



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

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2020 and 2019**



**Mojave Basin Area Watermaster**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2020 (with comparative data for 2019)**

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## Financial Section



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## *Independent Auditor's Report*

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

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### **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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified opinion in our report dated October 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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, 2019, 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 November 12, 2020 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  
November 12, 2020

**Mojave Basin Area Watermaster  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020**

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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, 2020 and 2019. 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 2020, the Watermaster's net position decreased 5%, or \$50,707, to \$992,442 as a result from ongoing operations. 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 2020, the Watermaster's operating revenues decreased 56%, or \$773,370, to \$618,648 primarily due to a decrease in replacement assessments. 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 2020, the Watermaster's operating expenses decreased 59%, or \$859,079, to \$607,091 primarily due to a decrease in State Water Project importation charges. 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.

**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 2020 and 2019.

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 reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to questions such 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, 2020**

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**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**

	<b>Condensed Statements of Net Position</b>			<b>2018</b>	<b>Change</b>
	<b>2020</b>	<b>2019</b>	<b>Change</b>		
<b>Assets</b>					
Current assets	\$ 1,292,559	\$ 2,199,549	\$ (906,990)	\$ 1,601,022	\$ 598,527
Non-current assets	3,015	2,397	618	-	2,397
<b>Total assets</b>	<b>1,295,574</b>	<b>2,201,946</b>	<b>(906,372)</b>	<b>1,601,022</b>	<b>600,924</b>
<b>Liabilities</b>					
Current liabilities	303,132	1,158,797	(855,665)	227,463	931,334
<b>Total liabilities</b>	<b>303,132</b>	<b>1,158,797</b>	<b>(855,665)</b>	<b>227,463</b>	<b>931,334</b>
<b>Net position</b>					
Restricted	992,442	1,043,149	(50,707)	1,373,559	(330,410)
<b>Total net position</b>	<b>\$ 992,442</b>	<b>\$ 1,043,149</b>	<b>\$ (50,707)</b>	<b>\$ 1,373,559</b>	<b>\$ (330,410)</b>

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 \$992,442 and \$1,043,149 as of June 30, 2020 and 2019, 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, 2020**

**Statements of Revenues, Expenses and Changes in Net Position**

<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>					
	<b>2020</b>	<b>2019</b>	<b>Change</b>	<b>2018</b>	<b>Change</b>
Revenue:					
Operating revenues	\$ 618,648	\$ 1,392,018	\$ (773,370)	\$ 628,328	\$ 763,690
Non-operating revenues	29,164	31,125	(1,961)	17,397	13,728
Total revenues	<u>647,812</u>	<u>1,423,143</u>	<u>(775,331)</u>	<u>645,725</u>	<u>777,418</u>
Expense:					
Operating expense	607,091	1,466,170	(859,079)	497,210	968,960
Non-operating expenses	91,428	287,383	(195,955)	52,815	234,568
Total expenses	<u>698,519</u>	<u>1,753,553</u>	<u>(1,055,034)</u>	<u>550,025</u>	<u>1,203,528</u>
Change in net position	(50,707)	(330,410)	279,703	95,700	(426,110)
Net position, beginning 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>
Net position, end of year	<u>\$ 992,442</u>	<u>\$ 1,043,149</u>	<u>\$ (50,707)</u>	<u>\$ 1,373,559</u>	<u>\$ (330,410)</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 \$50,707 for the fiscal year ended June 30, 2020, as result of ongoing operations. For the fiscal year ended June 30, 2019, net position decreased by \$330,410 as a result of ongoing operations.

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

In fiscal year 2020, the Watermaster's total revenues decreased 54%, or \$775,331, to \$647,812 due to a decrease of \$810,673 in Replacement assessments which was offset by an increase of \$40,740 in Administrative and Biological assessments. 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 2020, the Watermaster's total expenses decreased 60%, or \$1,055,034, to \$698,519 due to a decrease of \$810,673 in State Water Project importation charges along with a decrease of \$195,954 in biological expenses. In fiscal year 2019, the Watermaster's total expenses increased 219%, or \$1,203,528, to \$1,753,553 due to an increase of \$808,380 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.

**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 at 13846 Conference Center Drive, Apple Valley, CA, 92307.



## **Basic Financial Statements**

**Mojave Basin Area Watermaster**  
**Statements of Net Position**  
**June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Restricted - cash and cash equivalents (Note 2)	\$ 1,251,717	\$ 1,319,372
Accrued interest receivable	3,014	7,865
Accounts receivable - Administrative assessments	2,777	6,593
Accounts receivable - Biological assessments	491	1,688
Accounts receivable - Replacement assessments	34,135	862,376
Accounts receivable - Make-up assessments	425	1,655
	<u>1,292,559</u>	<u>2,199,549</u>
<b>Total current assets</b>		
<b>Non-current assets:</b>		
Accounts receivable - Administrative assessments	902	1,406
Accounts receivable - Biological assessments	180	213
Accounts receivable - Replacement assessments	1,155	-
Accounts receivable - Make-up assessments	778	778
	<u>3,015</u>	<u>2,397</u>
<b>Total non-current assets</b>		
	<u>1,295,574</u>	<u>2,201,946</u>
<b>Total assets</b>		
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable - Administrative	123,040	133,526
Accounts payable - Biological	91,429	138,834
Accounts payable - Replacement	82,337	876,760
Accounts payable - Make-up	6,326	9,677
	<u>303,132</u>	<u>1,158,797</u>
<b>Total current liabilities</b>		
	<u>303,132</u>	<u>1,158,797</u>
<b>Total liabilities</b>		
<b>NET POSITION</b>		
Restricted for watermaster (Note 3)	<u>992,442</u>	<u>1,043,149</u>
	<u>\$ 992,442</u>	<u>\$ 1,043,149</u>
<b>Total net position</b>		

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, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Administrative assessments	\$ 420,611	\$ 401,915
Biological assessments	128,264	106,220
Replacement assessments	64,419	875,092
Make-up assessments	5,354	8,791
<b>Total operating revenues</b>	<u>618,648</u>	<u>1,392,018</u>
<b>OPERATING EXPENSES</b>		
State Water Project importation charges:		
Replacement charges	64,419	875,092
Make-up charges	5,319	9,003
Operating costs	537,353	582,075
<b>Total operating expenses</b>	<u>607,091</u>	<u>1,466,170</u>
<b>Operating income (loss)</b>	<u>11,557</u>	<u>(74,152)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	25,661	28,670
Administrative revenue	3,503	2,455
Biological expense	(91,428)	(287,383)
<b>Total nonoperating revenues (expenses)</b>	<u>(62,264)</u>	<u>(256,258)</u>
<b>Change in net position</b>	(50,707)	(330,410)
<b>Net position, beginning of year</b>	<u>1,043,149</u>	<u>1,373,559</u>
<b>Net position, end of year</b>	<u>\$ 992,442</u>	<u>\$ 1,043,149</u>

See accompanying notes to the basic financial statements.

**Mojave Basin Area Watermaster**  
**Statements of Cash Flows**  
**For the Fiscal Year Ended June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers and others	\$ 1,452,514	\$ 595,374
Cash paid to vendors and suppliers	(1,195,821)	(499,215)
Cash paid to employees for salaries and wages	<u>(354,860)</u>	<u>(320,549)</u>
Net cash provided (used) by operating activities	<u>(98,167)</u>	<u>(224,390)</u>
<b>Cash flows from investing activities:</b>		
Investment earnings	<u>30,512</u>	<u>25,258</u>
Net cash provided by investing activities	<u>30,512</u>	<u>25,258</u>
Net increase (decrease) in cash and cash equivalents	(67,655)	(199,132)
<b>Cash and investments, beginning of year</b>	<u>1,319,372</u>	<u>1,518,504</u>
<b>Cash and investments, end of year</b>	<u>\$ 1,251,717</u>	<u>\$ 1,319,372</u>
Reconciliation to the Statement of Net Position:		
Restricted - cash and cash equivalents	<u>\$ 1,251,717</u>	<u>\$ 1,319,372</u>
Total cash and investments	<u>\$ 1,251,717</u>	<u>\$ 1,319,372</u>

(Continued on next page)

**Mojave Basin Area Watermaster**  
**Statements of Cash Flows, continued**  
**For the Fiscal Year Ended June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ 11,557	\$ (74,152)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Nonoperating revenues	3,503	2,455
Nonoperating expenses	(91,428)	(287,383)
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable - Administrative assessments	4,320	(2,085)
Accounts receivable - Biological assessments	1,230	(587)
Accounts receivable - Replacement assessments	827,086	(794,585)
Accounts receivable - Make-up assessments	1,230	613
Increase (Decrease) in liabilities:		
Accounts payable - Administrative	(10,486)	34,463
Accounts payable - Biological	(47,405)	86,045
Accounts payable - Replacement	(794,423)	806,786
Accounts payable - Make-up	(3,351)	4,040
Total adjustments	<u>(109,724)</u>	<u>(150,238)</u>
Net cash provided (used) by operating activities	<u>\$ (98,167)</u>	<u>\$ (224,390)</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 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*.

**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, 2020 (with comparative data for 2019)**

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**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>2020</u>	<u>2019</u>
Restricted - cash and cash equivalents:		
Administrative	\$ 127,923	\$ 235,918
Biological resources trust	681,841	679,930
Replacement water	432,247	391,835
Make-up water	9,706	11,689
	<u>\$ 1,251,717</u>	<u>\$ 1,319,372</u>

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

	<u>2020</u>	<u>2019</u>
Demand deposits with financial institutions	\$ 354,189	\$ 192,357
Local Agency Investment Fund (LAIF)	897,528	1,127,015
	<u>\$ 1,251,717</u>	<u>\$ 1,319,372</u>

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

	<u>2020</u>	<u>2019</u>
Deposits held with California Local Agency Investment Fund (LAIF)	191 days	173 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, 2020 (with comparative data for 2019)**

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**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, 2020 and 2019, 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>2020</u>	<u>2019</u>
Restricted net position:		
Administrative	\$ 11,576	\$ 118,257
Biological resources trust	591,083	542,998
Replacement water	385,200	377,451
Make-up water	<u>4,583</u>	<u>4,443</u>
Total restricted net position	<u>\$ 992,442</u>	<u>\$ 1,043,149</u>

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020 (with comparative data for 2019)**

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**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, 2020, 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, 2020, 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, 2020, 2019 and 2018. 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, 2020, 2019, and 2018, respectively.

**Mojave Basin Area Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020 (with comparative data for 2019)**

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**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.

**Note 6: Contingencies**

***COVID-19 Considerations***

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty in the financial markets. The Watermaster is carefully monitoring the situation and evaluating its options during this time. It is possible that this matter may negatively impact the Watermaster, however, the ultimate financial impact and duration cannot be estimated at this time, and no adjustments have been made to these financial statements as a result of this uncertainty.

## **Report on Internal Controls and Compliance**



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## 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*

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#### **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

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, 2020, and the related notes to the financial statements, which collectively comprise the Watermaster's basic financial statements, and have issued our report thereon dated November 12, 2020.

#### ***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  
November 12, 2020