833	455,584
Net position – beginning of year	1,135,026	679,442
Net position – end of year	\$ 1,277,859	1,135,026

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Cash receipts from customers	\$ 612,997	568,574
Cash paid to vendors and suppliers	(224,181)	(2,283,308)
Cash paid to employees for salaries and wages	(276,286)	(533,288)
Net cash provided by(used in) operating activities	112,530	(2,248,022)
Cash flows from non-capital financing activities:		
Transfers from(to) Mojave Water Agency	1,670	(12,826)
Net cash provided by(used in) non-capital financing activities	1,670	(12,826)
Cash flows from investing activities:		
Investment earnings	4,173	3,875
Net cash provided by investing activities	4,173	3,875
Net increase(decrease) in cash and cash equivalents	118,373	(2,256,973)
Condensed Statements of Revenues, Expenses and Changes in Net Position	1,258,956	3,515,929
Cash and cash equivalents – end of year	\$ 1,377,329	1,258,956
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents – restricted	\$ 1,377,329	1,258,956
Total cash and cash equivalents	\$ 1,377,329	1,258,956

Continued on next page

See accompanying notes to the basic financial statements

**Mojave Basin Area Watermaster
Statement of Cash Flows, continued
For the Fiscal Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating income(loss)	\$ <u>93,304</u>	<u>(45,800)</u>
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Other non-operating revenue	57,694	69,973
Other non-operating expense	(13,220)	(44,113)
Changes in assets and liabilities:		
Decrease in assets:		
Accounts receivable – Watermaster assessments	56,602	16,719
(Decrease) in liabilities:		
Accounts payable and accrued expenses	<u>(81,850)</u>	<u>(2,244,801)</u>
Total adjustments	<u>19,226</u>	<u>(2,202,222)</u>
Net cash provided by(used in) operating activities	\$ <u><u>112,530</u></u>	<u><u>(2,248,022)</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, 2017 and 2016**

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

In 1994, to administer the provisions of the groundwater adjudication judgment, the Superior Court of Riverside appointed the Agency as the Mojave Basin Area Watermaster (Watermaster) and ordered the Watermaster to formulate a plan and program for management of the Basin's resources. Although the Watermaster is legally separate, it is included as a blended component unit of the Agency, as it is in substance part of the Agency's operations as it is governed by the same Board of Directors. Complete financial statements for the Agency are available at the Agency's office or upon request of the Agency's Chief Financial Officer at 13846 Conference Center Drive, Apple Valley, CA 92307.

B. Basis of Accounting and Measurement Focus

The Watermaster reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Watermaster is that the costs of delivering wholesale water to its service area on a continuing basis be financed or recovered primarily through user charges (assessments). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as Watermaster assessments, result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenues of the Watermaster are water sales (assessments) to member water right holders. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The Watermaster's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Watermaster solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Watermaster's proprietary fund.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

C. Financial Reporting, continued

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

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. There currently is no impact of the implementation of this Statement to the Agency’s financial statements at this time.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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. Fair Value Measurements

The Watermaster categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. 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.

6. Net Position

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

- **Net Investment in Capital Assets Component of Net Position** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position, continued

6. Net Position, continued

- **Restricted Component of Net Position** – This component of net position consists of restricted assets reduced by liabilities.
- **Unrestricted Component of Net Position** – This component of net position is the net amount of the assets and, liabilities that are not included in the determination of the net investment in capital assets or restricted component of net position.

7. Reclassification

The Watermaster has reclassified certain prior year information to conform with current year presentation.

(2) Cash and Cash Equivalents

Investment in State Investment Pool

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

The Watermaster's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Watermaster's name.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Cash Equivalents, continued

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

	<u>2017</u>	<u>2016</u>
Restricted – cash and cash equivalents	\$ 1,377,329	1,258,956
Total cash and cash equivalents	<u>\$ 1,377,329</u>	<u>1,258,956</u>

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

	<u>2017</u>	<u>2016</u>
Deposits with financial institutions	\$ 450,759	336,558
Local Agency Investment Fund (LAIF)	<u>926,570</u>	<u>922,398</u>
Total cash and cash equivalents	<u>\$ 1,377,329</u>	<u>1,258,956</u>

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

	<u>2017</u>	<u>2016</u>
Deposits held with California Local Agency Investment Fund (LAIF)	194 days	167 days

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.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(3) Accounts Payable and Accrued Expenses

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

	<u>2017</u>	<u>2016</u>
Replacement water deliveries	\$ 16,359	99,277
Other accounts payable	<u>113,007</u>	<u>111,939</u>
Total accounts payable and accrued expenses	<u>\$ 129,366</u>	<u>211,216</u>

(4) Net Position

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

	<u>2017</u>	<u>2016</u>
Restricted net position:		
Administrative	\$ 263,882	282,496
Biological resources trust	641,223	539,681
Replacement water	368,160	309,040
Make-up water	<u>4,594</u>	<u>3,809</u>
Total restricted net position	<u>\$ 1,277,859</u>	<u>1,135,026</u>

(5) Fund Transfer of Net Position

During fiscal year 2016, the Agency determined the net pension liability was the responsibility of the Agency for the fiscal year June 30, 2015. At June 30, 2016, the Agency transferred the related balances for deferred pension outflows, net pension liability; deferred pension inflows, and related net position of \$471,044 from the Watermaster to the Agency.

(6) 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 is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2017, the Watermaster participates in the ACWA/JPIA pooled programs for liability, and property programs as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$55 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition, the Watermaster also has the following insurance coverage:

- Crime coverage up to \$100,000 per loss includes public employee dishonesty, depositor's forgery or alteration, theft, computer and funds transfer fraud coverage's, subject to \$1,000 deductible per loss.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) Risk Management, continued

- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$150 million per loss, subject to a \$1,000 deductible per loss. Mobile equipment and vehicles, on file, are paid on actual cost value basis at time of loss and subject to \$1,000 deductible per loss.
- Boiler and machinery coverage for the replacement cost up to \$150 million per occurrence, subject to various deductibles depending on the type of equipment, on file.

The Watermaster has purchased workers' compensation insurance coverage for injuries to employees through the Special District Risk Management Association (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the Watermaster participated in the workers' compensation programs of the SDRMA as follows:

- Workers' compensation coverage up to California statutory limits for all work related injuries/illnesses covered by California law and employers liability limit of \$5,000,000 per occurrence.

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, 2017, 2016 and 2015. 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, 2017, 2016, and 2015, respectively

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 81, continued

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

(8) Commitments and Contingencies

Litigation

In the ordinary course of operations, the Watermaster is subject to claims and litigation from outside parties. After consultation with legal counsel, the Watermaster believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Mojave Basin Area Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of October 26, 2017, 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.

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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 Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Mojave Basin Area Watermaster
Apple Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mojave Basin Area Watermaster (Watermaster) as of and for the years ended June 30, 2017 and 2016, 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 26, 2017.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Watermaster's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
October 26, 2017