

FENNER VALLEY WATER AUTHORITY

Annual Financial Report
(With Independent Auditor's Report Thereon)

Year Ended June 30, 2023



Certified
Public
Accountants

FENNER VALLEY WATER AUTHORITY
Annual Financial Report
Year Ended June 30, 2023

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Independent Auditor's Report

To the Board of Directors
Fenner Valley Water Authority
Rancho Santa Margarita, California

Opinion

We have audited the financial statements of the Fenner Valley Water Authority (the Authority), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 opinion.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinion. 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 GAAS 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 GAAS, 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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, as listed in the table of contents, 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.

Macias Gini & O'Connell LLP

Irvine, California
November 30, 2023

FENNER VALLEY WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

This section of the Fenner Valley Water Authority's (Authority) annual financial report presents the Management's Discussion and Analysis (MD&A) of the Authority's financial performance during the fiscal year ended June 30, 2023 (FY 2023). The MD&A is to be read and considered in conjunction with the basic financial statements and accompanying notes.

FY 2023 Financial Highlights

- Total assets increased \$111.5 thousand in FY 2023 due to a June invoice to Cadiz, Inc. of \$105.0 thousand, increasing the amount due from Cadiz, Inc. at the end of FY 2023.
- Total liabilities increased \$41.9 thousand due to an increase in accounts payable and for amounts due to Santa Margarita Water District (SMWD) at June 30, 2023.
- Total operating revenues and operating expenses increased \$157.3 thousand and \$63.4 thousand, respectively, due to additional operating activity during FY 2023, including the creation of a Technical Review Panel.

Overview of the Financial Statements

The Authority is a self-supporting entity that follows enterprise fund accounting and presents its financial statements on the full accrual basis of accounting. This annual financial report consists of two parts – MD&A and the basic financial statements, including notes. The Authority's financial statements begin on page 6 of this document. The notes to the basic financial statements can be found beginning on page 9 and provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The Authority's financial statements offer key, high-level financial information about the Authority's activities, comprised of the following main statements:

- **The Statement of Net Position** includes information on the Authority's assets and liabilities and deferred outflows and inflows of resources. Net Position is defined as the Authority's total assets plus deferred outflows of resources, less total liabilities, and deferred inflows of resources.
- **The Statement of Revenues, Expenses and Change in Net Position** shows changes in the Authority's net position based on its operating and nonoperating revenues and expenses during the fiscal year ended June 30, 2023.
- **The Statement of Cash Flows** provides the Authority's changes in cash resulting from operating activities and provides information on the sources and uses of the Authority's cash.

The Statement of Net Position, and the Statement of Revenues, Expenses and Change in Net Position provide a depiction of the Authority's financial standing.

FENNER VALLEY WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

Statement of Net Position

The Authority was created for the purpose of providing joint exercise of powers for the governance of the Cadiz Valley Water Conservation, Recovery and Storage Project, designed to appropriate groundwater and deliver that groundwater to the Project participants. The activity of the Authority consists of collection of amounts due from Cadiz, Inc. and the payment of vendors and amounts for the accomplishment of said purpose.

The Authority's total assets increased \$111.5 thousand to \$122.0 thousand compared with the prior year due to a June invoice to Cadiz, Inc. of \$105.0 thousand, increasing the receivable due from Cadiz, Inc.

The Authority's total liabilities increased \$41.9 thousand to \$50.5 thousand compared with the prior year due to increased accounts payable and for amounts due to SMWD at fiscal year ended June 30, 2023 of \$21.7 thousand and \$20.2 thousand, respectively.

Condensed Statement of Net Position

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)	Percent Increase (Decrease)
Assets				
Current Assets	\$ 121,989	\$ 10,476	\$ 111,513	1064.5%
Total Assets	<u>121,989</u>	<u>10,476</u>	<u>111,513</u>	1064.5%
Liabilities				
Current Liabilities	<u>50,469</u>	<u>8,616</u>	<u>41,853</u>	485.8%
Total Liabilities	<u>50,469</u>	<u>8,616</u>	<u>41,853</u>	485.8%
Net Position				
Unrestricted	<u>71,520</u>	<u>1,860</u>	<u>69,660</u>	3745.2%
Total Net Position	<u>\$ 71,520</u>	<u>\$ 1,860</u>	<u>\$ 69,660</u>	3745.2%

Additional information on the Authority's current liabilities can be found in Notes 4 and 5 of the basic financial statements.

FENNER VALLEY WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

Statement of Revenues, Expenses and Change in Net Position

The Authority's total operating revenues increased by \$157.3 thousand due to additional amounts invoiced to Cadiz, Inc. in FY 2023.

The Authority's total operating expenses increased by \$63.4 thousand due to an increase in general and administrative expenses and professional services of \$19.4 thousand and \$44.0 thousand, respectively.

Condensed Statement of Revenues, Expenses and Change in Net Position

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues:				
Charges for services	\$ 177,279	\$ 20,000	\$ 157,279	786.4%
Total Operating Revenues	177,279	20,000	157,279	786.4%
Operating Expenses:				
General and administrative	36,452	17,097	19,355	113.2%
Professional services	71,169	27,147	44,022	162.2%
Total Operating Expenses	107,621	44,244	63,377	143.2%
Operating Income	69,658	(24,244)	93,902	387.3%
Non-Operating Revenues:				
Interest Income	2	2	-	0.0%
Total Non-Operating Revenues	2	2	-	0.0%
Change in Net Position	69,660	(24,242)	93,902	387.4%
Net Position, Beginning of Year	1,860	26,102	(24,242)	92.9%
Net Position, End of Year	\$ 71,520	\$ 1,860	\$ 69,660	3745.2%

Requests for Information

This financial report is designed to provide our customers, investors, and creditors with an overview of the Authority's financial operations and condition. If you have questions about this report or need additional information you may contact SMWD at 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688.

FENNER VALLEY WATER AUTHORITY

Statement of Net Position

June 30, 2023

Assets

Current assets:

Cash	\$ 16,486
Due from Cadiz, Inc.	105,000
Prepaid expenses	503
Total current and total assets	<u>121,989</u>

Liabilities

Current liabilities:

Accounts payable	22,917
Due to Santa Margarita Water District	27,552
Total current and total liabilities	<u>50,469</u>

Net position

Unrestricted	<u>\$ 71,520</u>
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See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2023

Operating revenues:	
Charges for services	\$ 177,279
Total operating revenues	<u>177,279</u>
Operating expenses:	
General and administrative	36,452
Professional services	71,169
Total operating expenses	<u>107,621</u>
Operating income	<u>69,658</u>
Non-operating revenues:	
Interest income	2
Total non-operating revenues	<u>2</u>
Change in net position	69,660
Total net position, beginning of year	1,860
Total net position, end of year	<u>\$ 71,520</u>

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2023

Cash flows from operating activities:	
Cash received from customers	\$ 72,279
Cash payments to suppliers for goods and services	<u>(65,769)</u>
Net cash provided by operating activities	<u>6,510</u>
Cash flows from investing activities:	
Interest received	<u>2</u>
Net increase in cash	6,512
Cash, beginning of year	9,974
Cash, end of year	<u><u>\$ 16,486</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 69,658</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in due from Cadiz, Inc.	(105,000)
Increase in prepaid expenses	(1)
Increase in accounts payable	21,657
Increase in due to Santa Margarita Water District	<u>20,196</u>
Total adjustments	<u>(63,148)</u>
Net cash provided by operating activities	<u><u>\$ 6,510</u></u>

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Statements

Year Ended June 30, 2023

NOTE 1 -- NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Fenner Valley Water Authority (Authority) was established on November 14, 2014, by a joint powers agreement between the Santa Margarita Water District (SMWD) and Fenner Gap Mutual Water Company, formerly Fenner Valley Mutual Water Company, a California nonprofit mutual benefit corporation (FGMWC). The Authority was created for the purpose of providing joint exercise of powers for the governance of the Cadiz Valley Water Conservation, Recovery and Storage Project (the Project), a public private partnership designed to appropriate groundwater from wells on certain property overlying the Orange Blossom Wash, Cadiz, Bristol, and Fenner Valley aquifers and to deliver that groundwater for reasonable and beneficial uses via the Colorado River Aqueduct and other facilities necessary to the Project participants.

The initial Members of the Authority are SMWD and FGMWC. SMWD is currently the Managing Member of the Authority, responsible for the day-to-day operation of the Authority and will remain as the Managing Member unless and until it withdraws as the Member of the Authority or there is unanimous agreement of the Members to transition the role of Managing Member to a successor public agency. Any new member of the Authority must be either a public agency as defined by the Joint Exercise of Powers Act, set forth in Chapter 5 of Division 7 of Title 1 of the California Government Code Sections 6500 et seq., or a mutual water company as defined by California Government Code Section 6525 and subject to certain requirements in the joint powers agreement. The initial Board of Directors is comprised of 3 Directors and 3 Alternate Directors. Each Member shall appoint one Director and one Alternate Director to the Board. The Managing Member shall appoint an additional Director and one additional Alternate Director. Alternate Directors have no vote and shall not participate in any discussions or deliberations of the Board if the Director is present. If a Director is not present, or if a Director has a conflict of interest which precludes participation in any decision-making process, the Alternate Director appointed to act in his or her place shall assume all rights of the Director and shall have the authority to act in his or her absence, including casting votes on matters before the Board.

Reporting Entity

Accounting principles generally accepted in the United States of America (U.S. GAAP) require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority has considered all funds, organizations, agencies and departments for which the Authority is financially accountable.

A summary of the Authority's significant accounting policies is as follows:

(a) Financial Statement Presentation and Basis of Accounting

The accounting policies of the Authority conform to U.S. GAAP applicable to state and local government agencies and, as such, the Authority is accounted for as an enterprise fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. This measurement focus emphasizes the determination of the change in the Authority's net position.

FENNER VALLEY WATER AUTHORITY
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2023

NOTE 1 -- NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Financial Statement Presentation and Basis of Accounting (Continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges for services provided to Cadiz, Inc. Operating expenses include the administrative expenses and professional services directly related to the Project. All other revenues and expenses not meeting this definition are reported as nonoperating items.

(b) Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use, either through Authority resolution or external restrictions imposed by outside parties for use for a specific purpose. There are no limitations on the use of net position at June 30, 2023.

When both the restricted and unrestricted components of net position are available, restricted resources are used first and then unrestricted resources are used to the extent necessary.

(c) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(d) Related Parties and Concentrations

Cadiz, Inc. formed FGMWC to operate the Project and FGMWC will be solely comprised of public water systems that will own shares commensurate with their rights to receive water from the Project. Cadiz, Inc. will not own shares in FGMWC but it is the intention of SMWD, FGMWC, Cadiz, Inc. and the County of San Bernardino to contractually obligate FGMWC to the provisions of a Memorandum of Understanding executed on May 11, 2012 by SMWD, FGMWC, Cadiz, Inc. and the County of San Bernardino. The Chief Executive Officer (CEO) and President of Cadiz, Inc. is also the CEO of FGMWC.

The Authority's costs incurred in connection with the development and construction of the Project are funded primarily by Cadiz, Inc. as agreed to by Cadiz, Inc. through a Facilities Lease. Pursuant to the Facilities Lease, the Authority will collect a Capital Recovery Charge from the Project participants. Once completed, the Authority will lease the Project Facilities from Cadiz, Inc., which will be used to extract, treat and transport water.

FENNER VALLEY WATER AUTHORITY
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2022

NOTE 1 -- NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) New Accounting Pronouncements

The following pronouncements were issued by the Governmental Accounting Standards Board (GASB), and implemented by the Authority for the year ended June 30, 2023, and were determined not to have an impact on the Authority's financial statements:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.
- GASB Statement No. 99, *Omnibus 2022*, related to leases, public-private partnerships, and subscription-based information technology arrangements.

In addition, the following GASB Statements have been issued but are not yet effective for the Authority. The Authority is assessing the impact, if any, of the following pronouncements to the financial statements:

- GASB Statement No. 99, *Omnibus 2022*, effective for the year ending June 30, 2024, for the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*, effective for the year ending June 30, 2024.
- GASB Statement No. 101, *Compensated Absences*, effective for the year ending June 30, 2025.

Cash and Cash Equivalents

Cash and cash equivalents consist of the following at June 30, 2023:

Cash in bank	\$16,486
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Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority 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 Authority does not have a deposit policy for custodial credit risk. The Authority is subject to custodial credit risk for amounts that exceed Federal Deposit Insurance Corporation (FDIC) insurance limits of \$250,000 per financial institution. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following: a) the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit), b) 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 and c) California law also allows financial institutions to secure Authority deposits by pledging first deed of trust mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2023, the Authority has deposits with a bank balance of \$16,486, which is federally insured.

FENNER VALLEY WATER AUTHORITY
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2023

Due from Cadiz, Inc.

Due from Cadiz, Inc. in the amount of \$105,000 as of June 30, 2023, represents the charges for services revenues owed by Cadiz, Inc. to the Authority for Project costs incurred.

Due to Santa Margarita Water District

Due to SMWD in the amount of \$27,552 as of June 30, 2023, represents various administrative and general expenses incurred by SMWD on behalf of the Authority.

Accounts Payable

Accounts payable in the amount of \$22,917 as of June 30, 2023, represents amounts owed to vendors for professional services.