

COSUMNES GROUNDWATER AUTHORITY

Audited Financial Statements

June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cosumnes Groundwater Authority
Elk Grove, California

Opinion

We have audited the accompanying financial statements of the Cosumnes Groundwater Authority (the Authority), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 these 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 generally accepted auditing standards 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 generally accepted auditing standards, 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

The Authority has omitted 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 this missing information.

Richardson & Company, LLP

November 20, 2024

COSUMNES GROUNDWATER AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and investments	\$ 264,040	\$ 149,490
Due from other governments	109,397	156,982
TOTAL ASSETS	\$ 373,437	\$ 306,472
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 17,708	\$ 15,287
Due to other governments	38,360	25,560
TOTAL LIABILITIES	56,068	40,847
NET POSITION		
Restricted for groundwater sustainability activities	317,369	265,625
TOTAL NET POSITION	317,369	265,625
TOTAL LIABILITIES AND NET POSITION	\$ 373,437	\$ 306,472

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

COSUMNES GROUNDWATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Member contributions	\$ 418,299	\$ 425,730
OPERATING EXPENSES		
Administration	153,360	89,020
Other technical support	58,410	
Legal	50,495	17,322
Funding exploration	34,963	
Annual report expense	33,585	47,919
Groundwater monitoring	17,903	5,367
Funding study	15,079	
Miscellaneous	2,760	477
TOTAL OPERATING EXPENSES	<u>366,555</u>	<u>160,105</u>
CHANGE IN NET POSITION	51,744	265,625
Net position at beginning of the year	<u>265,625</u>	
NET POSITION AT END OF YEAR	<u>\$ 317,369</u>	<u>\$ 265,625</u>

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

COSUMNES GROUNDWATER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 465,884	\$ 268,748
Cash paid to suppliers for goods and services	(351,334)	(119,258)
NET CASH PROVIDED BY OPERATING ACTIVITIES	114,550	149,490
INCREASE IN CASH AND CASH EQUIVALENTS	114,550	149,490
Cash and cash equivalents at beginning of year	149,490	
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 264,040	\$ 149,490
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net income from operations	\$ 51,744	\$ 265,625
Changes in operating assets and liabilities:		
Due from other governments	47,585	(156,982)
Accounts payable	2,421	15,287
Due to other governments	12,800	25,560
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 114,550	\$ 149,490

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

COSUMNES GROUNDWATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cosumnes Groundwater Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America 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 most significant accounting policies of the Authority are described below.

Reporting Entity: The Authority was formed under a Joint Exercise of Powers Agreement on November 22, 2021 pursuant to the Joint Powers Act of the State of California (Government Code §§ 6500 et seq) between the Galt Irrigation District, Omochumne-Hartnell Water District, Clay Water District, the City of Galt, Sloughhouse Resource Conservation District, Amador County Groundwater Management Authority and the Sacramento County Groundwater Sustainability Agency (collectively “member agencies”) for the purpose of acting as the Groundwater Sustainability Agency (GSA) for the San Joaquin Valley, Consumnes Subbasin. The California State Legislature enacted the 2014 Sustainable Groundwater Management Act (SGMA) requiring the formation of a GSA to develop, implement and enforce a groundwater sustainability plan (GSP) for the each of the state’s groundwater basins of medium or high priority.

The Authority is governed by a Board of Directors comprised of one appointed member from each of the seven member agencies. The Authority had no employees or capital assets as of June 30, 2023 and 2022. The Sloughhouse Resource Conservation District, a member agency, and the Southeast Sacramento County Agricultural Water Authority, a JPA comprised of member agencies, provide administration and technical support to the Authority.

Member agencies provide member contributions to the Authority assessed in equal installments in January and May each year that fund their respective share of Authority operating, administrative and other costs per section 5.2 of the Joint Exercise of Powers Agreement. Five of seven member agencies have established groundwater sustainability fees under California Water Code Section 10730 for this purpose, with the remaining two members funding the Authority’s contributions from existing funds. Section 10730 of the California Water Code allows groundwater sustainability agencies to impose fees, including, but not limited to, permit fees and fees on groundwater extraction or other regulated activity, to fund the Authority’s costs, including, but not limited to, preparation, adoption, and amendment of a groundwater sustainability plan, and investigations, inspections, compliance assistance, enforcement, and program administration, including a prudent reserve.

Basis of Presentation: The Authority’s resources are accounted for in these financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to stakeholders on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of net position. Net position is segregated into the net investment in capital assets, amounts restricted and

COSUMNES GROUNDWATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

amounts unrestricted. Enterprise fund-type operating statements present increases (i.e., revenue) and decreases (i.e., expenses) in net assets.

The Authority uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Nonexchange revenues are recognized when all eligibility requirements have been met. Cost reimbursement grant revenues are recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received before eligibility requirements are met they are recorded as unearned revenues until earned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are from member contributions comprised of groundwater sustainability fees. Operating expenses include professional services and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Net Position: Net position is categorized at the net investment of capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and amortization and any capital related payables, such as debt, reduces the balance in this category. The Authority had no capital assets at year-end.

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The Authority's net position is restricted for groundwater sustainability activities.

Unrestricted – This category represents net position of the Agency not restricted for any project or other purpose.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

New Pronouncements: In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). This Statement 1) defines the term SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs to a SBITA; and 4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITA are based on the standards established in Statement No. 87, *Leases*, as amended. This statement is effective for fiscal years beginning after June 15, 2022.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes a primary government, or

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NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reporting unit that reports a liability for revenue debt, vulnerable to the risk of a substantial impact and to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to occur within 12 months of the date the financial statements are issued. If the criteria in the Statement have been met for a concentration or constraint, the government should disclose information in notes to financial statements in sufficient detail to enable users of financial statements understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The provisions of this Statement are effective for years beginning after June 15, 2024.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This Statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability, including 1) certain topics and disclosures in Management's Discussion and Analysis; 2) requiring the display of inflows and outflows of unusual and infrequent items to be reported separately as the last presented flow(s) of resources prior to the net change in resources flows in the government-wide, governmental fund, and proprietary fund statement of resources flows; 3) changing the definition of proprietary fund nonoperating revenues and expenses to include subsidies received and provided, contributions to permanent and term endowments, revenues and expenses related to financing, resources from the disposal of capital assets and inventory and investment income and expenses and defines operating revenues and expenses as revenue and expenses other than nonoperating revenue and expenses; 4) requires major component units to be presented separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements; and 5) requires budgetary comparison schedules to be reported as Required Supplementary Information (RSI), requires the presentation of variances between original and final budget amounts and final budget and actual amounts in the RSI and requires the explanation of significant variances to be reported in notes to the RSI. The provisions of this Statement are effective for years beginning after June 15, 2025.

NOTE B – CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consisted of bank deposits in the amount of \$264,040 and \$149,490 at June 30, 2023 and 2022, respectively.

Investment Policy: The Authority may invest assets in accordance with Government Code, Section 53600, Chapter 4 – Financial Affairs. The Authority has no investment policy and the Board of Directors has only approved the use of bank deposits.

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. The Authority had no investments at year-end.

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 Authority had no investments at year-end.

Custodial Credit Risk for Deposits: 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-

COSUMNES GROUNDWATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

June 30, 2023 and 2022

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

dealer) to a transaction, a government will not be able to recover the value of this investment or collateral securities that are in the possession of another party. The California Government Code and the Authority’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2023, the carrying amount of the Authority’s deposits and balance in the financial institution was \$264,040. Uninsured bank balance totaled \$14,040 at June 30, 2023. At June 30, 2022, the carrying amount of the Authority’s deposits and balance in the financial institution was \$149,490, all of which was covered by federal depository insurance.

NOTE C – RELATED PARTY TRANSACTIONS

As discussed in Note A, the Authority is composed of seven member agencies that share common Board Members. The Sloughhouse Resource Conservation District is a member agency and the Southeast Sacramento County Agricultural Water Authority is a joint powers authority that is made up of member agencies. Both entities provided various administrative and technical services to the Authority under administrative services agreements. For the year ended June 30, 2023, the Authority reimbursed the Sloughhouse Resource Conservation District and the Southeast Sacramento County Agricultural Water Authority \$76,800 and \$76,560, respectively, for administration and technical support, of which \$38,360 was reported as due to other governments from these entities at June 30, 2023. For the year ended June 30, 2022, the Authority reimbursed the Sloughhouse Resource Conservation District and the Southeast Sacramento County Agricultural Water Authority \$44,800 and \$44,220, respectively, for administration and technical support, of which \$25,560 was reported as due to other governments from these entities at June 30, 2022.

NOTE D – COMMITMENTS AND CONTINGENCIES

The Authority had the following contractual commitments outstanding as of June 30:

	2023	2022
Administrative services:		
Sloughhouse Resource Conservation District	\$ 76,800	\$ 44,800
Southeast Sacramento County Agricultural Water Authority	76,560	44,660
Groundwater monitoring	3,730	21,633
	\$ 157,090	\$ 111,093

Concentrations: The Authority is funded solely by member contributions due in equal installments in January and May each year. A reduction of this revenue source, should it occur, would have a significant impact on the Authority’s operations. The Authority currently maintains reserve funds to pay expenses prior to the first installment of member contributions being received in January.

COSUMNES GROUNDWATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

June 30, 2023 and 2022

NOTE E – SUBSEQUENT EVENTS

The Board of Directors approved consulting contracts for the purposes and the not to exceed amounts below after June 30, 2023:

	<u>2024</u>	<u>2025</u>	<u>2026</u>
Technical support - annual report, DMS and GSP support, outreach and grant support	\$ 160,000	\$ 150,000	\$ 150,000
Administrative services:			
Sloughhouse Resource Conservation District	161,200		
Fee study	<u>75,722</u>		
	<u>\$ 396,922</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

Reserves Approved by Board: The Board of Directors approved a reserve of net position of \$261,259 in the fiscal year 2024-2025 budget for preparation of a required Periodic Evaluation and Amendment of the GSP (e.g., Five-Year Update) due in 2026, of which \$70,000 was set aside in a money market fund.

Fee Study: The Board of Directors approved an April 2024 Rate and Fee Study that recommends a base charge of \$35.47 for groundwater using parcels, a public water systems extraction charge of \$5.98 per acre feet extracted and an irrigated acreage charge for agricultural irrigators of \$10 per irrigated acre, which is expected to generate approximately \$662,000 during the year ended June 30, 2025 if implemented as recommended in the study. Whether to charge fees in the fee study will be determined by each of the Authority’s member agencies, so the ultimate revenue generated by the fees outlined in the Rate and Fee Study is currently unknown.