

To the Board of Directors  
Indian Wells Valley Groundwater Authority  
Ridgecrest, California

We have audited the financial statements of the business-type activities of the Indian Wells Valley Groundwater Authority (the Authority) for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 3, 2022. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

Management's estimate of the allowance for doubtful accounts related to the water basin replenishment fee receivable. We evaluated the key factors and assumptions used to develop the estimate of the useful lives of its capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the useful lives of its capital assets for the purpose of calculating annual depreciation expense in the Authority's Statement of Revenues, Expenses, and Changes in Net Position. Estimated useful lives for equipment is 7 years. We evaluated the key factors and assumptions used to develop the estimate of the useful lives of its capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of accounts receivable of the water basin replenishment fee and the related allowance in Note 3 and the estimate of the allowance useful lives of its capital assets in Note 4 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 12, 2023.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Restriction on Use**

This information is intended solely for the information and use of the Board of Directors and management of Indian Wells Valley Groundwater Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
May 12, 2023

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY**

**AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2021**

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
DECEMBER 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinions

We have audited the accompanying financial statements of the Indian Wells Valley Groundwater Authority (the Authority), the business-type activities as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the Authority, as of December 31, 2021, and the respective 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.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2023, 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  
May 12, 2023

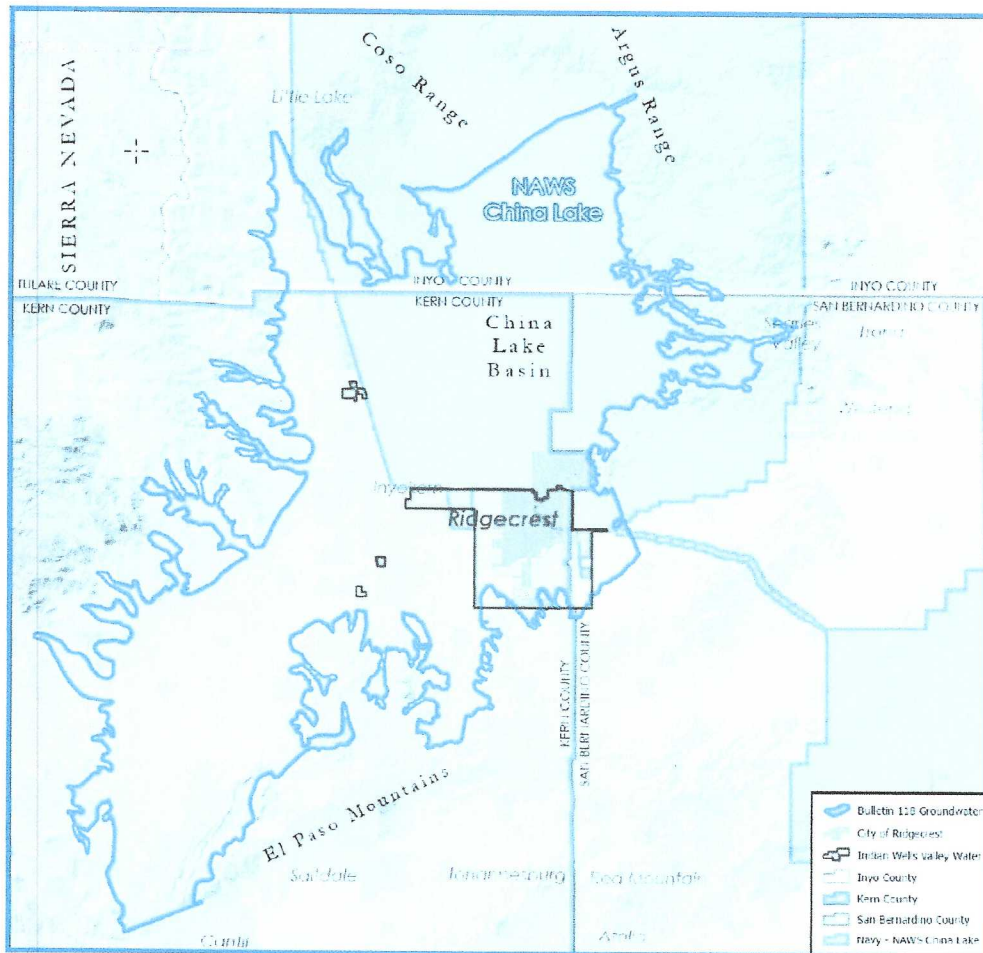
**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

The Management's Discussion and Analysis (MD&A) of the financial performance of the Indian Wells Valley Groundwater Authority (Authority) introduces the financial statements of the Authority for the fiscal year ending December 31, 2021. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Introduction to the Authority**

The Authority was formed in July 2016 in response to the 2014 Sustainable Groundwater Management Act (SGMA or the Act) for the purpose of achieving groundwater sustainability in the Indian Wells Valley Groundwater Basin. SGMA requires groundwater basins subject to the Act to form a Groundwater Sustainability Agency (GSA), which is then required to develop and implement a groundwater sustainability plan (GSP or Plan) and achieve sustainable groundwater management within 20 years of Plan adoption. The Authority received approval for the Plan from the Department of Water Resources in January 2022.

The Authority is a joint powers authority comprised of the following five local public agencies: County of Kern, Indian Wells Valley Water District, County of Inyo, County of San Bernardino and the City of Ridgecrest.



*Stetson Engineers Inc.: Jurisdictions and Boundaries of JPA Members - IWVGW Basin*

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

The Authority's Board of Directors is composed of 5 voting members, one from each member jurisdiction. The JPA also has non-voting Associate Members for the following federal agencies: United States Department of the Interior Bureau of Land Management and United States Navy Naval Air Weapons Station China Lake. The Authority's revenue sources include extraction fees, basin replenishment fees and Department of Water Resources (DWR) grant funding.

Authority administration and engineering services were outsourced since the inception of the JPA. Stetson Engineering provides Water Resource Manager services, engineering and grant administration for the Authority. Administration and financial services were originally shared between JPA members until January 2021, when Regional Government Services (RGS) was hired to provide outsourced administration and financial services for the Authority.

This section of the annual financial report presents our discussion and analysis of Authority's financial performance during the period from January 1, 2021 to December 31, 2021 with one prior year for comparison. Please read it in conjunction with Authority's financial statements, which follow this section.

**2021 FINANCIAL HIGHLIGHTS**

- The Basin Replenishment Fee was implemented in 2021 to support the cost and purchase of imported water in the basin. In fiscal year 2021, \$4.2 million in revenue was associated with the Basin Replenishment Fee. For more information on the Basin Replenishment Fee and its implementation, please see Note 3.
- The Extraction fee earned \$1.3 million in 2021. For more information on the Extraction Fee and its implementation, please see Note 3.
- The Authority repaid Indian Wells Valley Water District for the \$500,000 Advance from 2018.
- Revenues for the fiscal year were \$5,522,199 in total or \$4.7 million higher than the previous fiscal year primarily due to the addition of the Basin Replenishment Fee.
- Outstanding Assessment fees totaled \$11.9 million. The Authority is initiating efforts to collect the unpaid Basin Replenishment fees (Note 3 - Accounts Receivable).
- Department of Water Resources (DWR) Grant funding from Proposition 1 and Proposition 68 is nearing completion.
- The Authority finished the year with a net position of \$2.4 million, an increase of \$3.8 million from fiscal year 2020.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of three parts – management's discussion and analysis (this section), the financial statements, and required supplementary information. The financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position are included along with Notes to the Financial Statements to clarify unique accounting policies and financial information. The Statement of Net Position includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. The Authority reports its activities as an enterprise fund. An enterprise fund uses the accrual basis of accounting for its activities.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Following is the Authority's Condensed Statement of Net Position.

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>Percent Change</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 3,045,853	\$ 146,996	\$ 2,898,857	1972%
Accounts Receivable, Net of Allowance (Note 3)	332,862	62,663	270,199	431%
Grants Receivable	492,289	656,959	(164,670)	-25%
Advances to Other Funds	500,000	-	500,000	N/A
Capital Assets	22,769	26,909	(4,140)	-15%
<b>Total Assets</b>	<u>4,393,773</u>	<u>893,527</u>	<u>3,500,246</u>	<u>392%</u>
<b>Liabilities</b>				
Accounts Payable	267,901	797,909	(530,008)	-66%
Advances from Other Funds	500,000	-	500,000	N/A
Advances Payable	500,000	1,000,000	(500,000)	-50%
Due to Other Governments	692,217	482,060	210,157	44%
<b>Total Liabilities</b>	<u>1,960,118</u>	<u>2,279,969</u>	<u>(319,851)</u>	<u>-14%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	22,769	26,909	(4,140)	-15%
Restricted	3,160,686	-	3,160,686	N/A
Unrestricted	(749,800)	(1,413,351)	663,551	47%
<b>Total Net Position</b>	<u>\$ 2,433,655</u>	<u>\$ (1,386,442)</u>	<u>\$ 3,820,097</u>	<u>276%</u>

Under Assets, the cash and cash equivalents balance reflect funds on deposit at the County of Kern and the Authority's bank. The increase in cash of \$2.9 million from the previous year is due to the receipt of new fee revenue from the Basin Replenishment fee. Accounts Receivable includes outstanding Basin Replenishment Fee and Extraction Fee revenue not yet received by December 31, 2021. Grants Receivable reflects grant reimbursement requests submitted to the Department of Water Resources (DWR) which are awaiting reimbursement. Advances to Other Funds includes \$500,000 advanced by the Basin Replenishment Fund to the Extraction Fund for the repayment of an advance by JPA member Indian Wells Valley Water District. In fiscal year 2017, the Indian Wells Valley Water District (District) agreed to advance \$500,000 for adoption, evaluation and approval of the Groundwater Sustainability Program (GSP). In 2021, the District, with Board approval, held back payment of the District's portion of the Basin Replenishment fees to repay itself the \$500,000. As the activities were related to the GSP, the action resulted in the Extraction Fund receiving an advance from the Basin Replenishment Fund (Note 6).

Under Liabilities, the Authority's accounts payable liabilities are routine monthly vendor invoices. Advances payable is owed to the County of Kern, a JPA member. In 2017, the County of Kern agreed to advance \$500,000 for the purpose of filling the funding gap that had been created by the delay in imposing a groundwater extraction fee. Due to Other Governments includes \$692,217 owed to the City of Ridgecrest. Since 2016, The City of Ridgecrest, a JPA member, has provided General Counsel or Legal Services, and use of Council Chambers/Audio Visual/IT services to the Authority. Repayment is restricted to Extraction revenue.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Following is a Condensed Statement of Revenues, Expenses, and Changes in Net Position for the fiscal years ended 2021 and 2020.

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues				
Assessment Fees	\$ 5,522,199	\$ 795,136	\$ 4,727,063	594%
Total Operating Revenues	<u>5,522,199</u>	<u>795,136</u>	<u>4,727,063</u>	594%
Operating Expenses				
Professional Expenses	2,020,759	1,623,601	397,158	24%
Depreciation Expense	4,140	2,070	2,070	100%
Total Operating Expenses	<u>2,024,899</u>	<u>1,625,671</u>	<u>399,228</u>	25%
Nonoperating Revenues				
State Grants	322,797	659,537	(336,740)	-51%
Assessment Fees	11,989,819	-	11,989,819	N/A
Bad Debt Expense	(11,989,819)	-	(11,989,819)	N/A
Total Nonoperating Revenues	<u>322,797</u>	<u>659,537</u>	<u>(336,740)</u>	-51%
Change in Net Position	3,820,097	(170,998)	3,991,095	2334%
Beginning Net Position	<u>(1,386,442)</u>	<u>(1,215,444)</u>	<u>(170,998)</u>	-14%
Ending Net Position	<u>\$ 2,433,655</u>	<u>\$ (1,386,442)</u>	<u>\$ 3,820,097</u>	276%

Under Operating Revenues, Assessment Fees have increased by \$4.7 million. In 2021, the Basin Replenishment Fee was implemented through a Prop. 218 process resulting in \$4.2 million in revenue. The Authority continues to receive Extraction Fee revenue. Extraction Fee revenue increased from prior year due to rate adjustments.

The Authority's operating expenses include contracted Administrative, Engineering, Legal and Lobbying related services associated with implementing the GSP. Professional services increased by 24% primarily due to litigation-related costs.

Under Nonoperating Revenues, Grant revenue is decreasing as DWR Proposition 1 and 68 grant related activities are winding down. The Assessment Fees and Bad Debt Expense is associated with two water producers who have refused to pay the Basin Replenishment Fee. For more information, see Note 3 – Accounts Receivable. These amounts are not to be considered as available for financing operations until the funds are collected.

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY**  
**STATEMENT OF NET POSITION (DEFICIT)**  
**DECEMBER 31, 2021**

	Extraction Fund	Basin Replenishment Fund	Total
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 416,931	\$ 2,628,922	\$ 3,045,853
Accounts Receivable, Net of Allowance (Note 3)	75,848	257,014	332,862
Grant Receivable	492,289	-	492,289
Total Current Assets	<u>985,068</u>	<u>2,885,936</u>	<u>3,871,004</u>
Noncurrent Assets			
Advances to Other Funds (Note 5)	-	500,000	500,000
Depreciable Capital Assets, Net (Note 4)	22,769	-	22,769
Total Noncurrent Assets	<u>22,769</u>	<u>500,000</u>	<u>522,769</u>
Total Assets	<u>1,007,837</u>	<u>3,385,936</u>	<u>4,393,773</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	173,633	94,268	267,901
Total Current Liabilities	<u>173,633</u>	<u>94,268</u>	<u>267,901</u>
Noncurrent Liabilities			
Advances Payable (Note 6)	500,000	-	500,000
Advances from Other Funds (Note 5)	500,000	-	500,000
Due to Other Governments	561,235	130,982	692,217
Total Noncurrent Liabilities	<u>1,561,235</u>	<u>130,982</u>	<u>1,692,217</u>
Total Liabilities	<u>1,734,868</u>	<u>225,250</u>	<u>1,960,118</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	22,769	-	22,769
Restricted	-	3,160,686	3,160,686
Unrestricted	(749,800)	-	(749,800)
Total Net Position (Deficit)	<u>\$ (727,031)</u>	<u>\$ 3,160,686</u>	<u>\$ 2,433,655</u>

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

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION (DEFICIT)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Extraction Fund	Basin Replenishment Fund	Total
<b>OPERATING REVENUES</b>			
Assessment Fees	\$ 1,319,924	\$ 4,202,275	\$ 5,522,199
Total Operating Revenues	<u>1,319,924</u>	<u>4,202,275</u>	<u>5,522,199</u>
<b>OPERATING EXPENSES</b>			
Professional Fees	1,094,248	926,511	2,020,759
Depreciation Expense	4,140	-	4,140
Total Operating Expenses	<u>1,098,388</u>	<u>926,511</u>	<u>2,024,899</u>
Operating Income	<u>221,536</u>	<u>3,275,764</u>	<u>3,497,300</u>
<b>NONOPERATING REVENUES</b>			
State Grants	322,797	-	322,797
Assessment Fees (Note 3)	16,540	11,973,279	11,989,819
Bad Debt Expense	(16,540)	(11,973,279)	(11,989,819)
Total Nonoperating Revenues	<u>322,797</u>	<u>-</u>	<u>322,797</u>
<b>TRANSFERS</b>			
Transfers In/Out (Note 5)	115,078	(115,078)	-
Change in Net Position	659,411	3,160,686	3,820,097
Net Position - Beginning	<u>(1,386,442)</u>	<u>-</u>	<u>(1,386,442)</u>
Net Position - Ending (Deficit)	<u>\$ (727,031)</u>	<u>\$ 3,160,686</u>	<u>\$ 2,433,655</u>

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

**INDIAN WELLS VALLEY GROUNDWATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Extraction Fund	Basin Replenishment Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Assessments Fees	\$ 1,306,739	\$ 3,945,261	\$ 5,252,000
Cash Payments for Operating Expenses	(1,639,349)	(701,261)	(2,340,610)
Net Cash Provided (Used by) Operating Activities	<u>(332,610)</u>	<u>3,244,000</u>	<u>2,911,390</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from State Grants	487,467	-	487,467
Proceeds from Advances	(500,000)	-	(500,000)
Interfund Advances and Transfers	615,078	(615,078)	-
Net Cash Provided (Used by) Financing Activities	<u>602,545</u>	<u>(615,078)</u>	<u>(12,533)</u>
Net Increase in Cash and Cash Equivalents	269,935	2,628,922	2,898,857
Cash and Cash Equivalents, Beginning of Year	<u>146,996</u>	<u>-</u>	<u>146,996</u>
Cash and Cash Equivalents, End of Year	<u>\$ 416,931</u>	<u>\$ 2,628,922</u>	<u>\$ 3,045,853</u>
<b>Reconciliation of Operating Income to Net Cash Used by Operating Activities:</b>			
Operating Income	\$ 221,536	\$ 3,275,764	\$ 3,497,300
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	4,140	-	4,140
(Increase) in Assessment Fees Receivable	(13,185)	(257,014)	(270,199)
Increase/(Decrease) in Accounts Payable	(624,276)	94,268	(530,008)
Increase in Due to Other Governments	79,175	130,982	210,157
Net Cash Provided (Used) by Operating Activities	<u>\$ (332,610)</u>	<u>\$ 3,244,000</u>	<u>\$ 2,911,390</u>

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, 2021**

**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 year ended December 31, 2021, nonoperating revenues included \$322,797, 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.

On August 21, 2020, a public hearing was held to consider the adoption of the Basin Replenishment Fee by the Authority. Federal Interests and de minimis users, as defined by the Sustainable Groundwater Management Act (SGMA), are exempt from the Replenishment Fee. Likewise, residents in the Authority small mutuals and the Inyokern Community Services District are exempted through Navy pronouncement that its water needs include off-stations demands for its workforce, and their dependents. The Replenishment Fee is calculated so that the properties are only charged their fair share, and no more. At the hearing, the Authority conducted a majority protest proceeding and determined there was not a majority of protest letters received. The Board adopted Ordinance 03-20 setting the Basin Replenishment Fee.

**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 Authority 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.

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

I. Capital Assets (Continued)

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

J. 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.

K. Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through May 12, 2023, the date the financial statements were available to be issued.

L. Net Position

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

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 Net Position - This component of net position represents amounts with constraints on their use that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

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

On December 31, 2021, the Extraction Fund had a deficit of \$727,031. The deficit will be eliminated with the collection of future assessment fees.

M. Governmental Accounting Standards Update

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)

**M. 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>2021</u>
Deposits:	
Demand deposits	\$ 789,405
Cash Investments:	
Kern County Investment Fund	<u>2,256,448</u>
Total	<u>\$ 3,045,853</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, 2021, the Authority had \$2,256,448, invested with the Kern County Investment Fund. The Kern County Investment Fund fair value factor of 0.995792 at December 31, 2021, 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 balance at December 31, 2021, \$789,405, was exposed to custodial credit risk.

**NOTE 3 – ACCOUNTS RECEIVABLE**

The Authority was created through a Joint Exercise of Powers agreement in 2016 to serve as the GSA for the Indian Wells Valley Groundwater Basin. The Authority was created pursuant to SGMA which calls for local agencies to form GSAs to establish and implement Groundwater Sustainability Plans (GSP) for groundwater basins within the state that were determined by the Department of Water Resources (DWR) to be medium or high priority. The Indian Wells Valley Groundwater Basin was not only high priority, but is designated by DWR as a critically-overdrafted (COD) basin. All basins subject to SGMA requirements were required to establish GSAs by June 2017; GSAs managing CODs – which have the greatest need for action – were required to create and submit a GSP by January 2020.

### **NOTE 3 – ACCOUNTS RECEIVABLE (Continued)**

As the designated GSA for the Indian Wells Valley Basin, the Authority has the authorities given under SMGA (California Water Code Div. 6, Part 2.74 – Sections 10720 – 10737.8) as well as the powers of the member agencies as provided through its Joint Exercise of Powers Agreement (authorized by California Government Code Chapter 5, Sections 6500 – 6599.3). The authorities granted through SGMA include the ability to impose fees for groundwater management and implementation of the GSP. The process for adopting such fees is cited in SGMA (California Water Code Sections 10730-10731) and mirrors the requirements of Proposition 218 and Proposition 26. The Authority's fees were developed and implemented pursuant to those requirements. The Board Resolution and Engineer's Report establishing the Replenishment Fee are here: <https://iwvga.org/s/Ordinance-03-20-Full-7szn.pdf>. Board actions and supporting documents for the Extraction Fee, GSP and other information can be found on the Authority's website, IWVGA.ORG.

On August 21, 2020, a public hearing was held to consider the adoption of the Basin Replenishment Fee by the Authority. Federal Interests and de minimis users, as defined by the SGMA, are exempt from the Replenishment Fee. Likewise, residents in the Authority's small mutuals and the Inyokern Community Services District are exempted through Navy pronouncement that its water needs include off-Stations demands for its workforce, and their dependents. The Replenishment Fee is calculated so that the properties are only charged their fair share, and no more. At the hearing, the Authority conducted a majority protest proceeding and determined there was not a majority of protest letters received. The Board adopted Ordinance 03-20 setting the Basin Replenishment Fee.

The Basin Replenishment Fee is a composite per acre foot extraction fee to purchase import supplies for those that need them and to pay for mitigation of registered shallow wells that are damaged by continuing overdraft. The Basin Replenishment Fee can be lowered as it is proportional and based on the augmented supply needed so if the needed supply is lowered the ultimate cost is lowered.

Basin Replenishment Fees currently imposed by the Authority are as follows:

- Shallow Well Mitigation Fee: Currently at \$17.50/acre-foot (AF), this fee is paid by agricultural pumpers who joined the Transient Pool. The Transient Pool allocated agricultural users with an allotment of water that can be used until 2040.
- Replenishment Fee: This fee is levied on any water producers who exceed the allotment assigned to them from the Basin's sustainable safe yield; it is also levied on agricultural water users who chose not to join the Transient Pool. Currently, the Replenishment totals \$2,130/AF – comprised of two separate components: the Shallow Well Mitigation Fee (identified above) at \$17.50/AF, and an Augmentation Fee at \$2,112.50/AF. The purpose of the Replenishment Fee is to pay for activities associated with supplementing the Basin's natural water supply, including the purchase of rights to imported water supplies, construction of an imported water pipeline, and an advanced water treatment facility for reuse of recycled water.

The largest receivables are from the replenishment fee which is a new revenue source this year.

#### **The Replenishment Fee**

On August 21, 2020, pursuant to California Water Code Section 10730.2, the Authority's Board of Directors passed Ordinance 03-20, establishing a "Basin Replenishment Fee" of \$2,130 per AF of water extracted from Basin. The Basin Replenishment Fee went into effect January 1, 2021. When the fee was adopted, the Authority relied on the process contained in Water Code section 10730.2, which mirrors Section 6 of Proposition 218. For the fee adoption, the GSA sent the fee out as a majority protest and there were not enough protests to meet the threshold for not imposing the fee, so the fee was approved.

The Basin Replenishment Fee is designed to provide funding for two projects: (1) the importation of water supplies and (2) the mitigation of damages to shallow wells, which will continue to occur until augmented supplies are delivered to the basin. Pursuant to Ordinance 03-20, beginning on February 15, 2021, and every month thereafter on, or before, the 15th day of the month, pumpers subject to the Basin Replenishment Fee must submit payment for the prior calendar month's extractions.

**NOTE 3 – ACCOUNTS RECEIVABLE (Continued)**

**The Replenishment Fee (Continued)**

There are three water producers subject to the Basin Replenishment Fee – 1) Mojave Pistachios, LLC; 2) Searles Valley Minerals Inc.; and 3) Indian Wells Valley Water District.

During the year ended December 31, 2021, the Indian Wells Valley Water District paid \$4,202,275. Mojave Pistachios, LLC and Searles Valley Minerals have refused to pay the fee. Both have unsuccessfully attempted to challenge the collection of the fee through an injunction. Additionally, claims for damages by both Mojave Pistachios, LLC and Searles Valley Minerals were recently dismissed, and the Authority is now initiating efforts to collect the unpaid fees.

The Assessments Receivable are as follow as of December 31, 2021:

Mojave Pistachios, LLC	\$ 7,251,138	Basin Replenishment Fee
Searles Valley Minerals	4,722,141	Basin Replenishment Fee
Inyokern Community Services District	<u>16,540</u>	Extraction Fee
Total Receivable	<u>\$ 11,989,819</u>	

The Authority has chosen to not recognize these receivable amounts as the legal process for collections moves forward. The Authority is confident in the collection of the Basin Replenishment outstanding receivables but for accounting purposes are listed under Allowance for Doubtful Accounts. These amounts are not to be considered as available for financing operations until the funds are collected.

**Impact of Litigation on Collection of the Basin Replenishment Fee**

Status of Challenge to the fee: Last year both Mojave and Searles Valley Minerals tried to have the court issue an injunction against the replenishment fee to direct the Authority to stop its attempts to collect the fee from these parties. The Authority responded by pointing out that both parties had waived their right to challenge the fee by failing to pay it as required by California law. After a series of hearings, the court ultimately ruled in favor of the Authority finding that these parties had no legal grounds to contest the fee. As a result, the legal challenges that remain are to other actions taken by the Authority and do not represent a threat to the collection of the fee.

In fact, the \$4.2 million that has been collected so far has come from another party, the Indian Wells Water District (District) that is a member of the Authority and did not challenge the fee. The Authority currently has lawsuits pending to collect the outstanding fee from Searles Valley Minerals and Mojave Pistachios, LLC. If this effort is successful, these parties will be liable to pay the Authority several million dollars more than the Authority has already collected. If the fees cannot be collected, the Authority will continue to collect from the District. In no event will the outcome of these lawsuits eliminate the obligation of the District to pay the Replenishment Fee.

**Extraction Fee**

Effective September 1, 2018, and adopted by Ordinance No. 02-18, all groundwater extractions from and within the Basin shall be subject to measurement and the Groundwater Extraction. This fee, currently at \$105 per acre-foot of water pumped, is levied on all water producers within the Indian Wells Valley Basin, except for de minimis pumpers (those who produce less than two AF per year) and co-ops with less than four connections.

California Water Code Section 10730, enacted through SGMA, authorizes the Groundwater Authority, the authority to impose a groundwater extraction fee. Pursuant to Section 10730(a), the fees may be used "to fund the costs of a groundwater sustainability program, including, but not limited to, preparation adoption, and amendment of a groundwater sustainability plan, and investigations, inspections, compliance assistance, enforcement, and program administration, including a prudent reserve." In addition, Water Code Section 10725(a) authorizes the Groundwater Authority to "perform any act necessary or proper to carry out the purposes of this part {SGMA}."

**NOTE 3 – ACCOUNTS RECEIVABLE (Continued)****Extraction Fee (Continued)**

Pursuant to SGMA, all groundwater pumpers are subject to the groundwater extraction fee except for federal entities and those that qualify as de minimis extractors. SGMA expressly provides that a “de minimis extractor” is a “person who extracts, for domestic purposes, two acre-feet or less per year” (California Water Code Section 10721(e)). “Person” for the purposes of this fee is any typical household including landscaping. One acre-foot of water is equivalent to 325,851 gallons.

During the year ended December 31, 2021, Accounts Receivable associated with the collection of the Extraction Fee was \$16,540 from InyoKern Community Services District. The probability of collection is uncertain at this time and is included in Allowance for Doubtful accounts. Total Extraction Fee revenue collected during the year was \$1.3 million.

Total accounts receivable for the year ended December 31, 2021, is as follows:

	Extraction Fund	Basin Replenishment Fund	Total
Accounts Receivable	\$ 92,388	\$ 12,230,293	\$ 12,322,681
Allowance for Doubtful Accounts	(16,540)	(11,973,279)	(11,989,819)
Accounts Receivable, Net	<u>\$ 75,848</u>	<u>\$ 257,014</u>	<u>\$ 332,862</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2021, is as follows:

	Balance January 1, 2021	Additions	Deletions	Balance December 31, 2021
Depreciable Assets:				
Equipment	\$ 28,979	\$ -	\$ -	\$ 28,979
Total Depreciable Assets	<u>28,979</u>	<u>-</u>	<u>-</u>	<u>28,979</u>
Less: Accumulated Depreciation:				
Equipment	(2,070)	(4,140)	-	(6,210)
Total Accumulated Depreciation	<u>(2,070)</u>	<u>(4,140)</u>	<u>-</u>	<u>(6,210)</u>
Total Depreciable Assets, Net	<u>26,909</u>	<u>(4,140)</u>	<u>-</u>	<u>22,769</u>
Total Capital Assets, Net	<u>\$ 26,909</u>	<u>\$ (4,140)</u>	<u>\$ -</u>	<u>\$ 22,769</u>

Depreciation expense for the year ended December 31, 2021, is \$4,140.

**NOTE 5 – INTERFUND TRANSACTIONS ADVANCES TO/FROM OTHER FUNDS**

Advances To/From Other Funds

<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>	
	<u>Extraction Fund</u>	<u>Total</u>
Basin Replenishment Fund	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Total	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Transfers

For the year ended December 31, 2021, the Authority had the following transfers:

<u>Transfers Out</u>	<u>Transfers In</u>	
	<u>Extraction Fund</u>	<u>Total</u>
Basin Replenishment Fund	<u>\$ 115,078</u>	<u>\$ 115,078</u>
Total	<u>\$ 115,078</u>	<u>\$ 115,078</u>

**NOTE 6 – ADVANCES PAYABLE**

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 is \$500,000 at December 31, 2021.

**NOTE 7 – STATUS OF LITIGATION**

The Authority is involved in various lawsuits; however the Authority does not believe litigation will have a significant impact on the operations of the Authority.

**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 year ended December 31, 2021, 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 May 12, 2023.

**Report on 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 opinion 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.

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

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

## **Report on 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  
May 12, 2023