

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY**

**AUDIT REPORT**

**FOR THE YEARS ENDED  
DECEMBER 31, 2020 AND 2019**

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
DECEMBER 31, 2020 AND 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Governing Board  
Indian Wells Valley Groundwater Authority  
Ridgecrest, California

### Report on the Basic Financial Statements

We have audited the accompanying financial statements of the Indian Wells Valley Groundwater Authority (the Authority) as of and for the years ended December 31, 2020 and 2019, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Basic Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these basic 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years ended December 31, 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Management has omitted the management discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2022, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 3, 2022

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY**  
**STATEMENTS OF NET POSITION (DEFICIT)**  
**DECEMBER 31, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 146,996	\$ 69,641
Assessment Fees Receivable	62,663	50,109
Grant Receivable	656,959	376,409
Total Current Assets	866,618	496,159
Noncurrent Assets		
Depreciable Capital Assets, Net	26,909	-
Total Noncurrent Assets	26,909	-
Total Assets	893,527	496,159
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	797,909	464,185
Total Current Liabilities	797,909	464,185
Noncurrent Liabilities		
Advances Payable	1,000,000	1,000,000
Due to Other Governments	482,060	247,418
Total Noncurrent Liabilities	1,482,060	1,247,418
Total Liabilities	2,279,969	1,711,603
<b>NET POSITION</b>		
Net Investment in Capital Assets	26,909	-
Unrestricted	(1,413,351)	(1,215,444)
Total Net Deficit	\$ (1,386,442)	\$ (1,215,444)

The accompanying notes are an integral part of basic these financial statements.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION (DEFICIT)  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Assessment Fees	\$ 795,136	\$ 533,908
Total Operating Revenues	<u>795,136</u>	<u>533,908</u>
<b>OPERATING EXPENSES</b>		
Professional Fees	1,623,601	1,744,877
Depreciation Expense	<u>2,070</u>	<u>-</u>
Total Operating Expenses	<u>1,625,671</u>	<u>1,744,877</u>
Operating Loss	<u>(830,535)</u>	<u>(1,210,969)</u>
<b>NONOPERATING REVENUES</b>		
State Grants	<u>659,537</u>	<u>555,533</u>
Total Nonoperating Revenues	<u>659,537</u>	<u>555,533</u>
Change in Net Position	(170,998)	(655,436)
Net Position - Beginning, as Restated	<u>(1,215,444)</u>	<u>(560,008)</u>
Net Position - Ending (Deficit)	<u>\$ (1,386,442)</u>	<u>\$ (1,215,444)</u>

The accompanying notes are an integral part of basic these financial statements.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Assessments Fees	\$ 782,582	\$ 528,332
Cash Payments for Operating Expenses	(1,055,235)	(1,662,144)
Net Cash Used by Operating Activities	(272,653)	(1,133,812)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from State Grants	378,987	726,740
Net Cash Provided by Financing Activities	378,987	726,740
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Capital Assets	(28,979)	-
Net Cash Used by Investing Activities	(28,979)	-
Net Increase (Decrease) in Cash and Cash Equivalents	77,355	(407,072)
Cash and Cash Equivalents, Beginning of Year	69,641	476,713
Cash and Cash Equivalents, End of Year	\$ 146,996	\$ 69,641
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>		
Operating Loss	\$ (830,535)	\$ (1,210,969)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	2,070	-
(Increase in Assessment Fees Receivable)	(12,554)	(5,576)
Increase/(Decrease) in Accounts Payable	333,724	(5,363)
Increase in Due to Other Governments	234,642	88,096
Net Cash Used by Operating Activities	\$ (272,653)	\$ (1,133,812)

The accompanying notes are an integral part of basic these financial statements.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

A. Organization and Authority Activities

Indian Wells Valley Groundwater Authority (the Authority) was formed June 15, 2016. The Authority is organized under California Government Code Section 65000. The Authority was formed for the purpose of forming a Groundwater Sustainable Agency (GSA) and achieving groundwater sustainability in the Indian Wells Valley Groundwater Basin. The Authority is governed by a five member Board of Directors (the Board). One board member is appointed by each General Member. The five General Members of the Authority are the City of Ridgecrest, County of Inyo, County of Kern, County of San Bernardino, and Indian Wells Valley Water District (the District).

The accounting and reporting policies of the Authority conform in all material respects to accounting principles generally accepted in the United States of America applicable to governmental enterprise funds.

B. Reporting Entity

The Authority has no oversight responsibility for any other governmental entity nor is the Authority's operation a component unit of any other governmental entity. Therefore, the reporting entity consists only of the Authority's operations.

C. Basis of Presentation

The Authority reports its activities as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed in a manner similar to private business enterprises: (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the economic measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenue) and decreases (expenses) in total net position (deficit). Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. Classification of Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from water activities related to the Indian Wells Valley Groundwater Basin and related costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. Classification of Revenues and Expenses (Continued)

Operating revenues, such as member contributions, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as sale of assets and grant income, result from nonexchange transactions or ancillary activities in which the Authority gives (receives) value without directly receiving (giving) equal value in exchange. For the years ended December 31, 2020 and 2019, nonoperating revenues included \$659,537 and \$555,533, respectively, in grant income received from the State of California.

Operating expenses include the cost of sales and service, administrative expense, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

F. Establishment of Revenue

Income is, for the most part, generated from the contributions of the Authority's members. The Board determines member contributions.

G. Budget

Although a budget is adopted annually, it is used primarily as a guideline for the Board in regulation of expenses. The budget is prepared on a modified cash basis of accounting. There is no legal compulsion to stay within the adopted budget in the payment or classification of expenses.

H. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits with financial institutions, deposits in money market mutual funds, and short-term investments with original maturities of twelve months or less from the date of acquisition. The short-term investments include the pooled cash with the Kern County Treasury. Investment pool deposits are carried at the Authority's proportionate share of the fair value of the pool's underlying portfolio.

I. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the enterprise fund on the Statement of Net Position as nondepreciable or depreciable noncurrent assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Equipment	7 years

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through June 3, 2022, the date the financial statements were available to be issued.

K. Net Position

In the Statement of Net Position, net position is classified in the following category:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any notes or other borrowings attributable to those assets.

Unrestricted Net Position – This amount includes all items that do not meet the definition of restricted assets.

L. Governmental Accounting Standards Update

During the year ended December 31, 2020, the Authority implemented the following standards:

**GASB Statement No. 95** – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this statement are effective immediately. The Authority will implement GASB Statements No. 87, No. 89, No. 91, No. 92, and No. 93 in accordance with the postponed effective dates as stated in GASB Statement No. 95.

**GASB Statement No. 84** – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. There was no impact on the Authority's accounting or financial reporting as a result of implementation.

**GASB Statement No. 90** – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. There was no impact on the Authority's accounting or financial reporting as a result of implementation.

Recently released standards by GASB affecting future years are as follows:

**GASB Statement No. 87** – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. The Authority has not fully judged the effect of implementation of GASB Statement No. 87 as of the date of the basic financial statements.

**GASB Statement No. 89** – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. The Authority has not fully judged the impact of implementation of GASB Statement No. 89 on the financial statements.

**GASB Statement No. 91** – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. The Authority has not fully judged the impact of implementation of GASB Statement No. 91 on the financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

L. Governmental Accounting Standards Update (Continued)

**GASB Statement No. 92** – *Omnibus 2020*. The requirements of this statement are effective as follows:

- The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of GASB Statements No. 73 and No. 74 are effective for reporting periods beginning after June 15, 2021.
- The requirements related to application of GASB Statement No. 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

The Authority has not fully judged the impact of implementation of GASB Statement No. 92 on the financial statements.

**GASB Statement No. 93** – *Replacement of Interbank Offered Rates*. The requirements of this statement, except for paragraph 11b, are effective for reporting periods beginning after June 15, 2021. The Authority has not fully judged the impact of implementation of GASB Statement No. 93 on the financial statements.

**GASB Statement No. 94** – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Authority has not fully judged the impact of implementation of GASB Statement No. 94 on the financial statements.

**GASB Statement No. 96** – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Authority has not fully judged the impact of implementation of GASB Statement No. 96 on the financial statements.

**GASB Statement No. 97** – *Certain Component Units Criteria and Accounting and Financial Reporting of Internal Revenue Code 457 Deferred Compensation Plans – an Amendment to GASB Statements No. 14 and No. 84 and a Supersession of GASB Statement No. 32*. The requirements in paragraph 4 as it applies to defined contribution pension plans, defined other employee benefit plans, and other employee benefit plans and paragraph 5 are effective immediately. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021. The Authority has not fully judged the impact of implementation of GASB Statement No. 97 on the financial statements.

## NOTE 2 – CASH DEPOSITS AND INVESTMENTS

The Authority has the following cash and cash investments at December 31:

	<u>2020</u>	<u>2019</u>
Deposits:		
Demand deposits	<u>\$ 82,005</u>	<u>\$ 19,971</u>
Cash Investments:		
Kern County Investment Fund	<u>\$ 64,991</u>	<u>\$ 49,670</u>
Total	<u>\$ 146,996</u>	<u>\$ 69,641</u>

The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law. Balances were fully insured and/or collateralized with securities held by the pledging financial institutions in the Authority's name.

The Authority does not have an adopted investment policy; therefore, the Authority is governed by the investment guidelines of the California Government Code. The State of California Government Code authorizes investments in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, and the State of California Local Agency Investment Fund.

As of December 31, 2020 and 2019, the Authority had \$64,991 and \$49,670, respectively, invested with the Kern County Investment Fund. The Kern County Investment Fund fair value factor of 1.0139247707 and 1.0087814055 at December 31, 2020 and 2019, respectively, was used to calculate the fair value of the investments.

### 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 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 California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 Authority). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

GASB Statement No. 40 requires that disclosures be made with respect to custodial credit risks relating to deposits and investments. Of the Authority's bank balances, \$0 and \$0 at December 31, 2020 and 2019, respectively, were exposed to custodial credit risk.

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2020 and 2019, is as follows:

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
Depreciable Assets:				
Equipment	\$ -	\$ 28,979	\$ -	\$ 28,979
Total Depreciable Assets	-	28,979	-	28,979
Less: Accumulated Depreciation:				
Equipment	-	(2,070)	-	(2,070)
Total Accumulated Depreciation	-	(2,070)	-	(2,070)
Total Depreciable Assets, Net	-	26,909	-	26,909
Total Capital Assets, Net	\$ -	\$ 26,909	\$ -	\$ 26,909
	Balance January 1, 2019	Additions	Deletions	Balance December 31, 2019
Depreciable Assets:				
Equipment	\$ -	\$ -	\$ -	\$ -
Total Depreciable Assets	-	-	-	-
Less: Accumulated Depreciation:				
Equipment	-	-	-	-
Total Accumulated Depreciation	-	-	-	-
Total Depreciable Assets, Net	-	-	-	-
Total Capital Assets, Net	\$ -	\$ -	\$ -	\$ -

Depreciation expense for the years ended December 31, 2020 and 2019 were \$2,070 and \$0, respectively.

**NOTE 4 – ADVANCES PAYABLE**

On December 13, 2017, the District entered into an advanced funds agreement to allow work to continue on the Groundwater Sustainability Plan. The District agreed to defer reimbursement until future assessments, charges, and fees imposed by the Authority to fund the costs of the Groundwater Sustainability are collected. Advances payable to the District are \$500,000 and \$500,000 at December 31, 2020 and 2019, respectively.

On June 26, 2018, the County of Kern (the County) provided the Authority with initial funding capital to close the funding gap created by the delay in imposing a groundwater extraction fee, while simultaneously providing provisions that will ensure that the County's contributions are refunded to the County as the Authority becomes self-sufficient. Advances payable to the County are \$500,000 and \$500,000 at December 31, 2020 and 2019, respectively.

**NOTE 5 – DUE TO OTHER GOVERNMENTS**

The Authority entered into agreements to have other government entities pay for professional fees to allow work to continue on the Groundwater Sustainability Plan as expenses expended revenues collected. These other government entities have agreed to defer reimbursement until future assessments, charges, and fees imposed by the Authority to fund the costs of the Groundwater Sustainability are collected. For the years ended December 31, 2020 and 2019, the Authority had amounts due to other governments totaling \$482,060 and \$247,418, respectively.

**NOTE 6 – PRIOR PERIOD ADJUSTMENT**

Net Position at January 1, 2019, as previously stated	\$ (414,751)
Operating expenses not previously recognized	<u>(145,257)</u>
Net Position at January 1, 2019, as restated	(560,008)
Change in Net Position for the Year Ended December 31, 2019, as previously stated	(345,826)
Assessment fees not previously recognized	19,124
Operating expenses not previously recognized	<u>(328,734)</u>
Net Position at January 1, 2020, as Restated	<u><u>\$ (1,215,444)</u></u>

**OTHER INDEPENDENT AUDITOR'S REPORT**

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

To the Honorable Members of the Governing Board  
Indian Wells Valley Groundwater Authority  
Ridgecrest, 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 Indian Wells Valley Groundwater Authority (the Authority), as of and for the years ended December 31, 2020 and 2019, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 3, 2022.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding 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 audit 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.

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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 financial statements. 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
June 3, 2022

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

None noted.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
STATUS OF PRIOR FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**Finding 2019-001**

Condition:

We noted during our subsequent disbursements and subsequent receipts testing that the Authority did not properly accrue revenue and expenses. As such, we had to make an adjustment to accounts payable and grant receivables.

Criteria:

Per accounting principles generally accepted in the United States of America and governmental accounting standards, proprietary funds use the accrual basis of accounting. Under the accrual basis, expenses and liabilities are to be recorded in the period incurred. As the Authority's grant is on a reimbursement basis, the related grant revenue and receivable for reimbursement of expenses incurred are also to be recorded in the period incurred.

Cause of Condition:

There was a timing issue when it came to recording expense and revenue accruals at year end and the Authority did not accrue a liability and asset that should have been accrued.

Potential Effect of Condition:

Understating liabilities, expenses, assets and revenue for the fiscal year under audit.

Recommendation:

We recommend that the Authority implement procedures to review invoices received subsequent to year end for costs incurred prior to the end of the fiscal year. All costs incurred prior to the end of fiscal year need to be accrued within the fiscal year. Grant revenues for reimbursable costs should also be accrued in the fiscal year in which the costs were incurred. Additionally, to remedy the condition, we recommend that the Authority perform its own in-house bookkeeping rather than rely on the County of Kern.

View of Responsible Officials and Planned Corrective Actions:

This finding is a repeat of the finding discussed with the County Fiscal and Policy Analyst on Friday February 1, 2019, where she acknowledged there was no accrual made. The Authority will correct their financial statements to reflect these assets and liabilities on the financial statements. Change in staffing resulted in closing procedures not being made properly. They agree to perform certain closing procedures to ensure that proper accruals are made.

Current Year Status

The Authority has implemented new closing procedures to ensure proper accrual of revenue and expenses.

## **Finding 2019-002**

### **Condition:**

The Authority is not able to produce its own financial statements in conformity with accounting principles generally accepted in the United States of America. For convenience and efficiency, the Authority's Management relies on the external auditor to assist in preparing the financial statements

### **Criteria:**

Brown Armstrong Accountancy Corporation (BAAC) prepared and drafted the financial statements and footnotes for the Authority. Upon completion, a draft of the financial statements is submitted to the Authority's Management for review and approval. This service is performed as a convenience to management. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by BAAC in order to correct any material mistakes.

### **Effect:**

BAAC assisted with the preparation of the financial statements, which is a less effective of a control than performing the reporting function internally.

### **Cause:**

The Authority's Management relies upon BAAC to draft the financial statements as a convenience to management.

### **Recommendation:**

We recommend that the Authority identify a member of management to take over the responsibility of financial reporting.

### **View of Responsible Officials and Planned Corrective Actions:**

The Authority, at this time, depends on member agencies to manage its various responsibilities. These member agency employees have other responsibilities within their organization which limits time available to the Authority. Until such time as the Authority itself employs individuals or contracts out these responsibilities, the Authority will have to rely on third party production of these statements.

### **Current Year Status**

The Authority has contracted out these responsibilities to ensure proper production of the financial statements.