



INDIAN WELLS VALLEY GROUNDWATER AUTHORITY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended
December 31, 2022
(With Comparative Amounts as of December 31, 2021)

NIGRO & NIGRO^{PC}

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Board of Directors

As of December 31, 2022

Name	Title	Member Agency
Phillip Peters	Chair	County of Kern
Scott Hayman	Vice Chair	City of Ridgecrest
Chuck Griffin	Director	Indian Wells Valley Water District
Matt Kingsley	Director	County of Inyo
Paul Cook	Director	County of San Bernardino
Commander Benjamin Turner	Member	Dept. of the Navy DoD Liaison*
Emma Lynch	Member	Bureau of Land Management (BLM)*

**** Non-voting Members***

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

For the Fiscal Year Ended December 31, 2022

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Indian Wells Valley Groundwater Authority
Ridgecrest, California

Opinion

We have audited the accompanying financial statements of the Indian Wells Valley Groundwater Authority (Authority) which comprise the balance sheet as of December 31, 2022, the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the 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 December 31, 2022 and the changes in its 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 Opinion

We conducted our audits in accordance with 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. 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 generally accepted auditing standards and *Government 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 and *Government 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

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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. Schedule of Balance Sheets – Combined – Internal Funds, Schedule of Revenues, Expenses, Changes in Net Position – Combined – Internal Funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2021, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated April 1, 2024, 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 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 Authority'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 Authority's internal control over financial reporting and compliance.



Murrieta, California
April 1, 2024

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

For the Fiscal Years Ended December 31, 2022

Management's Discussion and Analysis (MD&A) offers readers of Indian Wells Valley Groundwater Authority's financial statements a narrative overview of the Authority's financial activities for the fiscal years ended December 31, 2022. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to-prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

INTRODUCTION TO THE AUTHORITY

The Authority was formed in July 2016 in response to the 2014 Sustainable Groundwater Management Act (SGMA or the Act) for the purpose of achieving groundwater sustainability in the Indian Wells Valley Groundwater Basin. SGMA requires groundwater basins subject to the Act to form a Groundwater Sustainability Agency (GSA), which is then required to develop and implement a groundwater sustainability plan (GSP or Plan) and achieve sustainable groundwater management within 20 years of Plan adoption. The Authority received approval for the Plan from the Department of Water Resources in January 2022.

The Authority is a joint powers authority comprised of the following five local public agencies: County of Kern, Indian Wells Valley Water District, County of Inyo, County of San Bernardino and the City of Ridgecrest.

The Authority's Board of Directors is composed of 5 voting members, one from each member jurisdiction. The JPA also has non-voting Associate Members for the following federal agencies: United States Department of the Interior Bureau of Land Management and United States Navy Naval Air Weapons Station China Lake. The Authority's revenue sources include extraction fees, basin replenishment fees and Department of Water Resources (DWR) grant funding.

Authority administration and engineering services were outsourced since the inception of the JPA. Stetson Engineering provides Water Resource Manager services, engineering and grant administration for the Authority. Administration and financial services were originally shared between JPA members until January 2021, when Regional Government Services (RGS) was hired to provide outsourced administration and financial services for the Authority.

FINANCIAL HIGHLIGHTS

- In fiscal year 2022, the Authority's net position increased by 133.24%, or \$2,755,979 from the prior year's net position of \$2,433,655 to \$5,189,634, as a result of the year's operations.
- The Authority had 2022 operating revenue of \$5,757,626 as compared to 2021 operating revenue of \$5,844,996 primarily from decreased assessment revenue in 2022.
- The Authority's operating expenses for 2022 increased \$755,389 from \$2,024,899 in 2021 to \$2,780,288 in 2022 due primarily to an increase in groundwater management expenses and continued litigation costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the Authority's financial statements. The Authority's basic financial statements reflect the combined results of the operating and capital programs and include four components: (1) Balance Sheet; (2) Statement of Revenues, Expenses and Changes in Net Position; (3) Statement of Cash Flows; and (4) Notes to the Financial Statements.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended December 31, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The financial statements accompanying this MD&A present the net position and results of operations during the fiscal year ending December 31, 2022. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Balance Sheet

The Balance Sheet presents information on the Authority's assets and liabilities the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when evaluating financial position. Assets exceed liabilities, resulting in a net position of \$5,189,634 as of December 31, 2022.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal year. All of the year's revenues and expenses are accounted for in this statement. This statement measures the results of the Authority's operations for the year and can be used to determine if the Authority has successfully recovered all of its costs through fees and charges. Operating revenues and expenses are related to the Authority's core activities. Non-operating revenues and expenses are not directly related to the core activities of the Authority. For the fiscal year ended December 31, 2022 net position increased by 113.24% or \$2,755,979.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheet

	<u>2022</u>	<u>2021</u>	<u>Change</u>
ASSETS			
Current assets	\$ 7,075,512	\$ 3,871,004	\$ 3,204,508
Capital assets, net (note 3)	18,629	22,769	(4,140)
Total assets	<u>\$ 7,094,141</u>	<u>\$ 3,893,773</u>	<u>\$ 3,200,368</u>
LIABILITIES			
Current liabilities	\$ 971,087	\$ 267,901	\$ 703,186
Non-current liabilities	933,420	1,192,217	(258,797)
Total liabilities	<u>1,904,507</u>	<u>1,460,118</u>	<u>444,389</u>
NET POSITION			
Investment in capital assets	18,629	22,769	(4,140)
Restricted	5,944,928	3,160,686	2,784,242
Unrestricted	(773,923)	(749,800)	(24,123)
Total net position	<u>5,189,634</u>	<u>2,433,655</u>	<u>2,755,979</u>
Total liabilities and net position	<u>\$ 7,094,141</u>	<u>\$ 3,893,773</u>	<u>\$ 3,200,368</u>

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2022

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

In fiscal year 2022, the Authority's net position increased by 133.24%, or \$2,755,979 from the prior year's net position of \$2,433,655 to \$5,189,634, as a result of the year's operations.

Analysis of Revenues and Expenses

Table A-2: Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Operating Revenues	\$ 5,757,626	\$ 5,844,996	\$ (87,370)
Operating Expenses	<u>2,780,288</u>	<u>2,024,899</u>	<u>755,389</u>
Operating income	2,977,338	3,820,097	(842,759)
Non-Operating Revenues	<u>(221,359)</u>	<u>-</u>	<u>(221,359)</u>
Change in net position	2,755,979	3,820,097	<u>\$ (1,064,118)</u>
Net Position			
Beginning of year	<u>2,433,655</u>	<u>(1,386,442)</u>	
End of year	<u>\$ 5,189,634</u>	<u>\$ 2,433,655</u>	

The Authority's operating revenue decreased by 1.49%, or \$87,370 from \$5,844,996 in 2021 to \$5,757,626 in 2022, primarily from decreased assessment fee revenue in 2022.

The Authority's operating expenses for 2022 increased \$755,389 from \$2,024,899 in 2021 to \$2,780,288 in 2022 due primarily to an increase in groundwater management expenses and continued litigation costs.

Capital Assets

	<u>Balance</u> <u>December 31, 2022</u>	<u>Balance</u> <u>December 31, 2021</u>
Capital assets:		
Depreciable assets	\$ 28,979	\$ 28,979
Accumulated depreciation	<u>(10,350)</u>	<u>(6,210)</u>
Total capital assets, net	<u>\$ 18,629</u>	<u>\$ 22,769</u>

At the end of year 2022, the District's investment in capital assets amounted to \$18,629 (net of accumulated depreciation), respectively. There were no additions to capital assets in 2022. See Note 4 for further information.

FACTORS AFFECTING CURRENT FINANCIAL POSITION

The Authority anticipates that operating revenues and expenses for fiscal year 2023 will increase from fiscal year 2022, due to increased grant funding as well as increases in basin management expenditures. This is reflected in the Authority's budget for the 2023 fiscal year.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2022

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is intended to provide the Board of Directors, creditors, and other interested parties with general overview of the Authority's financial operations and condition at the year ended December 31, 2022, and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, you may contact the Authority's Management, at Indian Wells Valley Groundwater Authority, 100 W. California Ave., Ridgecrest, CA 93555 or by email at akeigwin@rgs.ca.gov.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Balance Sheets

December 31, 2022

(With Comparative Amounts as of December 31, 2021)

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,536,760	\$ 3,045,853
Accounts receivable, net (note 3)	740,546	332,862
Grant receivable	798,206	492,289
Total current assets	<u>7,075,512</u>	<u>3,871,004</u>
Non-current assets:		
Capital assets, net (note 4)	18,629	22,769
Total non-current assets	<u>18,629</u>	<u>22,769</u>
Total assets	<u>\$ 7,094,141</u>	<u>\$ 3,893,773</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 971,087	\$ 267,901
Total current liabilities	<u>971,087</u>	<u>267,901</u>
Non-current liabilities:		
Advances payable (note 5)	-	500,000
Due to other governments (note 6)	933,420	692,217
Total non-current liabilities	<u>933,420</u>	<u>1,192,217</u>
Total liabilities	<u>1,904,507</u>	<u>1,460,118</u>
NET POSITION		
Investment in capital assets	18,629	22,769
Restricted	5,944,928	3,160,686
Unrestricted (note 8)	<u>(773,923)</u>	<u>(749,800)</u>
Total net position	<u>5,189,634</u>	<u>2,433,655</u>
Total liabilities and net position	<u>\$ 7,094,141</u>	<u>\$ 3,893,773</u>

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY*Statements of Revenues Expenses and Changes in Net Position**For the Fiscal Year Ended December 31, 2022**(With Comparative Amounts for the Fiscal Year Ended December 31, 2021)*

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Assessment fees	\$ 5,162,171	\$ 5,522,199
Operating grants	595,455	322,797
Total operating revenues	<u>5,757,626</u>	<u>5,844,996</u>
Operating Expenses		
Groundwater management	1,250,026	764,030
General and administrative	1,526,122	1,256,729
Depreciation expense	4,140	4,140
Total operating expenses	<u>2,780,288</u>	<u>2,024,899</u>
Operating income	<u>2,977,338</u>	<u>3,820,097</u>
Non-Operating Revenues		
Investment earnings	(221,359)	-
Assessment fees (note 3)	12,709,334	11,989,819
Bad debt expense (note 3)	(12,709,334)	(11,989,819)
Total non-operating revenues	<u>(221,359)</u>	<u>-</u>
Change in net position	2,755,979	3,820,097
Net Position		
Beginning of year	<u>2,433,655</u>	<u>(1,386,442)</u>
End of year	<u>\$ 5,189,634</u>	<u>\$ 2,433,655</u>

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY*Statements of Cash Flows**For the Fiscal Year Ended December 31, 2022**(With Comparative Amounts for the Fiscal Year Ended December 31, 2021)*

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from assessment fees	\$ 4,533,128	\$ 5,252,000
Cash received from grant revenue	289,538	487,467
Cash payments for operating expenses	<u>(1,831,759)</u>	<u>(2,340,610)</u>
Net cash provided by operating activities	<u>2,990,907</u>	<u>3,398,857</u>
Cash flows from financing activities:		
Principal payments on advances payable	<u>(500,000)</u>	<u>(500,000)</u>
Net cash used in financing activities	<u>(500,000)</u>	<u>(500,000)</u>
Net increase in cash and cash equivalents	<u>2,490,907</u>	<u>2,898,857</u>
Cash and cash equivalents:		
Beginning of year	<u>3,045,853</u>	<u>146,996</u>
End of year	<u>\$ 5,536,760</u>	<u>\$ 3,045,853</u>
	<u>2022</u>	<u>2021</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,977,338	\$ 3,820,097
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,140	4,140
Change in fair-value of investments	(221,359)	-
(Increase) decrease in assets:		
Assessment fee receivable	(407,684)	(270,199)
Grant receivable	(305,917)	164,670
Increase (decrease) in liabilities:		
Accounts payable	703,186	(530,008)
Due to other governments	<u>241,203</u>	<u>210,157</u>
Net cash provided by operating activities	<u>\$ 2,990,907</u>	<u>\$ 3,398,857</u>
Noncash investing, capital and financing transactions		
Change in fair-value of investments	<u>\$ (221,359)</u>	<u>\$ -</u>

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Indian Wells Valley Groundwater Authority (Authority) was formed under a Joint Exercise of Powers Authority on June 15, 2016, pursuant to Sections 6506 and 6507 of the Exercise of Powers Act, codified at California Government Code sections 6500, authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Authority was formed between the City of Ridgecrest, the County of Inyo, the County of Kern, the County of San Bernardino, and the Indian Wells Valley Water District. Each Member is a local Authority, as defined by the Sustainable Groundwater Management Act of 2014 (SGMA), duly organized and existing under and by virtue of the laws of the State of California; whereby, each member can exercise powers related to groundwater management. The Authority is an independent public Authority separate from the Members. The Authority's board consists of one director from each of the Member agencies, as well as one Associate Member from the United States Department of the Interior Bureau of Land Management and the United States Navy Naval Air Weapons Station China Lake. The Associate Members are non-voting Members.

The purpose of the Authority is to develop a groundwater sustainability plan, implement projects and management activities which achieve sustainability by 2042, and to ensure sustainability for the following thirty years. The Authority serves as the GSA for the Indian Wells Valley Groundwater Basin, which has been designated as critically-over drafted (COD) basin by the Department of Water Resources (DWR).

Basis of Accounting and Measurement Focus

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs of providing services be financed or recovered primarily through user (member) charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Financial Reporting

The Authority's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States Board (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Authority's proprietary fund.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Management administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the Authority categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Authority has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Authority's own assumptions about the factors market participants would use in pricing an investment and is based on the best information available in the circumstances.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the Authority's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.

Restricted – This component is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted – This component of net position is the net amount of the assets less liabilities that are not included in the determination of the investment in capital assets component of net position.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Extraction Fee

Effective September 1, 2018, and adopted by Ordinance No. 02-18, all groundwater extractions from and within the Basin shall be subject to measurement and the Groundwater Extraction. This fee, currently at \$105 per acre-foot of water pumped, is levied on all water producers within the Indian Wells Valley Basin, except for de minimis pumpers (those who produce less than two AF per year) and co-ops with less than four connections.

California Water Code Section 10730, enacted through SMA, authorizes the Groundwater Authority, the authority to impose a groundwater extraction fee. Pursuant to Section 10730(a), the fees may be used "to fund the costs of a groundwater sustainability program, 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." In addition, Water Code Section 10725(a) authorizes the Groundwater Authority to "perform any act necessary or proper to carry out the purposes of this part {SGMA}.

Pursuant to SGMA, all groundwater pumpers are subject to the groundwater extraction fee except for federal entities and those that qualify as de minimis extractors. SMA expressly provides that a "de minimis extractor" is a "person who extracts, for domestic purposes, two acre-feet or less per year" (California Water Code Section 10721(e)). "Person" for the purposes of this fee is any typical household including landscaping. One acre-foot of water is equivalent to 325,851 gallons.

Basin Replenishment Fee

On August 21, 2020, a public hearing was held to consider the adoption of the Basin Replenishment Fee by the Authority. Federal Interests and de minimis users, as defined by the SMA, are exempt from the Replenishment Fee. Likewise, residents in the Authority's small mutuals and the Inyokern Community Services District are exempted through Navy pronouncement that its water needs include off-Stations demands for its workforce, and their dependents. The Replenishment Fee is calculated so that the properties are only charged their fair share, and no more. At the hearing, the Authority conducted a majority protest proceeding and determined there was not a majority of protest letters received. The Board adopted Ordinance 03-20 setting the Basin Replenishment Fee.

The Basin Replenishment Fee is a composite per acre foot extraction fee to purchase import supplies for those that need them and to pay for mitigation of registered shallow wells that are damaged by continuing overdraft. The Basin Replenishment Fee can be lowered as it is proportional and based on the augmented supply needed so if the needed supply is lowered the ultimate cost is lowered.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basin Replenishment Fee (continued)

Basin Replenishment Fees currently imposed by the Authority are as follows:

- **Shallow Well Mitigation Fee:** Currently at \$17.50/acre-foot (AF), this fee is paid by agricultural pumpers who joined the Transient Pool. The Transient Pool allocated agricultural users with an allotment of water that can be used until 2040.
- **Replenishment Fee:** This fee is levied on any water producers who exceed the allotment assigned to them from the Basin's sustainable safe yield; it is also levied on agricultural water users who chose not to join the Transient Pool. Currently, the Replenishment totals \$2,130/AF - comprised of two separate components: the Shallow Well Mitigation Fee (identified above) at \$17.50/AF, and an Augmentation Fee at \$2,112.50/AF. The purpose of the Replenishment Fee is to pay for activities associated with supplementing the Basin's natural water supply, including the purchase of rights to imported water supplies, construction of an imported water pipeline, and an advanced water treatment facility for reuse of recycled water.

Member Agency Contributions

The Authority's joint exercise of powers agreement provides that any member may make contributions of money or assets to the Authority; make or advance payments of public funds to defray the cost of Authority's operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Authority as set out in separate agreements between the Authority and the member and approved by the board and the governing body of the member.

Grants

Grant revenues are recorded when earned on grants that have been approved and funded by the grantor.

Member's Net Position

In the event of a member withdrawal, member termination, or dissolution of the Authority, any property interest remaining in the Authority, following a discharge of all obligations shall be disposed of pursuant to the Joint Powers Agreements as adopted by the Governing Board.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at December 31, 2022, are classified on the balance sheet as follows:

Description	2023
Cash and cash equivalents	\$ 5,536,760
Total cash and investments	\$ 5,536,760

Cash and investments at December 31, 2022, consisted of the following:

Description	2023
Deposits with Kern County Treasury Investment Pool (KCTIP)	\$ 5,536,760
Total cash and investments	\$ 5,536,760

Demand Deposits with Financial Institutions

At December 31, 2022 the carrying amount of the Authority's demand deposits was \$0, and the financial institution's balance was \$430,217. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the Authority's balance for the year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Kern County Treasury Investment Pool (KCTIP)

The Authority is a voluntary participant in the Kern County Treasury Investment Pool (KCTIP) pursuant to Government Code Section 53694. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Kern County Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are performed no less than semi-annually. In accordance with Government Code Section 27136, all request for withdrawal of funds for the purpose of investing or deposits the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. Pool detail may be obtained from the County of Kern Treasurer's Office – 1115 Truxtun Ave, Ste 2ND, Bakersfield, CA 93301 or the Treasurer's office website at www.kcttc.co.kern.ca.us.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

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. As of December 31, 2022, the Authority's cash balance in the KCTIP was rated by Standard & Poor's as AAAs/S1.

Concentration of Credit Risk

The Authority has not adopted an investment policy; and therefore, relies on the California Government Code, which contains a limitation of 5% on the amount that can be invested in any one governmental agency or non-governmental issuer. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the Authority's total investments except for those in the KCTIP.

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of an allowance for doubtful accounts consisted of the following:

Description	Extraction Fund	Basin Replenishment Fund	Total
Accounts receivable	\$ 271,641	\$ 25,168,058	\$ 25,439,699
Allowance for doubtful accounts	(49,254)	(24,649,899)	(24,699,153)
Total accounts receivable, net	\$ 222,387	\$ 518,159	\$ 740,546

There are three water producers subject to the Basin Replenishment Fee - 1) Mojave Pistachios, LLC; 2) Searles Valley Minerals Inc.; and 3) Indian Wells Valley Water District.

Mojave Pistachios, LLC and Searles Valley Minerals have refused to pay the fee. Both have unsuccessfully attempted to challenge the collection of the fee through an injunction. Additionally, claims for damages by both Mojave Pistachios, LLC and Searles Valley Minerals were dismissed, and the Authority is now initiating efforts to collect the unpaid fees.

Changes to assessment receivables not being recognized are as follows as of December 31, 2022:

Water Producer	Balance Jan. 1, 2022	Additions	Deletions	Balance Dec. 31, 2022
Mojave Pistachios, LLC	\$ 7,251,138	\$ 7,540,580	\$ -	\$ 14,791,718
Searles Valley Minerals	4,722,141	5,136,040	-	9,858,181
inyokern Community Services District	16,540	32,714	-	49,254
	\$ 11,989,819	\$ 12,709,334	\$ -	\$ 24,699,153

The Authority has chosen not to recognize these receivable amounts as the legal process for collections moves forward. The Authority is confident in the collection of the Basin Replenishment outstanding receivables but for accounting purposes are listed under Allowance for Doubtful Accounts. These amounts are not to be considered as available for financing operations until the funds are collected.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended December 31, 2022, were as follows:

Description	Balance Jan. 1, 2022	Additions	Deletions/ Transfers	Balance Dec. 31, 2022
Depreciable assets:				
Equipment	\$ 28,979	\$ -	\$ -	\$ 28,979
Total depreciable assets	<u>28,979</u>	<u>-</u>	<u>-</u>	<u>28,979</u>
Accumulated depreciation:				
Equipment	(6,210)	(4,140)	-	(10,350)
Total accumulated depreciation	<u>(6,210)</u>	<u>(4,140)</u>	<u>-</u>	<u>(10,350)</u>
Total depreciable assets, net	<u>22,769</u>	<u>(4,140)</u>	<u>-</u>	<u>18,629</u>
Total capital assets, net	<u>\$ 22,769</u>	<u>\$ (4,140)</u>	<u>\$ -</u>	<u>\$ 18,629</u>

In the fiscal year ended December 31, 2022, depreciation expense amounted to \$4,140.

NOTE 5 – ADVANCES PAYABLE

On June 26, 2018, the County of Kern (the County) provided the Authority with initial capital in the amount of \$500,000, to close the funding gap created by the delay in imposing a groundwater extraction fee, while simultaneously providing provisions that will ensure that the County's contributions are refunded to the County as the Authority becomes self-sufficient. The Authority repaid the entire \$500,000 advance to the County in fiscal year ended December 31, 2022. Changes in advances payable amounts for fiscal year ended December 31, 2022, were as follows:

Balance Jan. 1, 2022	Additions	Deletions/ Transfers	Balance Dec. 31, 2022
\$ 500,000	\$ -	\$ (500,000)	\$ -

NOTE 6 – DUE TO OTHER GOVERNMENTS

The City of Ridgecrest, a member agency, has provided the use of Council Chambers and IT equipment for meetings, IT services, and Legal Services since 2016 for the Authority. Repayment is restricted to Extraction Revenue, or an advance will be required from the Basin Replenishment Fund. Changes in due to other governments amounts for fiscal year ended December 31, 2022, were as follows:

Balance Jan. 1, 2022	Additions	Deletions/ Transfers	Balance Dec. 31, 2022
\$ 692,217	\$ 241,203	\$ -	\$ 933,420

Additions of \$241,203 were comprised of \$235,477 for legal services and \$5,727 for the use of council chambers and IT services.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 7 – INTERFUND ACTIVITY

Due to/from other funds includes \$500,000 advanced by the Basin Replenishment Fund to the Extraction Fund for the repayment of an advance by JPA member Indian Wells Valley Water District. In fiscal year 2017, the Indian Wells Valley Water District (District) agreed to advance \$500,000 for the adoption, evaluation and approval of the Groundwater Sustainability Program (GSP). In 2021, the District, with Board approval, held back payment of the District's portion of the Basin Replenishment fees to repay itself the \$500,000. As the activities were related to the GSP, the action resulted in the Extraction Fund receiving an advance from the Basin Replenishment Fund. Due to/from other funds consisted of the following at December 31, 2022:

<u>Amount</u>	<u>Due To/From</u>		<u>Purpose</u>
	<u>From Fund</u>	<u>To Fund</u>	
<u>\$ 500,000</u>	<u>Extraction</u>	<u>Replenishment</u>	<u>Advance</u>

NOTE 8 – NET POSITION – UNRESTRICTED (DEFICIT)

As of December 31, 2022, the Authority had an unrestricted net position deficit of (\$773,923). The deficit stems from advances made to the Authority by member agencies for the purpose of providing funding until the Authority could establish and impose an extraction fee on all non-exempt groundwater pumpers. Due to the nature of the deficit, the Authority will continue to repay the advances from the extraction fee revenue, which will eliminate the deficit.

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has purchased commercial insurance products to guard against the various risks of loss noted above.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the years ending December 31, 2022, 2021, and 2020. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2022, 2021, and 2020.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases

The Authority does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Notes to Financial Statements

December 31, 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Grant Awards

Grant funds received by the Authority are subject to audit by the grantor agencies. Such an audit could lead to requests for reimbursements from the grantor agencies for expenditures disallowed under the terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

Litigation

The Authority is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 11 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through April 1, 2024, the date on which the financial statements were available to be issued.

Supplementary Information

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

Balance Sheets – Combined – Internal Funds

December 31, 2022 (With Comparative Amounts as of December 31, 2021)

ASSETS	Extraction	Basin Replenishment	2022	2021
Current assets:				
Cash and cash equivalents	\$ 163,132	\$ 5,373,628	\$ 5,536,760	\$ 3,045,853
Accounts receivable, net	222,387	518,159	740,546	332,862
Grant receivable	798,206	-	798,206	492,289
Total current assets	1,183,725	5,891,787	7,075,512	3,871,004
Non-current assets:				
Due from other funds	-	500,000	500,000	500,000
Capital assets, net	18,629	-	18,629	22,769
Total non-current assets	18,629	500,000	518,629	522,769
Total assets	\$ 1,202,354	\$ 6,391,787	\$ 7,594,141	\$ 4,393,773
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	\$ 716,782	\$ 254,305	\$ 971,087	\$ 267,901
Total current liabilities	716,782	254,305	971,087	267,901
Non-current liabilities:				
Due to other funds	500,000	-	500,000	500,000
Advances payable	-	-	-	500,000
Due to other governments	740,866	192,554	933,420	692,217
Total non-current liabilities	1,240,866	192,554	1,433,420	1,692,217
Total liabilities	1,957,648	446,859	2,404,507	1,960,118
NET POSITION				
Investment in capital assets	18,629	-	18,629	22,769
Restricted	-	5,944,928	5,944,928	3,160,686
Unrestricted	(773,923)	-	(773,923)	(749,800)
Total net position	(755,294)	5,944,928	5,189,634	2,433,655
Total liabilities and net position	\$ 1,202,354	\$ 6,391,787	\$ 7,594,141	\$ 4,393,773

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY**Statements of Revenues, Expenses and Changes in Net Position – Combined – Internal Funds
December 31, 2022 (With Comparative Amounts as of December 31, 2021)**

	<u>Extraction</u>	<u>Basin Replenishment</u>	<u>2022</u>	<u>2021</u>
Operating Revenues				
Assessment fees	\$ 1,265,274	\$ 3,896,897	\$ 5,162,171	\$ 5,522,199
Operating grant	595,455	-	595,455	322,797
Total operating revenues	<u>1,860,729</u>	<u>3,896,897</u>	<u>5,757,626</u>	<u>5,844,996</u>
Operating Expenses				
Groundwater management	1,052,319	197,707	1,250,026	764,030
General and administrative	826,011	700,111	1,526,122	1,256,729
Depreciation expense	4,140	-	4,140	4,140
Total operating expenses	<u>1,882,470</u>	<u>897,818</u>	<u>2,780,288</u>	<u>2,024,899</u>
Operating income	<u>(21,741)</u>	<u>2,999,079</u>	<u>2,977,338</u>	<u>3,820,097</u>
Non-Operating Revenues				
Investment earnings	(6,522)	(214,837)	(221,359)	-
Assessment fees	32,714	12,676,620	12,709,334	11,989,819
Bad debt expense	(32,714)	(12,676,620)	(12,709,334)	(11,989,819)
Total non-operating revenues	<u>(6,522)</u>	<u>(214,837)</u>	<u>(221,359)</u>	<u>-</u>
Change in net position	<u>(28,263)</u>	<u>2,784,242</u>	<u>2,755,979</u>	<u>3,820,097</u>
Net Position				
Beginning of year	<u>(727,031)</u>	<u>3,160,686</u>	<u>2,433,655</u>	<u>(1,386,442)</u>
End of year	<u>\$ (755,294)</u>	<u>\$ 5,944,928</u>	<u>\$ 5,189,634</u>	<u>\$ 2,433,655</u>

Other Independent Auditors' Reports



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

Board of Directors
Indian Wells Valley Groundwater Authority
Ridgecrest, 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 Indian Wells Valley Groundwater Authority (Authority) which comprise the balance sheet as of December 31, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 1, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures to determine the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

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



Murrieta, California
April 1, 2024