

ODESSA WATER DISTRICT

Basic Financial Statements and Independent
Auditors' Report

For the year ended June 30, 2020



A component unit of the City of Barstow

ODESSA WATER DISTRICT
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2020

ODESSA WATER DISTRICT
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 FOR YEAR ENDED JUNE 30, 2020

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ODESSA WATER DISTRICT

December 22, 2020

Board of Directors
& Citizens of the City of Barstow

It is our pleasure to submit the Basic Financial Statements and the Independent Auditors' Report for the Odessa Water District. The District annually issues a report on its financial position and activity, audited by an independent firm of certified public accountants as required by State law. This report is published to fulfill that requirement for the fiscal year ended June 30, 2020.

Responsibility for the accuracy of the data, and the completeness and fairness of the presentations including disclosures, rests with the management of the District. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the District. Also, all disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

Lance, Soll & Lunghard, LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the Odessa Water District financial statements for the year ended June 30, 2020. The independent auditor's report is located at the front of the financial section of this report. Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a brief narrative and overview of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

PROFILE & HISTORY OF THE GOVERNMENT

The Odessa Water District, formed in 1993, is located in the northern part of the County of San Bernardino. The District's boundaries are the same as those of the City of Barstow. On January 4, 1993, the City of Barstow called for an election to be held on June 8, 1993 for the purposes of determining if the District should be created in accordance with the terms and conditions stated in Local Agency Formation Commission (LAFCO), County of San Bernardino, Resolution No. 2401 and 2402 and Chapter 533, Statutes 1991 of California State law. The voters approved the formation of the water district to provide for additional water resource options for the Barstow area.

In 2002, Odessa Water District purchased the water rights. In order to successfully market the water rights, the District would need growth in population or development. Since that time, population growth has been stagnant. In addition conservation efforts have been successful resulting in no overdraft of the water basin.

The main source of water for the City of Barstow and its residents is serviced by Golden State Water Company (GSWC), an investor-owned public utility company regulated by the California Public Utilities Commission (CPUC). They own the majority of the water system, including pumps, pipes, tanks as well as water rights. The District has had relatively little activity with the exception of holding and maintaining the water rights. Water rights in our region are regulated by the Mojave Water Agency.

The City Council of the City of Barstow serves as the Odessa Water District's Board of Directors. The City Council/Board of Directors is elected by their constituents and each serving a four-year term, governs the District. The Odessa Water District's board meetings are held annually.

LOCAL ECONOMY

Major industries located within the government's boundaries, or in close proximity, include major military installations including both military and civilian personnel, national defense contractors, transportation and rail firms, and numerous educational and financial institutions. Activity in District's region in fiscal year 2020 reflected a continued strengthening in home sale median prices and increased commercial development activity. The most current population figures show San Bernardino County has increased its population by .5% from January 1, 2019 to January 1, 2020. The City of Barstow city limits represent the largest portion of the District. Its population increased .2% from the previous fiscal year. The unemployment rate as of June 2020 for the District, which encompasses the City of Barstow's boundaries, is 12.1%. This increase in unemployment from the previous fiscal year of 6.1% in June 2019, is related to the COVID-19 pandemic.

LONG-TERM FINANCIAL PLANNING

The long-term financial plan for the Odessa Water District entails the sale or lease of water rights to prospective industrial and/or residential developers. Under the revised Barstow General Plan, significant new development is forecast to occur in the Odessa Water District that is likely to require access to water. The City's currently underutilized allocation is 225 acre feet (per ramp down) for fiscal year 2020 and is a potential source of water for these development projects as well as a source of revenue for the Odessa Water District. Since the marketable asset is an intangible water rights there are minimal costs to operate and maintain the District annually.

Respectfully submitted,



Nikki Salas
City Manager



Cindy Prothro
Assistant City Manager

**Odessa Water District
List of Ex-Officio Members
June 30, 2020**

Ex-Officio Members



Chairman	Julie Hackbarth-McIntyre
Vice Chairman	Carmen Hernandez
Director	James Noble
Director	Timothy Silva
City Treasurer	Michael J. Lewis
Secretary	JoAnne Cousino

Appointed Officials

City Manager	Nikki Salas
Assistant City Manager	Cindy Prothro
Administrative Services Manager	Heidy Riley
City Attorney	Terri Highsmith



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Odessa Water District
City of Barstow, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Odessa Water District, (the District), a component unit of the City of Barstow, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



To the Board of Directors
Odessa Water District
City of Barstow, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Odessa Water District, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2020, on our consideration of the District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
December 22, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2020

This Management's Discussion and Analysis (MD&A) of the Odessa Water District (District) financial performance provides a brief narrative and analysis of the District's financial activities for the fiscal year ended June 30, 2020.

OVERVIEW OF FINANCIAL STATEMENTS

GOVERNMENT WIDE FINANCIAL STATEMENTS-STATEMENT OF NET POSITION

Net position over time may serve as a useful indicator of the District's financial position. The chart below reflects the District's net position for the current and previous fiscal year. The District's major asset is water rights for \$85,000, which were purchased in 2002. Net position decreased by \$300, from the previous fiscal year, due to fees.

ODESSA WATER DISTRICT STATEMENT OF NET POSITION

ASSETS	Governmental Activities	
	2020	2019
Current and other assets	\$ -	\$ -
Intangible Assets-Water Rights	85,000	85,000
Total assets	85,000	85,000
LIABILITIES		
CURRENT LIABILITIES:		
Due to the City of Barstow	42,942	42,642
Total current liabilities:	42,942	42,642
NON-CURRENT LIABILITIES:		
Due to the Barstow Successor Agency	45,461	45,461
Total non-current liabilities	45,461	45,461
Total liabilities	88,403	88,103
NET POSITION		
Net invested in capital assets	39,539	39,539
Unrestricted	(42,942)	(42,642)
Total Net Position:	\$ (3,403)	\$ (3,103)

GOVERNMENT FUND SUMMARY

During the fiscal year ended on June 30, 2020, the District's activity was minimal. Expenditures of \$300 was for fees.

Below is a summary of the statement of revenues, expenditures, and changes in fund balances for the Odessa Water District for the last two fiscal years:

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	FY 2020	FY 2019
Revenues:		
Total Revenues	\$ -	\$ -
Expenditures:		
General Government: Public Works	300	300
Total Expenditures	300	300
Net Change in Fund Balance:	(300)	(300)
Beginning of Year	(88,103)	(87,803)
End of Year	(88,403)	(88,103)

Odessa Water District has a deficit cash balance of \$42,942 as of June 30, 2020, as a result of a temporary borrowing of cash from the City of Barstow General Fund.

Odessa Water District has a payable due to the Redevelopment Agency Dissolution Trust in the amount of \$45,461 as of June 30, 2020. The General Manager of Environmental Services is working to lease out our water rights to reduce the liabilities within the fund.

REQUESTS FOR INFORMATION

If you have questions about this report or need additional financial information, contact the City of Barstow Finance Department, 220 East Mountain View, Barstow, California 92311.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ODESSA WATER DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
Assets:	
Cash and investments	\$ -
Capital assets not being depreciated	85,000
Total Assets	85,000
Liabilities:	
Current Liabilities	
Due to City of Barstow	42,942
Noncurrent liabilities:	
Due to Barstow Successor Agency	45,461
Total Liabilities	88,403
Net Position:	
Net investment in capital assets	39,539
Unrestricted	(42,942)
Total Net Position	\$ (3,403)

ODESSA WATER DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	
				<u>Governmental Activities</u>
Functions/Programs				
Primary Government:				
Governmental Activities:				
Public works	\$ 300	\$ -	\$ -	\$ -
Total Governmental Activities	300	-	-	(300)
Total Primary Government	\$ 300	\$ -	\$ -	(300)
Change in Net Position				(300)
Net Position at Beginning of Year				(3,103)
Net Position at End of Year				\$ (3,403)

FUND FINANCIAL STATEMENTS

ODESSA WATER DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General Fund</u>
Assets:	
Cash and investments	\$ -
Total Assets	<u>\$ -</u>
Liabilities and Fund Balances	
Liabilities:	
Due to City of Barstow	\$ 42,942
Due to Successor Agency	45,461
Total Liabilities	<u>88,403</u>
Fund Balances:	
Unassigned	(88,403)
Total Fund Balances	<u>(88,403)</u>
Total Liabilities and Fund Balances	<u>\$ -</u>

ODESSA WATER DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Fund balances of governmental funds	\$ (88,403)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	<u>85,000</u>
Net Position of Governmental Activities	<u><u>\$ (3,403)</u></u>

ODESSA WATER DISTRICT

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>
Expenditures:	
Public Works	
Fees and Services	\$ 300
Total Expenditures	<u>300</u>
Net Change in Fund Balances	(300)
Fund Balances	
Beginning of year	<u>(88,103)</u>
End of Year	<u><u>\$ (88,403)</u></u>

ODESSA WATER DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds	\$ (300)
There were no reconciling differences for fiscal year ended June 30, 2020 for the district	<u>-</u>
Change in Net Position of Governmental Activities	<u><u>\$ (300)</u></u>

NOTES TO BASIC FINANCIAL STATEMENTS

I. SIGNIFICANT ACCOUNT POLICIES

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the Odessa Water District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below:

a. Description of Reporting Entity

The Odessa Water District (District) was established on July 5, 1993, pursuant to legislation approved by the State in 1991 to provide water resources to the City. The City Council acts as the District's governing board and exerts significant influence over its operations. The City is responsible for the District's obligations.

The District is an integral part of the City of Barstow (City) and the accompanying basic financial statements are included as a component unit of the basic financial statements prepared by the City.

b. Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements - The District's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the District.

These financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. The District had no interfund activities for the fiscal year ended June 30, 2020.

ODESSA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements - Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The District has one major fund.

The following is the District's major fund:

General Fund - This fund is the District's primary operating fund. It accounts for all financial resources of the District.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally received within 90 days after year-end). The primary revenue sources, which have been treated as susceptible to accrual by the District, are property taxes, intergovernmental revenues, and other taxes and investment income. Expenditures are recorded in the accounting period in which the related fund liability is incurred except for claims, judgments, compensated absence, interest on long-term debt which is recognized when paid.

Unavailable revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unavailable revenue is removed from the combined balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

c. Cash and Cash Equivalents

The District considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

ODESSA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

d. Investments

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31 "Accounting and Financial Reporting for Certain Investments and External Pools", which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has adjusted certain investments to fair value (when material).

Investments, if any, are reported in the financial statements at fair value, unless fair value reasonably approximates cost, in which case cost is used.

e. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

f. Capital Assets

The District's buildings, machinery, equipment, infrastructure and intangible assets with useful lives of more than two years are stated at historical cost or estimated historical cost and reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The District updated its Capital Asset Policy on June 16, 2014 per Board approval. The District capitalizes its assets as follows:

Buildings and Building Improvement	Costs of \$50,000 or more
Furniture	Costs of \$20,000 or more
Equipment	Costs of \$20,000 or more
Infrastructure	Costs of \$100,000 or more

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Amortization of assets acquired under capital leases is based on the shorter of the lease term or the estimated useful life of the asset and is included in depreciation and amortization. Water rights, which are intangible assets, are not amortized. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Infrastructure and improvements other than buildings	10-100 years
Machinery and equipment	3-15 years

g. Fund Balances

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

ODESSA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2020, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term loans receivable. The District does not have any nonspendable fund balances.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. The District does not have any restricted fund balances.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the Board of Directors by passage of an ordinance or resolution. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally. The District does not have any committed fund balances.

Assigned Fund Balance – comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The District has not designated any level of authority for assigning fund balance; therefore, the Board of Directors can assign fund balance. The District does not have any assigned fund balances.

Unassigned Fund Balance – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

The District is required to recognize a liability for compensated absences when future payments for such absences have been earned by employees based on pay and salary rated in effect at the balance sheet date. For the District, this consists of accumulated sick leave, vacation and compensation time.

h. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Unrestricted Net Position – This amount is the remaining net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

ODESSA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020

Note 2: Cash and Investments

The City's treasurer maintains a cash and investment pool used by all funds of the City and by certain component units of the City, including the District. The District does not own specifically identifiable securities of the City's pool. The District's portion of this pool is reported on the financial statements as "cash and investments". Investment policies and associated risk factors applicable to the District's funds are those of the City of Barstow and are included in the City's Comprehensive Annual Financial Report.

At June 30, 2020, the District's cash and investments balance pooled with the City if \$0.

The following disclosures are based upon the City of Barstow's investment policy which the District is subject to.

a. 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 City'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 governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2020, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2020, no City investments were held by the same broker-dealer (counterparty) that was used by the City to buy the securities.

Investments authorized by the California Government Code and the City of Barstow investment policy.

The table below identifies the investment types that are authorized for the District (City of Barstow) by the California Government Code and by the City's adopted investment policy. The table also identifies certain provisions of the California Government Code or the City's adopted investment policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk.

ODESSA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

Note 2: Cash and Investments (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bills, Notes, or Bonds	5 years	None	None
U.S. Agencies	5 years	None	None
Time Certificates of Deposit	5 years	None	50%
Negotiable Certificates of Deposit	N/A	30%	50%
Bankers' Acceptance	180 days	40%	30%
Prime Commercial Paper	270 days	25%	50%
Repurchase Agreements	1 year	None	50%
Mutual Funds investing in eligible securities	N/A	20%	10%
Medium Term Notes	5 years	30%	50%
County Pooled Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	100%	\$50 million*

*Limit set by LAIF Governing Board, not Government Code

b. Disclosures Related to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Odessa Water District's cash is pooled with the City of Barstow's cash to maximize investments.

c. Disclosure Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the City's investment pool is not rated by a nationally recognized rating organization.

Note 3: Capital Assets

	Balance July 1, 2019	Additions	Disposal	Balance June 30, 2020
Non-depreciable Assets:				
Water rights	\$ 85,000	\$ -	\$ -	\$ 85,000
Total non-depreciable assets	85,000	-	-	85,000
Total capital assets, net	\$ 85,000	\$ -	\$ -	\$ 85,000

ODESSA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

Note 4: Amounts Due to Barstow Successor Agency

In fiscal year 2001-2002, the Redevelopment Agency advanced funds to the Odessa Water District for the purchase of water rights in the amount of \$85,000. The District leased the water rights in fiscal years 2004 and 2005 for \$40,455. The District also incurred expenditures for \$916 since fiscal year 2001-2002. As of June 30, 2020, the balance of \$45,461 is the remaining amount due to the Redevelopment Agency.

Note 5: Negative Fund Balance and Net Position

The District has an intangible asset, Water Rights of \$85,000, but this is offset by amounts due to the City of Barstow and the RDA Successor Agency, in excess of the District's assets.

REQUIRED SUPPLEMENTARY INFORMATION

ODESSA WATER DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

Note 1: Budgetary Information

a. Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgets.

1. The annual budget is adopted by the City of Barstow City Council acting as the District's Board of Directors after the holding of a hearing and provides for the general operation of the District. The operating budget includes proposed expenditures and the means of financing them.
2. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year.

The City manager is authorized to transfer budgeted amounts between departments. Actual expenditures may not exceed budgeted appropriations at the fund level.

3. Formal budgetary integration is employed as a management control device during the year. Commitments for materials and services, such as purchase orders and contracts, are recorded as encumbrances to assist in controlling expenditures. Capital projects appropriations are an automatic supplemental appropriation for next year. All others lapse unless they are encumbered at year end or re-appropriated through the formal budget process.
4. Annual budgets are adopted for the General Fund on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

b. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as restricted or committed fund balance since they do not constitute expenditures or liabilities and are added to the subsequent year's adopted appropriations.

ODESSA WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 JUNE 30, 2020

Note 1: Budgetary Information (Continued)

c. Budgetary Comparison Schedules

Budgetary Comparison Schedule, General Fund

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
General Government-public works	300	300	300	-
Total expenditures	<u>300</u>	<u>300</u>	<u>300</u>	<u>-</u>
Net change in fund balance	<u>\$ (300)</u>	<u>\$ (300)</u>	(300)	<u>\$ -</u>
FUND BALANCE:				
Beginning of year			<u>(88,103)</u>	
End of year			<u>\$ (88,403)</u>	



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

To the Board of Directors
Odessa Water District
Barstow, 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 governmental activities and the General Fund, of the Odessa Water District (the District), a component unit of the City of Barstow, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.





To the Board of Directors
Odessa Water District
Barstow, California

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
December 22, 2020