



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

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018



**Mojave Basin Area Watermaster
Annual Financial Report
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)**

Table of Contents

Financial Section

Independent Auditor's Report 1-2

Management's Discussion and Analysis..... 3-5

Basic Financial Statements:

Statements of Net Position..... 6

Statements of Revenues, Expenses and Changes in Net Position 7

Statements of Cash Flows 8-9

Notes to the Financial Statements 10-16

Report on Internal Controls and Compliance

Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*..... 17-18

Financial Section



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

Independent Auditor's Report

To the Board of Directors
Mojave Basin Area Watermaster
Apple Valley, California

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)
Kirk A. Franks, CPA (Partner Emeritus)

DIRECTORS

Jenny Liu, CPA, MST

MANAGERS / STAFF

Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Jingjie Wu, CPA
Evelyn Morentin-Barcena, CPA
Jin Gu, CPA, MT
Veronica Hernandez, CPA
Tara R. Thorp, CPA, MSA
Laura Arvizu, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

*Employee Benefit Plan
Audit Quality Center*

California Society of
Certified Public Accountants



A Worldwide Alliance of Independent
Accounting, Law and Consulting Firms

Report on the Financial Statements

We have audited the accompanying financial statements of the Mojave Basin Area Watermaster (the Watermaster), a component unit of the Mojave Water Agency, which comprises the statement of net position as of June 30, 2019, and the related statement of revenues, expenses and changes in net position, and cash flows for the year 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

The Watermaster's 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Watermaster'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 Watermaster's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Watermaster as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.

Prior Year Comparative Information

We have previously audited the Agency's 2018 financial statements, and we expressed an unmodified opinion in our report dated October 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2018, from which such partial information was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019 on our consideration of the Watermaster's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 22, 2019

**Mojave Basin Area Watermaster
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019**

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, 2019 and 2018. 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 2019, the Watermaster's net position decreased 24%, or \$330,410, to \$1,043,149 as a result of an increase from ongoing operations. In fiscal year 2018, the Watermaster's net position increased 7%, or \$95,700, to \$1,373,559 as a result of an increase from ongoing operations.
- In fiscal year 2019, the Watermaster's operating revenues increased 122%, or \$763,690, to \$1,392,018 primarily due to an increase in replacement assessments. In fiscal year 2018, the Watermaster's operating revenues increased 13%, or \$71,933, to \$628,328 primarily due to increase of replacement assessments.
- In fiscal year 2019, the Watermaster's operating expenses increased 195%, or \$968,960, to \$1,466,170 primarily due to an increase of \$808,380 in state water project importation charges and an increase of \$128,576 in administrative expenses primarily due to court proceedings in relation to ramp down. In fiscal year 2018, the Watermaster's operating expenses increased 7%, or \$34,119, to \$497,210 primarily due to an increase 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 2019 and 2018.

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
For the Fiscal Year Ended June 30, 2019**

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.

Statements of Net Position

	Condensed Statements of Net Position				
	2019	2018	Change	2017	Change
Assets					
Current assets	\$ 2,199,549	\$ 1,601,022	\$ 598,527	\$ 1,407,225	\$ 193,797
Non-current assets	2,397	-	2,397	-	-
Total assets	<u>2,201,946</u>	<u>1,601,022</u>	<u>600,924</u>	<u>1,407,225</u>	<u>193,797</u>
Liabilities					
Current liabilities	1,158,797	227,463	931,334	129,366	98,097
Total liabilities	<u>1,158,797</u>	<u>227,463</u>	<u>931,334</u>	<u>129,366</u>	<u>98,097</u>
Net position					
Restricted	1,043,149	1,373,559	(330,410)	1,277,859	95,700
Total net position	<u>\$ 1,043,149</u>	<u>\$ 1,373,559</u>	<u>\$ (330,410)</u>	<u>\$ 1,277,859</u>	<u>\$ 95,700</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Watermaster, assets of the Watermaster exceeded liabilities by \$1,043,149 and \$1,373,559 as of June 30, 2019 and 2018, respectively, which are 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
For the Fiscal Year Ended June 30, 2019**

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position					
	2019	2018	Change	2017	Change
Revenue:					
Operating revenues	\$ 1,392,018	\$ 628,328	\$ 763,690	\$ 556,395	\$ 71,933
Non-operating revenues	31,125	17,397	13,728	62,749	(45,352)
Total revenues	<u>1,423,143</u>	<u>645,725</u>	<u>777,418</u>	<u>619,144</u>	<u>26,581</u>
Expense:					
Operating expense	1,466,170	497,210	968,960	463,091	34,119
Non-operating expenses	287,383	52,815	234,568	13,220	39,595
Total expenses	<u>1,753,553</u>	<u>550,025</u>	<u>1,203,528</u>	<u>476,311</u>	<u>73,714</u>
Change in net position	(330,410)	95,700	(426,110)	142,833	(47,133)
Net position, beginning of year	<u>1,373,559</u>	<u>1,277,859</u>	<u>95,700</u>	<u>1,135,026</u>	<u>142,833</u>
Net position, end of year	<u>\$ 1,043,149</u>	<u>\$ 1,373,559</u>	<u>\$ (330,410)</u>	<u>\$ 1,277,859</u>	<u>\$ 95,700</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 decreased by \$330,410 for the fiscal year ended June 30, 2019, as result of ongoing operations. For the fiscal year ended June 30, 2018, net position increased by \$95,700 as a result of ongoing operations.

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

In fiscal year 2019, the Watermaster's total revenues increased 120%, or \$777,418, to \$1,423,143 due to a decrease of \$45,277 in Administrative and Biological assessments which was offset by an increase of \$806,148 in Replacement assessments and \$16,167 increase in investment earnings. In fiscal year 2018, the Watermaster's total revenues increased 4%, or \$26,581, to \$645,725 due to a \$71,933 increase in operating revenue and a \$45,352 decrease in non-operating revenue.

In fiscal year 2019, the Watermaster's total expenses increased 219%, or \$1,203,528, to \$1,753,553 due to an increase of \$808,379 in State Water Project importation charges, an increase of \$128,576 in administrative expenses primarily due to court proceedings in relation to ramp down, as well as, an increase in non-operating expenses of \$234,568 due to a withdrawal from the Biological trust fund. In fiscal year 2018, the Watermaster's total expenses increased 15%, or \$73,714, to \$550,025 primarily due to an increase in State Water Project importation charges and an increase in non-operating expenses.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Watermaster's current financial position, net position or operating results based on past, present and future events.

Requests for Information

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

Basic Financial Statements

Mojave Basin Area Watermaster
Statements of Net Position
June 30, 2019 (with comparative data for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Restricted - cash and cash equivalents (Note 2)	\$ 1,319,372	\$ 1,518,504
Accrued interest receivable	7,865	4,453
Accounts receivable - Administrative assessments	6,593	5,914
Accounts receivable - Biological assessments	1,688	1,314
Accounts receivable - Replacement assessments	862,376	67,791
Accounts receivable - Make-up assessments	1,655	3,046
	<u>2,199,549</u>	<u>1,601,022</u>
Total current assets		
Non-current assets:		
Accounts receivable - Administrative assessments	1,406	-
Accounts receivable - Biological assessments	213	-
Accounts receivable - Make-up assessments	778	-
	<u>2,397</u>	<u>-</u>
Total non-current assets		
	<u>2,201,946</u>	<u>1,601,022</u>
Total assets		
LIABILITIES		
Current liabilities:		
Accounts payable - Administrative	133,526	99,063
Accounts payable - Biological	138,834	52,789
Accounts payable - Replacement	876,760	69,974
Accounts payable - Make-up	9,677	5,637
	<u>1,158,797</u>	<u>227,463</u>
Total current liabilities		
	<u>1,158,797</u>	<u>227,463</u>
Total liabilities		
NET POSITION		
Restricted for watermaster (Note 3)	<u>1,043,149</u>	<u>1,373,559</u>
	<u>\$ 1,043,149</u>	<u>\$ 1,373,559</u>
Total net position		

See accompanying notes to the basic financial statements.

Mojave Basin Area Watermaster
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Administrative assessments	\$ 401,915	\$ 436,863
Biological assessments	106,220	116,549
Replacement assessments	875,092	68,944
Make-up assessments	8,791	5,972
	<u>1,392,018</u>	<u>628,328</u>
OPERATING EXPENSES		
State Water Project importation charges:		
Replacement charges	875,092	69,640
Make-up charges	9,003	6,075
Operating costs	582,075	421,495
	<u>1,466,170</u>	<u>497,210</u>
Operating income	<u>(74,152)</u>	<u>131,118</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	28,670	12,503
Administrative revenue	2,455	4,894
Administrative expense	-	(26)
Biological expense	(287,383)	(52,789)
	<u>(256,258)</u>	<u>(35,418)</u>
Change in net position	(330,410)	95,700
Net position, beginning of year	<u>1,373,559</u>	<u>1,277,859</u>
Net position, end of year	<u>\$ 1,043,149</u>	<u>\$ 1,373,559</u>

See accompanying notes to the basic financial statements.

Mojave Basin Area Watermaster
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 595,374	\$ 578,023
Cash paid to vendors and suppliers	(499,215)	(158,485)
Cash paid to employees for salaries and wages	<u>(320,549)</u>	<u>(288,549)</u>
Net cash provided (used) by operating activities	<u>(224,390)</u>	<u>130,989</u>
Cash flows from investing activities:		
Investment earnings	<u>25,258</u>	<u>10,186</u>
Net cash provided by investing activities	<u>25,258</u>	<u>10,186</u>
Net increase (decrease) in cash and cash equivalents	(199,132)	141,175
Cash and investments, beginning of year	<u>1,518,504</u>	<u>1,377,329</u>
Cash and investments, end of year	<u>\$ 1,319,372</u>	<u>\$ 1,518,504</u>
Reconciliation to the Statement of Net Position:		
Restricted - cash and cash equivalents	<u>\$ 1,319,372</u>	<u>\$ 1,518,504</u>
Total cash and investments	<u>\$ 1,319,372</u>	<u>\$ 1,518,504</u>

(Continued on next page)

Mojave Basin Area Watermaster
Statements of Cash Flows, continued
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (74,152)	\$ 131,118
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Nonoperating revenues	2,455	4,894
Nonoperating expenses	(287,383)	(52,815)
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable - Administrative assessments	(2,085)	4,810
Accounts receivable - Biological assessments	(587)	1,181
Accounts receivable - Replacement assessments	(794,585)	(54,576)
Accounts receivable - Make-up assessments	613	(1,720)
Increase (Decrease) in liabilities:		
Accounts payable - Administrative	34,463	2,677
Accounts payable - Biological	86,045	41,395
Accounts payable - Replacement	806,786	53,615
Accounts payable - Make-up	4,040	410
Total adjustments	<u>(150,238)</u>	<u>(129)</u>
Net cash provided (used) by operating activities	<u>\$ (224,390)</u>	<u>\$ 130,989</u>
Noncash activities		
None		

See accompanying notes to the basic financial statements.

Note 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.

Note 1: Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Position

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.

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.

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.

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.

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.

Note 1: Reporting Entity and Summary of Significant Accounting Policies, continued

Net Position

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

- Net Investment in Capital Assets – 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.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net position that does not meet the definition of *restricted* net position or *net investment in capital assets*.

Reclassification

The Watermaster has reclassified certain prior year information to conform with current year presentation, with no effect on net position.

Note 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 notice.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

Note 2: Cash and Cash Equivalents, continued

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.

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

	<u>2019</u>	<u>2018</u>
Restricted - cash and cash equivalents:		
Administrative	\$ 235,918	\$ 375,588
Biological resources trust	679,930	762,811
Replacement water	391,835	372,979
Make-up water	11,689	7,126
	<u>1,319,372</u>	<u>1,518,504</u>
Total cash and investments	<u>\$ 1,319,372</u>	<u>\$ 1,518,504</u>

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

	<u>2019</u>	<u>2018</u>
Demand deposits with financial institutions	\$ 192,357	\$ 581,747
Local Agency Investment Fund (LAIF)	1,127,015	936,757
	<u>1,319,372</u>	<u>1,518,504</u>
Total cash and investments	<u>\$ 1,319,372</u>	<u>\$ 1,518,504</u>

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

	<u>2019</u>	<u>2018</u>
Deposits held with California Local Agency Investment Fund (LAIF)	173 days	193 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).

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

Note 2: Cash and Investments, continued

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. LAIF is not rated.

Concentration of Credit Risk

The investment policy of the Watermaster contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2019 and 2018, the Watermaster did not hold any investments in any one issuer (other than external pools) that represent 5% or more of total Watermaster investments.

Note 3: Net Position

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

	<u>2019</u>	<u>2018</u>
Restricted net position:		
Administrative	\$ 118,257	\$ 286,891
Biological resources trust	542,998	711,337
Replacement water	377,451	370,796
Make-up water	<u>4,443</u>	<u>4,535</u>
Total restricted net position	<u>\$ 1,043,149</u>	<u>\$ 1,373,559</u>

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

Note 4: 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, 2019, 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.
- 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, 2019, 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, 2019, 2018 and 2017. 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, 2019, 2018, and 2017, respectively

Mojave Basin Area Watermaster
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019 (with comparative data for 2018)

Note 5: 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.

Report on Internal Controls and Compliance



735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

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

Independent Auditor's Report

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)
Kirk A. Franks, CPA (Partner Emeritus)

DIRECTORS

Jenny Liu, CPA, MST

MANAGERS / STAFF

Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Jingjie Wu, CPA
Evelyn Morentin-Barcena, CPA
Jin Gu, CPA, MT
Veronica Hernandez, CPA
Tara R. Thorp, CPA, MSA
Laura Arvizu, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

*Employee Benefit Plan
Audit Quality Center*

California Society of
Certified Public Accountants



A Worldwide Alliance of Independent
Accounting, Law and Consulting Firms

Board of Directors
Mojave Basin Area Watermaster
Apple Valley, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mojave Basin Area Watermaster (the Watermaster) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Watermaster's basic financial statements, and have issued our report thereon dated October 22, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 22, 2019