

FENNER VALLEY WATER AUTHORITY

Financial Statements

Year Ended June 30, 2021



Certified
Public
Accountants

FENNER VALLEY WATER AUTHORITY

Financial Statements
Year Ended June 30, 2021

Table of Contents

	<i>Page</i>
Independent Auditor's Report	1
Basic Financial Statements:	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Change in Net Position	4
Statement of Cash Flows.....	5
Notes to the Basic Financial Statements	6



Independent Auditor's Report

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

We have audited the accompanying financial statements of the Fenner Valley Water Authority (the Authority), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority'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 an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Macias Gini & O'Connell LLP

Irvine, California
November 11, 2021

FENNER VALLEY WATER AUTHORITY

Statement of Net Position

June 30, 2021

Assets

Current asset:

Cash	\$ 36,230
Prepaid expenses	<u>678</u>
Total current and total assets	<u><u>36,908</u></u>

Liabilities

Current liabilities:

Accounts payable	1,784
Due to Santa Margarita Water District	<u>9,022</u>
Total current and total liabilities	<u><u>10,806</u></u>

Net position

Unrestricted	<u><u>\$ 26,102</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, 2021

Operating revenues:	
Charges for services	\$ 25,000
Total operating revenues	<u>25,000</u>
Operating expenses:	
General and administrative	22,926
Professional services	<u>32,763</u>
Total operating expenses	<u>55,689</u>
Operating loss	<u>(30,689)</u>
Non-operating revenue:	
Interest income	<u>25</u>
Total non-operating revenues	<u>25</u>
Change in net position	(30,664)
Total net position, beginning of year	<u>56,766</u>
Total net position, end of year	<u><u>\$ 26,102</u></u>

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2021

Cash flows From operating activities:	
Cash received from customers	\$ 25,000
Cash payments to suppliers for goods and services	<u>(61,965)</u>
Net cash used in operating activities	<u>(36,965)</u>
Cash flows from investing activities:	
Interest received	<u>25</u>
Net decrease in cash	(36,940)
Cash, beginning of year	<u>73,170</u>
Cash, end of year	<u><u>\$ 36,230</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	<u>\$ (30,689)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in prepaid expenses	(678)
Decrease in accounts payable	(8,307)
Increase in due to Santa Margarita Water District	<u>2,709</u>
Total adjustments	<u>(6,276)</u>
Net cash used in operating activities	<u><u>\$ (36,965)</u></u>

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Statements

Year Ended June 30, 2021

(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 Valley Mutual Water Company, a California nonprofit mutual benefit corporation (FVMWC). 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 FVMWC. 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, 2021

(1) Nature of Business and Summary of Significant Accounting Policies (Continued)

(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, 2021.

(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 FVMWC to operate the Project and FVMWC 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 FVMWC but it is the intention of SMWD, FVMWC, Cadiz, Inc. and the County of San Bernardino to contractually obligate FVMWC to the provisions of a Memorandum of Understanding executed on May 11, 2012 by SMWD, FVMWC, Cadiz, Inc. and the County of San Bernardino. The Chief Executive Officer (CEO) and President of Cadiz, Inc. is also the CEO of FVMWC.

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.

(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, 2021 and were determined not to have an impact on the Authority's financial statements:

- GASB Statement No. 84, *Fiduciary Activities*.
- GASB Statement No. 90, *Majority Equity Interests- an amendment of GASB Statements No. 14 and No. 61*.

FENNER VALLEY WATER AUTHORITY
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2021

(1) Nature of Business and Summary of Significant Accounting Policies (Continued)

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. 87, *Leases*, effective for the year ending June 30, 2022.
- GASB Statement No. 92, *Omnibus 2021*, effective upon issuance for 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. The other requirements will be effective for the year ending June 30, 2022
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the year ending June 30, 2023.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending June 30, 2023.

(2) Cash and Cash Equivalents

Cash and cash equivalents consist of the following at June 30, 2021:

Cash in bank	\$36,230
--------------	----------

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, 2021, the Authority has deposits with a bank balance of \$36,230 which is federally insured.

(3) Due to Santa Margarita Water District

Due to SMWD in the amount of \$9,022 as of June 30, 2021, represents various administrative and general expenses incurred by SMWD on behalf of the Authority.

(4) Accounts Payable

Accounts payable in the amount of \$1,784 as of June 30, 2021, represents amounts owed to vendors for professional services.