

FENNER VALLEY WATER AUTHORITY

Basic Financial Statements

Year Ended June 30, 2025

FENNER VALLEY WATER AUTHORITY

Basic Financial Statements

Year Ended June 30, 2025

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Change in Net Position	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	11

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Fenner Valley Water Authority (the Authority) as of and for the year June 30, 2025, 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 present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2025, and the respective changes in financial position and cash flows 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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

The Authority's 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 one year after the date that the financial statements are issued.

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 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*, 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 September 17, 2025, 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 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 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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
September 17, 2025

FENNER VALLEY WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

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, 2025 (FY 2025). The MD&A is to be read and considered in conjunction with the basic financial statements and accompanying notes.

FY 2025 Financial Highlights

- Total assets decreased \$102.4 thousand due to a decrease in the Authority's cash balance.
- Total liabilities decreased \$87.6 thousand due to a decrease in accounts payable, offset by an increase in unearned revenue.
- Total operating revenues decreased \$31.2 thousand due to a change in accounting method for revenue recognition.
- Total operating expenses decreased \$73.2 thousand due to a decrease in general and administrative expenses and professional services.

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 7 of this document. The notes to the basic financial statements can be found beginning with page 11 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 revenues and expenses during the fiscal year ended June 30, 2025.
- **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)
For the Fiscal Year Ended June 30, 2025

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 decreased \$102.4 thousand to \$60.5 thousand compared with the prior year due to a decrease in the cash balance.

The Authority's total liabilities decreased \$87.6 thousand to \$60.5 thousand compared with the prior year due to a decrease in accounts payable, offset by an increase in unearned revenue.

Condensed Statement of Net Position

	Fiscal Year 2025	Fiscal Year 2024	Increase (Decrease)	Percent Increase (Decrease)
Assets				
Current Assets	\$ 60,537	\$ 162,894	\$ (102,357)	(62.8%)
Total Assets	<u>60,537</u>	<u>162,894</u>	<u>(102,357)</u>	<u>(62.8%)</u>
 Liabilities				
Current Liabilities	<u>60,537</u>	<u>148,108</u>	<u>(87,571)</u>	<u>(59.1%)</u>
Total Liabilities	<u>60,537</u>	<u>148,108</u>	<u>(87,571)</u>	<u>(59.1%)</u>
Net Position				
Unrestricted	<u>-</u>	<u>14,786</u>	<u>(14,786)</u>	<u>(100.0%)</u>
Total Net Position	<u>\$ -</u>	<u>\$ 14,786</u>	<u>\$ (14,786)</u>	<u>(100.0%)</u>

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

FENNER VALLEY WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025

Statement of Revenues, Expenses and Change in Net Position

The Authority's total operating revenues decreased to \$31.2 thousand due to a change in accounting method for revenue recognition.

The Authority's total operating expenses decreased to \$73.2 thousand due to a decrease in general and administrative expenses and professional services of \$46.1 thousand and \$27.0 thousand, respectively.

Condensed Statement of Revenues, Expenses and Change in Net Position

	Fiscal Year 2025	Fiscal Year 2024	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues:				
Charges for Services	\$ 230,737	\$ 262,000	\$ (31,263)	(11.9%)
Total Operating Revenues	230,737	262,000	(31,263)	(11.9%)
Operating Expenses:				
General and Administrative	17,468	63,663	(46,195)	(72.6%)
Professional Services	228,063	255,077	(27,014)	(10.6%)
Total Operating Expenses	245,531	318,740	(73,209)	(23.0%)
Operating Income	(14,794)	(56,740)	41,946	73.9%
Non-Operating Revenues:				
Interest Income	7	7	-	0.0%
Total Non-Operating Revenues	7	7	-	0.0%
Change in Net Position	(14,787)	(56,733)	41,946	73.9%
Net Position, Beginning of Year	14,787	71,520	(56,733)	79.3%
Net Position, End of Year	\$ -	\$ 14,787	\$ (14,787)	(100.0%)

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.

BASIC FINANCIAL STATEMENTS

FENNER VALLEY WATER AUTHORITY
Statement of Net Position
June 30, 2025

Assets:

Cash (Note 2)	\$ 59,907
Prepaid items	<u>630</u>
Total Assets	<u>60,537</u>

Liabilities:

Accounts payable	1,532
Due to Santa Margarita Water District (Note 4)	4,743
Unearned revenue	<u>54,262</u>
Total Liabilities	<u>60,537</u>

Net Position:

Unrestricted	<u>\$ -</u>
--------------	-------------

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, 2025

Operating Revenues:	
Charges for services	\$ 230,738
Total Operating Revenues	<u>230,738</u>
Operating Expenses:	
General and administrative	17,468
Professional services	<u>228,063</u>
Total Operating Expenses	<u>245,531</u>
Operating Income (Loss)	<u>(14,793)</u>
Nonoperating Revenues/(Expenses):	
Interest income	<u>7</u>
Total Nonoperating Revenues/(Expenses)	<u>7</u>
Changes In Net Position	(14,786)
Net position - beginning of year	<u>14,786</u>
Net Position - end of year	<u>\$ -</u>

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY
Statement of Cash Flows
Year ended June 30, 2025

Cash flows from operating activities:	
Cash received from customers	\$ 285,000
Cash payments to suppliers of goods and services	<u>(387,364)</u>
Net cash provided by (used for) operating activities	<u>(102,364)</u>
Cash flows from investing activities:	
Interest received	<u>7</u>
Net increase (decrease) in cash	(102,357)
Cash, beginning of year	<u>162,264</u>
Cash, end of year	<u>\$ 59,907</u>
Reconciliation of operating income (loss) to net	
Cash provided by operating activities:	
Operating income (loss)	<u>\$ (14,793)</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Increase (decrease) in accounts payable	(123,416)
Increase (decrease) in due to Santa Margarita Water District	(18,417)
Increase (decrease) in unearned revenue	<u>54,262</u>
Total adjustments	<u>(87,571)</u>
Net cash provided by (used for) operating activities:	<u>\$ (102,364)</u>

There were no non-cash investing, capital or financing activities during the year ended June 30, 2025.

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(1) Summary of Significant Accounting Policies

The basic financial statements of Fenner Valley Water Authority (the Authority) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government 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 Authority's accounting policies are described below.

(a) Reporting Entity

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. The initial Board of Directors is comprised of 3 Directors and 3 Alternate Directors.

(b) Basis of Accounting and Measurement Focus

The basic financial statements of the Authority are composed of the following:

- (a) Statement of Net Position
- (b) Statement of Revenues, Expenses and Change in Net position
- (c) Statement of Cash Flows

Financial reporting is based upon all GASB pronouncements.

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. The Authority distinguishes operating revenues and expenses from nonoperating items.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

(c) 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 on June 30, 2025.

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.

(d) Estimates and Assumptions

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.

(2) Cash and Cash Equivalents

Cash as of June 30, 2025 consisted of the following:

Cash	<u>\$59,907</u>
Total cash	<u>\$59,907</u>

(3) 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.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(Continued)

(3) Custodial Credit Risk (Continued)

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:

- The California Government Code requires that a financial institution secure deposit 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).
- 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.
- 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, 2025, the Authority has deposits with a bank balance of \$59,907 which is federally insured.

(4) Related Parties and Concentrations

Cadiz, Inc. formed FGMWC to operate the Cadiz Water 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.

(a) Related Party Transactions – Cadiz, Inc.

Fenner Valley Water Authority collects services revenue from Cadiz, Inc. for administering and overseeing the design, construction, operation and maintenance of project facilities. During the year ended June 30, 2025, FVWA collected \$285,000 from Cadiz, Inc. for project costs incurred. The Authority did not have an amount due from Cadiz, Inc. on June 30, 2025.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(Continued)

(4) Related Parties and Concentrations (Continued)

(b) Related Party Transactions – Santa Margarita Water District

Santa Margarita Water District provides administrative and general services to Fenner Valley Water Authority. During the year ended June 30, 2025, SMWD was paid \$32,855 for those services and reimbursements. The Authority had \$4,743 due to Santa Margarita Water District on June 30, 2025.