



**FENNER VALLEY
WATER AUTHORITY**

**AGENDA
FENNER VALLEY WATER AUTHORITY
SPECIAL BOARD OF DIRECTORS' MEETING**

**SANTA MARGARITA WATER DISTRICT BOARDROOM
26111 ANTONIO PARKWAY, RANCHO SANTA MARGARITA, CA 92688
September 25, 2025 8:30 AM**

Telephone Audio: +1 323-553-2644 fees may apply

Telephone Audio ID: 597 515 158#

<https://tinyurl.com/ye7snan4>

Teleconference Address: 42 Canyon Ridge Irvine, CA 92603

This meeting will be held in person. As a convenience for the public, the meeting may also be accessed by Microsoft Teams and will be available by either computer or telephone audio as indicated below. Because this is an in-person meeting and the virtual component is not required, but rather is being offered as a convenience, if there are any technical issues during the meeting, this meeting will continue and will not be suspended.

Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, as required by Section 202 of the Americans with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in a meeting should direct such request to Kelly Howell at (949) 459-6642 at least 48 hours before the meeting if possible.

ITEMS DISTRIBUTED TO THE BOARD LESS THAN 24 HOURS PRIOR TO MEETING

Pursuant to Government Code section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than twenty four (24) hours prior to the meeting will be available for public inspection in the lobby of the Authority's business office located at 26111 Antonio Parkway, Rancho Santa Margarita, California 92688, during regular business hours. All documents available for public review are on file with the Authority's Secretary located at 26111 Antonio Parkway, Rancho Santa Margarita, California 92688.

- 1. CALL TO ORDER**
- 2. PLEDGE OF ALLEGIANCE**
- 3. PUBLIC FORUM**

Public comments during a Special Meeting may address only specific items listed on the agenda. Persons wishing to address the Board of Directors should submit a "Request to be Heard" form to the Recording Secretary before the Presiding Officer announces the agenda item. Comments are limited to three minutes unless further time is granted by the Presiding Officer.

4. CONSENT CALENDAR

4.1 Consideration and Action on the Minutes of August 8, 2025, Board Meeting **Page 3**

Recommendation: Approve the Minutes.

5. ACTION ITEMS

5.1 Consideration and Action on Resolution No. 25-09-01; Resolution of the Board of Directors of Fenner Valley Water Authority (1) Approving and Adopting Addendum No. 2 to the 2012 Environmental Impact Report for the Cadiz Valley Water Conservation, Recovery and Storage Project (SCH#2011031002) and (2) Approving a Memorandum of Understanding between Fenner Valley Water Authority and Cadiz with respect to the Northern Pipeline **Page 6**

Recommendation: Adopt Resolution No. 25-09-01.

6. TREASURER ITEMS

6.1 Consideration and Action on Fiscal Year 2024-2025 Audited Financial Statements; and Presentation by Davis Farr LLP **Page 22**

Recommendation: Approve the audited FY 2025 financial statements and submit to the County of Orange Auditor-Controller by December 31, 2025.

6.2 Fiscal Year 2026 Financial Statements (through August 31, 2025) **Page 44**

7. ADJOURNMENT

The next regular Board of Directors' meeting is scheduled for October 30, 2025, at 9:30 a.m.



**FENNER VALLEY
WATER AUTHORITY**

**MINUTES
FENNER VALLEY WATER AUTHORITY
SPECIAL BOARD OF DIRECTORS' MEETING**

**SANTA MARGARITA WATER DISTRICT BOARDROOM
26111 ANTONIO PARKWAY, RANCHO SANTA MARGARITA, CA 92688
August 8, 2025 9:30 AM**

**Telephone Audio: +1 323-553-2644 fees may apply
Telephone Audio ID: 789 463 825#
<https://tinyurl.com/3mu94e5z>**

ATTENDEES

Frank Ury	Chair
Betty Olson	Vice Chair
Natasha Raykhman	Director
Robert Grantham	Executive Director
Dawn Rowe	Ex-Officio Member
Alisha Winterswyk	Best Best & Krieger/General Counsel
Erin Schlegel	SMWD/Controller
Isra Shah	Best Best & Krieger/General Counsel
Jennifer Wilt	SMWD/Executive Assistant
Kelly Howell	Secretary
Kristine Day	Treasurer
Paul Pender	SMWD/Director of Finance
Caroline McHugh	WilmerHale
Claire Cozad	County of San Bernardino
Courtney Degener	Cadiz Inc.
David Gold	WilmerHale
Jennifer Hernandez	Holland & Knight
Karl Seckel	MWDOC
Michelle Lewis	Plante Moran
Tom Barnes	Environmental Science Associates (ESA)

1. CALL TO ORDER

Chairman Ury called the meeting to order at 9:35 a.m.

2. PLEDGE OF ALLEGIANCE

Chairman Ury led the Pledge of Allegiance.

3. PUBLIC FORUM

4. CONSENT CALENDAR

4.1 Consideration and Action on the Minutes of July 17, 2025, Board Meeting

Recommendation: Approve the Minutes.

Motion: Approve the Consent Calendar as recommended.

Moved by: Chairman Ury

Seconded by: Vice Chair Olson

Ayes: Olson, Raykhman, Ury

Unanimously approved

5. ACTION ITEMS

5.1 Consideration and Action on Resolution No. 25-08-01; Resolution of the Board of Directors of Fenner Valley Water Authority (1) Approving and Adopting Addendum No. 2 to the 2012 Environmental Impact Report for the Cadiz Valley Water Conservation, Recovery and Storage Project (SCH#2011031002) and (2) Approving a Memorandum of Understanding between Fenner Valley Water Authority and Cadiz with respect to the Northern Pipeline

Recommendation: Adopt Resolution No. 25-08-01.

Tom Barnes, ESA, presented an overview of the Environmental Impact Report (EIR) addendum for the Northern Pipeline component of the Cadiz Valley Groundwater Conservation Project, detailing the CEQA compliance history and the environmental effects of converting the pipeline for water conveyance.

Mr. Barnes explained the specifics of the Northern Pipeline Project, including the construction of pump stations, air vacs, and blow-off facilities, as well as the need for approvals from various agencies such as the Bureau of Land Management and Edwards Air Force Base.

Courtney Degener with Cadiz, on behalf of Fenner Valley Gap Mutual Water Company, requested that the Board allow for an extended public review period for the EIR addendum before taking action. The Board agreed to include this item on the agenda for the September 25, 2025, Board Meeting.

Motion: Extend the public review period of the document in the interest of transparency and to be consistent with Cadiz, providing more time for the public to fully evaluate.

Moved by: Director Raykhman

Seconded by: Vice Chair Olson

Ayes: Olson, Raykhman, Ury

Unanimously approved

6. ADJOURNMENT

The meeting adjourned at 9:55 a.m.



**FENNER VALLEY
WATER AUTHORITY**

FENNER VALLEY WATER AUTHORITY

MEMORANDUM

TO: Board of Directors

DATE: September 25, 2025

FROM: Robert Grantham, Executive Director

SUBJECT: Continuance from August 8, 2025 to September 25, 2025, for the following: Action on Resolution No. 25-09-01 Resolution of the Board of Directors of Fenner Valley Water Authority (1) Approving and Adopting Addendum No. 2 to the 2012 Environmental Impact Report for the Cadiz Valley Water Conservation, Recovery and Storage Project (SCH#2011031002) and (2) Approving a Memorandum of Understanding between Fenner Valley Water Authority and Cadiz with respect to the Northern Pipeline

SUMMARY

The Addendum No. 2 will evaluate the Fenner Valley Water Authority's proposal to convert a portion of an existing natural gas pipeline referred to as the "Northern Pipeline", between Cadiz, California and Mojave, California, for use as a water conveyance facility that would require construction of seven new pump stations, appurtenant facilities, and rehabilitation and possible replacement of certain portions of the Northern Pipeline (collectively, the Northern Pipeline Project Modification). The Addendum No. 2 has been prepared to assess whether the Project Modification would result in any new significant impacts or substantial increases in the severity of previously identified significant impacts.

The Fenner Valley Water Authority (Authority), the Fenner Gap Mutual Water Company, and Cadiz, Inc. (Cadiz) propose to enter into a Memorandum of Understanding (MOU) with respect to the Northern Pipeline. The purpose of the MOU is to document how the Northern Pipeline fits into the scope of the Cadiz Valley Water Conservation, Recovery and Storage Project (Project) and the respective obligations of the Fenner Gap Mutual Water Company, Cadiz, and the Authority with respect to the development, financing, construction and operation of the facilities and associated appurtenances necessary for the conveyance and delivery of Project water through the Northern Pipeline.

The Action on Resolution No. 25-09-01 was continued from August 8, 2025, to September 25, 2025, to allow for public comment on Addendum No. 2. No comments were received. Thus, Board action is appropriate.

Recommendation: Adopt Resolution No. 25-09-01.

Attachments:

1. August 8th Staff Report
2. Resolution approving and adopting Addendum No. 2
3. Memorandum of Understanding



**FENNER VALLEY
WATER AUTHORITY**

FENNER VALLEY WATER AUTHORITY

MEMORANDUM

TO: Board of Directors

DATE: August 8, 2025

FROM: Robert Grantham, Executive Director

SUBJECT: Consideration and Action on Resolution No. 25-08-01; Resolution of the Board of Directors of Fenner Valley Water Authority (1) Approving and Adopting Addendum No. 2 to the 2012 Environmental Impact Report for the Cadiz Valley Water Conservation, Recovery and Storage Project (SCH#2011031002) and (2) Approving a Memorandum of Understanding between Fenner Valley Water Authority and Cadiz with respect to the Northern Pipeline

SUMMARY

Issue: The Fenner Valley Water Authority (Authority) is the Lead Agency for actions related to the implementation of the Cadiz Valley Water Conservation, Recovery and Storage Project (Project) under the California Environmental Quality Act (CEQA) and the State CEQA Guidelines, and is responsible for review and approval of the design, permitting and construction of any and all facilities deemed necessary, advisable or appropriate to extract, convey or deliver Project water (Project Facilities). Since the certification of the Final Environmental Impact Report (Final EIR) in 2012 and the adoption of Addendum No. 1 in 2019, the Authority has proposed to convert a portion of an existing natural gas pipeline referred to as the “Northern Pipeline”, between Cadiz, California and Mojave, California, for use as a water conveyance facility that would require construction of seven new pump stations, appurtenant facilities, and rehabilitation and possible replacement of certain portions of the Northern Pipeline (collectively, the Northern Pipeline Project Modification). The Addendum No. 2 has been prepared to evaluate whether the Project Modification would result in any new significant impacts or substantial increases in the severity of previously identified significant impacts.

Recommendation: Adopt Resolution No. 25-08-01.

Fiscal Impact: Adoption of Resolution No. 25-08-01 does not have any fiscal impact other than payment of fees associated with filing with the appropriate County Clerks’ offices. The Authority will not incur any costs in connection with construction activities associated with the Northern Pipeline conversion.

DISCUSSION

As described in the [Final EIR](#), the Project approved in 2012 includes construction of a wellfield and manifold system and a 43-mile water conveyance pipeline along the “Southern Pipeline” route between private property in Cadiz, California and the Colorado River Aqueduct, within an existing railroad right-of-way. In 2019, the Authority adopted [Addendum No. 1](#) that slightly modified the Southern Pipeline water conveyance alignment by adding approximately 2 miles of pipeline in Cadiz to the 43-mile original alignment evaluated in the Final EIR. Additional water treatment facilities were also evaluated and approved.

Addendum No. 2 evaluates the conversion of an existing buried steel pipeline (the Northern Pipeline) from oil/natural gas use to use as a water conveyance facility to convey and store water more flexibly throughout the region. The Northern Pipeline would provide an additional route for water conveyance between the Cadiz Valley and the Antelope Valley, separate and apart from the approved Southern Pipeline which will convey water from Cadiz to the Colorado River Aqueduct. The Northern Pipeline would not alter the total supply capacity of the Project, which would remain an average of 50,000 AFY over 50 years. Addendum No. 2 analyzes the environmental impacts associated with construction of facilities needed to convey water through the Northern Pipeline in combination with the Project components evaluated in the Final EIR and Addendum No. 1.

The existing Northern Pipeline traverses portions of the Mojave Desert and Antelope Valley, often close to an active railroad easement and existing travel routes, including utility access roads and paved highways. To convert the existing Northern Pipeline from oil/natural gas to water conveyance, seven pump stations would be constructed between the Cadiz property and western Antelope Valley. In addition, pipeline appurtenances would be constructed that would be visible on the surface, including air release and air vacuum valves (AR/AV), blow-off (BO) facilities, and access manholes. The AR/AVs would be installed to allow for air release and to manage vacuum conditions in the pipeline and the BOs would allow for filling and draining the pipeline as needed for maintenance.

The original scope of the Project and the terms for formation of the Authority were set forth in a 2012 Water Purchase and Sale Agreement between Cadiz, Inc. (Cadiz), and Santa Margarita Water District (2012 Water Agreement). The Project scope was later memorialized in the Authority’s Joint Powers Agreement.

The Authority, the Fenner Gap Mutual Water Company, and Cadiz propose to enter into a Memorandum of Understanding (MOU) with respect to the Northern Pipeline. The purpose of the MOU is to document how the Northern Pipeline fits into the scope of the Project and the respective obligations of the Fenner Gap Mutual Water Company, Cadiz, and the Authority with respect to the development, financing, construction and operation of the facilities and associated appurtenances necessary for the conveyance and delivery of Project water through the Northern Pipeline. The rights and obligations of the Authority with respect to the Northern Pipeline are substantially consistent with the terms of the 2012 Water Agreement, which provides that the Authority will lease the Project Facilities to enable it to monitor compliance of the Project with all environmental, regulatory and permitting requirements.

ENVIRONMENTAL REVIEW

State CEQA Guidelines section 15164 requires lead agencies to prepare an addendum to a previously certified EIR if some changes or additions to a project are necessary, but none of the conditions requiring preparation of a Subsequent EIR are present. The Authority independently reviewed the Final EIR, the 2019 Addendum No. 1 and the 2025 Addendum No. 2 to determine the potential environmental impacts associated with the Project Modification in compliance with CEQA and the State CEQA Guidelines.

Based on the substantial evidence in the Final EIR, the 2019 Addendum No. 1 and the 2025 Addendum No. 2, including the independent referenced reports, the recommendation is that the Authority find that an addendum is the appropriate document under CEQA for assessing the Project Modification within the context of these earlier approved CEQA documents, and that the Project Modification does not require preparation of a supplemental or subsequent EIR or negative declaration under Public Resources Code section 21166 and State CEQA Guidelines section 15162 because:

- The Project Modification do not constitute a substantial change that would require major revisions of the Final EIR based on any new significant environmental effects or a substantial increase in the severity of previously identified significant effects.
- There is not a substantial change with respect to the circumstances under which the Project Modification will be constructed that would require major revisions of the Final EIR due to the involvement of new significant environmental effects or a substantial increase in the severity of the previously identified significant effects.
- No new information of substantial importance has been presented that was not known and could not have been known with the exercise of reasonable diligence at the time the Final EIR was certified, showing the Project Modification would have one or more significant effects or be substantially more severe than discussed in the earlier environmental documentation.
- No information has been presented that indicates the mitigation measures or alternatives previously found not to be feasible would in fact be feasible and would substantially reduce one or more significant effects, but the Authority declines to adopt such measures; or that mitigation measures or alternatives considerably different from those analyzed previously would substantially reduce one or more significant effects on the environment, but which the Authority declines to adopt.

The attached draft resolution approving and adopting the Addendum No. 2 and the MOU is recommended for approval by the Board of Directors. The Final EIR, Addendum No. 1, and Addendum No. 2 can be found on the Authority's website, www.FVWA.org, directly below the Board package link as "Meeting Attachment", and upon approval will also be available on the Resources page of the Authority's website. A hard copy of the Final EIR, Addendum No. 1, and Addendum No. 2 are on file and available for public review at 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688. The custodian of these records is the Executive Director of the Authority.

Board of Directors

August 8, 2025

Page 4

Attachments:

1. Resolution approving and adopting Addendum No. 2 & Memorandum of Understanding
2. Addendum No. 2 to the EIR 2012 Environmental Impact Report for the Cadiz Valley Water Conservation, Recovery and Storage Project (SCH#2011031002)

FENNER VALLEY WATER AUTHORITY

RESOLUTION NO. 25-09-01

**RESOLUTION OF THE BOARD OF DIRECTORS OF
FENNER VALLEY WATER AUTHORITY APPROVING
AND ADOPTING ADDENDUM NO. 2 TO THE 2012
ENVIRONMENTAL IMPACT REPORT FOR THE CADIZ
VALLEY WATER CONSERVATION, RECOVERY AND
STORAGE PROJECT (SCH#2011031002) AND
APPROVING A MEMORANDUM OF UNDERSTANDING
BETWEEN FENNER VALLEY WATER AUTHORITY,
FENNER GAP MUTUAL WATER COMPANY, AND
CADIZ WITH RESPECT TO THE NORTHERN PIPELINE**

WHEREAS, the Cadiz Valley Water Conservation, Recovery and Storage Project (“Project”) is designed to actively manage the groundwater basin underlying a portion of the Cadiz and Fenner Valleys located in the eastern Mojave Desert portion of San Bernardino County, California; and

WHEREAS, the Santa Margarita Water District (“SMWD”) was lead agency for the Project, and certified an Environmental Impact Report (SCH No. 2011031002) for the Project in July 2012 (“Final EIR”); and

WHEREAS, the Project is currently in the pre-construction phase and includes construction of an array of groundwater extraction wells and pumps, a wellfield manifold piping system, a 43-mile water conveyance pipeline (“Southern Pipeline”), monitoring features, other appurtenances and fire suppression mechanisms; and

WHEREAS, on June 21, 2019, Fenner Valley Water Authority (“Authority”) Board of Directors approved Resolution No. 19-06-01, approving and adopting an Addendum to the 2012 EIR (“Addendum No. 1”) and approving proposed modifications to the Project that included the proposed construction of a groundwater treatment facility on Cadiz property and minor modifications to the Southern Pipeline alignment; and

WHEREAS, since the approval of Addendum No. 1, modifications of the Project have been proposed to facilitate the conveyance of water through an existing buried 30-inch diameter steel pipeline (“Northern Pipeline”) from Cadiz, California to Mojave, California, including, but not limited to, the construction of seven pump stations, the installation of air release/air vacuum valves and blow-off valves, and the rehabilitation and, if necessary, replacement of certain portions of the pipeline (collectively, the Northern Pipeline “Project Modification”); and

WHEREAS, the conveyance of water through the Northern Pipeline was first evaluated as a Project Facility Alternative in the Final EIR; and

WHEREAS, pursuant to the Joint Exercise of Powers Agreement (“JPA”) for the Authority, the Authority is responsible for review and approval of the design, permitting and

construction of the Project facilities, and is the agency with the power to obtain the rights, permits and other authorizations necessary for the Project and its facilities; and

WHEREAS, the original scope of the Project and the terms for formation of the Authority were set forth in a 2012 Water Purchase and Sale Agreement between Cadiz, Inc. (“Cadiz”), and SMWD (“2012 Water Agreement”); and

WHEREAS, the Project scope was later memorialized in the Authority’s JPA; and

WHEREAS, the Authority, the Fenner Gap Mutual Water Company, and Cadiz wish to enter into a Memorandum of Understanding (“MOU”) with respect to the Northern Pipeline, which is attached hereto as Exhibit A, and incorporated herein by reference;

WHEREAS, the purpose of the MOU is to document how the Northern Pipeline fits into the scope of the Project and the respective obligations of the Fenner Gap Mutual Water Company, Cadiz, and the Authority with respect to the development, financing, construction and operation of the facilities and associated appurtenances necessary for the conveyance and delivery of Project water through the Northern Pipeline. The rights and obligations of the Authority under the MOU with respect to the Northern Pipeline are substantially consistent with the terms of the 2012 Water Agreement, which provides that Cadiz will lease the Project Facilities to the Authority to enable the Authority to monitor compliance of the Project with all environmental, regulatory, and permitting requirements; and

WHEREAS, pursuant to the California Environmental Quality Act (Pub. Resources Code, §§ 21000 et seq.) (“CEQA”) and the State CEQA Guidelines (Cal. Code Regs., §§ 15000 et seq.), the Authority is the Lead Agency for actions related to the implementation of the Project; and

WHEREAS, pursuant to CEQA, when taking subsequent discretionary actions in furtherance of a project for which an EIR has already been certified, the Lead Agency is prohibited from requiring a subsequent or supplemental EIR or negative declaration unless at least one of the circumstances identified in Public Resources Code section 21166 or State CEQA Guidelines section 15162 are present; and

WHEREAS, pursuant to State CEQA Guidelines section 15164, the Authority has overseen the preparation of an additional Addendum to the 2012 EIR (“Addendum No. 2”) to evaluate the potential for the Project Modification to result in any new significant impacts or a substantial increase in the severity of previously identified significant impacts; and

WHEREAS, according to Addendum No. 2, the Project Modification would not trigger any of the circumstances described in Public Resources Code section 21166 or State CEQA Guidelines section 15162, and thus a supplemental or subsequent EIR or negative declaration is not required; and

WHEREAS, the Authority has reviewed Addendum No. 2, along with all information in the previously certified Final EIR, Addendum No. 1, all oral and written testimony submitted to the Authority in relation to the Project Modification, and all other information in the

administrative record, prior to taking any action on the Project Modification; and

WHEREAS, all other legal prerequisites to the adoption of this Resolution have occurred.

NOW, THEREFORE, the Board of Directors of the Authority does hereby find, determine, and order as follows:

Section 1. The above recitals are true and correct and incorporated herein by reference.

Section 2. State CEQA Guidelines section 15164 requires lead agencies to prepare an addendum to a previously certified EIR if some changes or additions to a project are necessary, but none of the conditions requiring preparation of a subsequent EIR are present. The Authority has reviewed and considered the previously certified Final EIR, Addendum No. 1 and Addendum No. 2, and finds that these documents, taken together, contain a complete and accurate reporting of all of the potential environmental impacts associated with the Project Modification. The Authority further finds that Addendum No. 2 has been completed in compliance with CEQA and the State CEQA Guidelines. The Authority further finds and determines that Addendum No. 2 reflects the Authority's independent judgment.

Section 3. Based on the substantial evidence set forth in the record, including but not limited to the certified Final EIR, Addendum No. 1, Addendum No. 2 and all oral and written testimony submitted to the Authority in relation to the Project Modification, the Authority finds that an addendum is the appropriate document for disclosing the changes to the Project described in Addendum No. 2, and that none of the conditions identified in Public Resources Code section 21166 and State CEQA Guidelines section 15162 requiring subsequent environmental review have occurred, because:

(a) The Project Modification described in Addendum No. 2 do not constitute a substantial change that would require major revisions of the Final EIR or Addendum No. 1 due to the involvement of new significant environmental effects or a substantial increase in the severity of previously identified significant effects.

(b) There is not a substantial change with respect to the circumstances under which the Project Modification will be constructed that would require major revisions of the Final EIR or Addendum No. 1 due to the involvement of new significant environmental effects or a substantial increase in the severity of the previously identified significant effects.

(c) No new information of substantial importance has been presented that was not known and could not have been known with the exercise of reasonable diligence at the time the Final EIR was certified, or Addendum No. 1 was approved, showing any of the following:

(i) That the Project Modification would have one or more significant effects not discussed in the earlier environmental documentation;

(ii) That significant effects previously examined would be substantially more

severe than shown in the Final EIR and Addendum No. 1;

(iii) That mitigation measures or alternatives previously found not to be feasible would in fact be feasible and would substantially reduce one or more significant effects, but the Authority declines to adopt such measures; or

(iv) That mitigation measures or alternatives considerably different from those analyzed previously would substantially reduce one or more significant effects on the environment, but which the Authority declines to adopt.

Section 4. The Authority hereby approves and adopts Addendum No. 2 and the MOU. The Final EIR, Addendum No. 1, and Addendum No. 2 are provided on the Authority's website, www.FVWA.org, directly below the Board package link as "Meeting Attachment" and on the Resources page, and on file with the custodian of records.

Section 5. The Authority hereby approves and adopts the Project Modification.

Section 6. The Board directs the Authority staff to prepare, execute and file a CEQA Notice of Determination with the appropriate County Clerks' offices within five working days of the Authority's approval of the Project Modification.

Section 7. The Board directs the Authority staff to execute the MOU within five working days of the Authority's approval of the MOU.

Section 8. The Final EIR, Addendum No. 1, Addendum No. 2, and all other documents and materials that constitute the record of proceedings upon which these findings have been based are on file and available for public review at 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688. The custodian of these records is the Executive Director of the Authority.

PASSED AND ADOPTED by the Board of Directors of Fenner Valley Water Authority this 25th day of September 2025.

Frank Ury
Board of Directors, Chair
Fenner Valley Water Authority

ATTEST

Kelly Howell
Secretary
Fenner Valley Water Authority

EXHIBIT A

Memorandum of Understanding

**MEMORANDUM OF UNDERSTANDING
FOR LEASE AND OPERATION OF
CADIZ NORTHERN PIPELINE WATER DELIVERY FACILITIES**

This Memorandum of Understanding (“MOU”) dated as of September [REDACTED], 2025, is entered into between Fenner Valley Water Authority, a California joint powers authority (“FVWA”), Fenner Gap Mutual Water Company, a California nonprofit mutual benefit corporation (“FGMWC”) and Cadiz Inc., a Delaware corporation, and its affiliates (collectively, “Cadiz”). FVWA, FGMWC and Cadiz are sometimes hereinafter individually referred to as a “Party” or collectively as the “Parties”.

This MOU is made with reference to the following facts:

(a) Cadiz Inc. is a public company holding certain water, water rights and storage rights in trust for the benefit of its shareholders. Cadiz Inc., through a wholly-owned subsidiary, Cadiz Real Estate LLC, is also the owner of approximately forty-five thousand (45,000) acres of land in eastern San Bernardino County (“Property”), most of which overlies the Fenner Valley Aquifer System. Cadiz holds the right to extract on average up to 50,000 acre-feet per year (“AFY”) of groundwater to be conserved over a 50-year period by the Cadiz Valley Water Conservation, Recovery and Storage Project (“Water Project”). Cadiz also owns a 30-inch diameter, 220-mile, existing steel pipeline originating in Cadiz, California, with a terminus at Wheeler Ridge, California (“Northern Pipeline”). Cadiz has agreed to develop, finance and construct the Water Project in accordance with the terms of a Water Purchase and Sale Agreement between Cadiz, FGMWC and Santa Margarita Water District (“SMWD”) dated July 31, 2012 ('Project Agreement').

(b) The Final Environmental Impact Report for the Water Project (“Project FEIR”) was certified by SMWD on July 31, 2012. SMWD is a public agency with broad powers under the California Water District Act, Cal. Water §§ 34000 et seq. and was the Lead Agency under the California Environmental Quality Act (“CEQA”) for the Water Project. In connection with approval of the Project FEIR, a Groundwater Management, Monitoring and Mitigation Plan (“GM3P”) for the Water Project was also approved by the County of San Bernardino (“County”) on October 1, 2012.

(c) FVWA is a joint powers authority formed through a joint exercise of powers agreement (“JPA”) between SMWD and FGMWC, with SMWD serving as the managing member. In August 2023, the County executed a joinder agreement with SMWD and FGMWC to become an ex-officio member of FVWA. FVWA’s purpose is to (i) maintain through its property interest the facilities and associated appurtenances necessary for the conveyance and delivery of water from the Water Project (“Capital Facilities”) and (ii) provide oversight for the operation of the Water Project by FGMWC in accordance with the GM3P. As facilities “necessary, advisable or appropriate to extract, convey or deliver Project water to Project Participants,” Capital Facilities constitute “Project Facilities” as defined in Section 1.32 of the Project Agreement. Under the terms of the Project Agreement, FVWA will enter into a “Facility Lease” which gives FVWA a possessory interest in the Project Facilities, including the Capital Facilities, for the Initial Term of fifty (50) years.

(d) FGMWC, f/k/a Fenner Valley Mutual Water Company or FVMWC, is a California nonprofit mutual benefit corporation established by Cadiz as a mutual water company, exempt from California Public Utilities Commission jurisdiction pursuant to California Public Utilities Code §§ 2704 and 2705, authorized to deliver water to its shareholders at cost, inclusive of water supply, capital, operations, and maintenance. Cadiz will make “**Conserved Water**” available to FGMWC as authorized under the GM3P for delivery to FGMWC members. FGMWC will operate and manage the Water Project under the oversight of FVWA. FGMWC members will ultimately be comprised of entities that have contracted to receive water from the Water Project (“**Project Participants**”).

(e) The proposed Project Facilities assessed in the Project FEIR included an array of groundwater extraction wells and pumps, a wellfield manifold piping system, a 43-mile water conveyance pipeline (“**Southern Pipeline**”), monitoring features, other appurtenances and fire suppression mechanism. The Project FEIR evaluated the Northern Pipeline as a Project Facility Alternative.

(f) In June 2019, FVWA, serving as Lead Agency, approved and adopted an Addendum to the Project FEIR (“**Addendum 1**”) and approved proposed modifications to the Water Project that included the proposed construction of a groundwater treatment facility on Cadiz property and minor modifications to the Project pipeline alignment.

(g) FVWA has prepared a second addendum to the Project FEIR pursuant to the requirements of CEQA to evaluate project modifications that would result in use of the Northern Pipeline to deliver Conserved Water to Project Participants (“**Addendum 2**”). The Northern Pipeline would be part of the Project Facilities and provide conveyance capacity for up to 25,000 AFY of water.

(h) In May 2025, FGMWC submitted an application for a right-of-way authorizing transportation of water in the Northern Pipeline from the Bureau of Land Management pursuant to the requirements of the Federal Land Policy and Management Act of 1976 (“**BLM Right-of-Way**”), and related approvals for the use of the Northern Pipeline for water conveyance.

(i) Cadiz and FGMWC have entered into long term water supply purchase agreements with Project Participants, which grant the Project Participants the right to take delivery of Conserved Water through the Northern Pipeline (“**Purchase Agreements**”) subject to certain conditions precedent.¹

(j) Cadiz, in coordination with FGMWC, continues to negotiate with other potential Project Participants who will be served Conserved Water from the Water Project through the

¹ As of the execution of this MOU, Cadiz and FGMWC have secured Purchase Agreements for 85% of the capacity of the Northern Pipeline, bringing the cumulative total AFY under contract for delivery via the Northern Pipeline to 21,275 AFY. These Purchase Agreements include: (i) an agreement dated February 2024 with Fontana Water Company for 5,000 AFY; (ii) an agreement dated March 2024 with Golden State Water Company for 5,000 AFY; (iii) an agreement dated April 2024 with Solstra Communities California LLC for 1,275 AFY; (iv) an agreement dated July 2024 with SMWD for 5,000 AFY; and (v) an agreement dated August 2024 with Cucamonga Valley Water District for 5,000 AFY.

Northern Pipeline, including potential terms for funding capital improvements that will be necessary in connection with the Northern Pipeline (“**NP Improvements**”). The Northern Pipeline and the NP Improvements are referred to collectively as the “**NP Capital Facilities**”.

(k) The Parties desire to set forth the terms and conditions upon which Cadiz, FGMWC and FVWA will cooperate in the improvement of the NP Capital Facilities to provide for delivery of Conserved Water to Project Participants through the Northern Pipeline.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and promises set forth herein, the parties hereto agree as follows:

1. Construction of the Northern Pipeline Improvements. The Parties acknowledge and agree that the improvements to the Northern Pipeline will provide critical infrastructure for the delivery of Conserved Water and the success of the Water Project. In connection with such development, FVWA will cooperate with Cadiz and FGMWC to undertake all design and permitting requirements for the construction and implementation of the NP Capital Facilities, including in the application process for the BLM FLPMA Right-of-Way and related approvals for the use of the Northern Pipeline for water conveyance. Cadiz will be responsible for all filing fees, costs and expenses, including consulting, engineering and legal fees, in connection with the design, permitting and approval process and will reimburse FVWA and SMWD for any costs or expenses incurred in connection with such activities in the same manner as Cadiz currently reimburses FVWA and SMWD for Water Project related costs. In no event will FVWA be required to participate in any financing for the construction of the NP Capital Facilities or incur any cost in connection with the construction thereof.

2. Lease of Northern Pipeline.

(a) The Parties acknowledge and agree that the NP Capital Facilities constitute Project Facilities as defined in the Project Agreement.

(b) Subject to the conditions precedent contained in the MOU, it is contemplated that the Facility Lease will give FVWA a possessory interest in the NP Capital Facilities for the term of fifty (50) years, with potential options to extend.

3. Discretion to Assign Ownership Interests in Project Facilities: Should Cadiz determine that it would be to the benefit of the Water Project to transfer its ownership interests in the Project Facilities, including the Capital Facilities, to an entity that would develop these facilities (“**Project Company**”), then Cadiz in its sole and absolute discretion shall have a right to freely assign its ownership interests in these facilities to that Project Company. In the event that Cadiz does transfer its ownership interests in the Project Facilities to the Project Company, then Cadiz shall assign the Facility Lease to the Project Company and the Project Company shall assume the role of Lessor. Nothing in this Section shall be construed to affect any of the expected obligations under the Facility Lease, including that FVWA would hold a possessory interest in the facilities for the term of fifty (50) years, with potential options to extend.

4. Conditions Precedent. The Parties agree that the following conditions will be conditions precedent to the obligation of the Parties to move forward with the transactions set forth herein:

(a) Cadiz will have determined that the use of the Northern Pipeline and the construction of the NP Improvements can be implemented in a manner and on terms that are desirable to Cadiz in its sole and absolute discretion;

(b) the negotiation and execution of the following documents to the sole satisfaction of Cadiz: (i) the Purchase Agreements; (ii) any financing arrangements necessary for the construction of the NP Improvements and operation of the NP Capital Facilities; and (iii) agreements for the construction of the NP Improvements;

(c) all permits and approval of governmental agencies with authority over the NP Improvements and the use of the NP Capital Facilities to deliver Conserved Water to the Project Participants will have been obtained on terms and conditions (including mitigation measures) that are satisfactory to Cadiz;

(d) all real property rights and rights-of-way necessary for the use of the Northern Pipeline and the construction and use of the NP Improvements, including without limitation, the BLM Right-of-Way, will have been obtained; and

(e) Cadiz and FVWA shall have agreed on the terms of the Facility Lease.

5. Termination of MOU. This MOU may be terminated at any time if the conditions precedent have not been satisfied as of December 31, 2029 unless waived or extended by mutual agreement of the Parties, which waiver or extension shall not be unreasonably withheld, conditioned or delayed.

6. Governing Law and Venue. This MOU is governed by the laws of the State of California. Venue for any action arising in connection with this MOU will be in the Superior Court of the State of California sitting in San Bernardino County and the Parties hereby consent to the jurisdiction of such court.

7. Counterparts. This MOU may be executed and delivered in counterparts or by a method of digital signature that has been approved by FVWA consistent with the laws of the State of California. Counterparts that are delivered with original signatures, by PDF or by digital signature, when taken together, will constitute a binding and enforceable document.

8. Notices. All notices delivered pursuant to this MOU may be made in person, via commercial overnight delivery or by electronic mail, provided that any notice delivered by electronic mail will be effective upon hitting “Send” or its equivalent, unless the person sending the electronic mail receives notice or otherwise reasonably should be aware that the electronic mail was not successfully transmitted. All notices will be addressed as set forth below each Party’s signature.

(signature page follows)

IN WITNESS WHEREOF, the Parties have executed this MOU as of the date first set forth above.

CADIZ INC.

By: _____
Name: _____
Title: _____

Address:

FENNER GAP MUTUAL WATER COMPANY

By: _____
Name: _____
Title: _____

Address:

FENNER VALLEY WATER AUTHORITY

By: _____
Name: _____
Title: _____

Address:

(a)



**FENNER VALLEY
WATER AUTHORITY**

FENNER VALLEY WATER AUTHORITY

MEMORANDUM

TO: Board of Directors

DATE: September 25, 2025

FROM: Kristine Day, Treasurer

SUBJECT: Consideration and Action on Fiscal Year 2024-2025 Audited Financial Statements; and Presentation By Davis Farr LLP

SUMMARY

Issue: The Fenner Valley Water Authority (Authority) prepares annual financial statements and engages an independent audit firm, in line with Government Code Section 26909. For Fiscal Year 2024-2025 (FY 2025), Davis Farr LLP conducted the audit under the Authority's five-year agreement.

Recommendation: Approve the audited FY 2025 financial statements and submit to the County of Orange Auditor-Controller by December 31, 2025.

Fiscal Impact: The statements reflect the Authority's financial position and activity for the fiscal year ended June 30, 2025.

Previously Related Action: On October 31, 2024, the Board approved the audited financial statements for the fiscal year ended June 30, 2024.

DISCUSSION

The FY 2025 audit was completed by Davis Farr LLP using data maintained by Plante Moran. The audit ensures transparency and provides a reliable record of the Authority's finances. The audited statements (Attachment A) and communication letter (Attachment B) are provided. The necessary documents will also be submitted to the County of Orange by the required deadline.

HIGHLIGHTS:

- Cash balance: \$59.9 thousand.
- Revenues: \$230.7 thousand; no receivables on June 30, 2025.

- Operating Expenses: \$245.5 thousand, down \$73.2 thousand from FY 2024, funded entirely by Cadiz, Inc.
 - Professional Services decreased \$27.0 thousand.
 - General and Administrative Services decreased \$46.2 thousand.
- Governmental Accounting Standards Board (GASB): no new pronouncements impacted FY 2025.
- Internal Controls: No finding reported by auditors.

Attachments:

- A. *Annual Financial Report for the Fiscal Year Ended June 30, 2025*
- B. *Required Communications Letter to the Board of Directors*

FENNER VALLEY WATER AUTHORITY

Basic Financial Statements

Year Ended June 30, 2025

FENNER VALLEY WATER AUTHORITY

Basic Financial Statements

Year Ended June 30, 2025

TABLE OF CONTENTS

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

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Fenner Valley Water Authority (the Authority) as of and for the year June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2025, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2025, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Davis Fan, CPA

Irvine, California
September 17, 2025

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

This section of the Fenner Valley Water Authority's (Authority) annual financial report presents the Management's Discussion and Analysis (MD&A) of the Authority's financial performance during the fiscal year ended June 30, 2025 (FY 2025). The MD&A is to be read and considered in conjunction with the basic financial statements and accompanying notes.

FY 2025 Financial Highlights

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

Overview of the Financial Statements

The Authority is a self-supporting entity that follows enterprise fund accounting and presents its financial statements on the full accrual basis of accounting. This annual financial report consists of two parts – MD&A and the basic financial statements, including notes. The Authority's financial statements begin on page 7 of this document. The notes to the basic financial statements can be found beginning with page 11 and provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The Authority's financial statements offer key, high-level financial information about the Authority's activities, comprised of the following main statements:

- **The Statement of Net Position** includes information on the Authority's assets and liabilities and deferred outflows and inflows of resources. Net Position is defined as the Authority's total assets plus deferred outflows of resources, less total liabilities, and deferred inflows of resources.
- **The Statement of Revenues, Expenses and Change in Net Position** shows changes in the Authority's net position based on its operating revenues and expenses during the fiscal year ended June 30, 2025.
- **The Statement of Cash Flows** provides the Authority's changes in cash resulting from operating activities and provides information on the sources and uses of the Authority's cash.

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

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

Statement of Net Position

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

The Authority's total assets decreased \$102.4 thousand to \$60.5 thousand compared with the prior year due to a decrease in the cash balance.

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

Condensed Statement of Net Position

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

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

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

Statement of Revenues, Expenses and Change in Net Position

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

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

Condensed Statement of Revenues, Expenses and Change in Net Position

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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

Assets:

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

Liabilities:

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

Net Position:

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

FENNER VALLEY WATER AUTHORITY
Statement of Revenues, Expenses and Change in Net Position
Year ended June 30, 2025

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

See accompanying notes to the basic financial statements.

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

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

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

See accompanying notes to the basic financial statements.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(1) Summary of Significant Accounting Policies

The basic financial statements of Fenner Valley Water Authority (the Authority) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

(a) Reporting Entity

The Fenner Valley Water Authority (Authority) was established on November 14, 2014, by a joint powers agreement between the Santa Margarita Water District (SMWD) and Fenner Gap Mutual Water Company, formerly Fenner Valley Mutual Water Company, a California nonprofit mutual benefit corporation (FGMWC). The Authority was created for the purpose of providing joint exercise of powers for the governance of the Cadiz Valley Water Conservation, Recovery and Storage Project (the Project), a public private partnership designed to appropriate groundwater from wells on certain property overlying the Orange Blossom Wash, Cadiz, Bristol, and Fenner Valley aquifers and to deliver that groundwater for reasonable and beneficial uses via the Colorado River Aqueduct and other facilities necessary to the Project participants. The initial Members of the Authority are SMWD and FGMWC. SMWD is currently the Managing Member of the Authority, responsible for the day-to-day operation of the Authority and will remain as the Managing Member unless and until it withdraws as the Member of the Authority or there is unanimous agreement of the Members to transition the role of Managing Member to a successor public agency. The initial Board of Directors is comprised of 3 Directors and 3 Alternate Directors.

(b) Basis of Accounting and Measurement Focus

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

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

Financial reporting is based upon all GASB pronouncements.

The Authority is accounted for as an enterprise fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. This measurement focus emphasizes the determination of the change in the Authority's net position. The Authority distinguishes operating revenues and expenses from nonoperating items.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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

(c) Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use, either through Authority resolution or external restrictions imposed by outside parties for use for a specific purpose. There are no limitations on the use of net position on June 30, 2025.

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

(d) Estimates and Assumptions

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

(2) Cash and Cash Equivalents

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

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

(3) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a deposit policy for custodial credit risk. The Authority is subject to custodial credit risk for amounts that exceed Federal Deposit Insurance Corporation (FDIC) insurance limits of \$250,000 per financial institution.

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(Continued)

(3) Custodial Credit Risk (Continued)

The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following:

- The California Government Code requires that a financial institution secure deposit made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).
- The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- California law also allows financial institutions to secure Authority deposits by pledging first deed of trust mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2025, the Authority has deposits with a bank balance of \$59,907 which is federally insured.

(4) Related Parties and Concentrations

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

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

(a) Related Party Transactions – Cadiz, Inc.

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

FENNER VALLEY WATER AUTHORITY

Notes to the Basic Financial Report

Year Ended June 30, 2025

(Continued)

(4) Related Parties and Concentrations (Continued)

(b) Related Party Transactions – Santa Margarita Water District

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

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

We have audited the financial statements of Fenner Valley Water Authority (the Authority) as of and for the year ended June 30, 2025, and have issued our report thereon dated September 17, 2025. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 28, 2025, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

We identified independence threats related to the preparation of the financial statements. We have applied certain safeguards to reduce the threats to an acceptable level, including using an independent party within the firm to perform a quality control review of the financial statements, and obtaining confirmation from the Authority's

management that their review of the financial statements included comparing the financial statements and footnotes to the underlying accounting records.

Significant Risks Identified

We have identified the following significant risks:

Related party transactions between Fenner Valley Water Authority and Santa Margarita Water District and Cadiz, Inc. for the operation of Authority projects. We reviewed revenue and expense transactions between parties to ensure related party disclosure footnotes were accurate and complete.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2025 with the exception of changing the application of revenue recognition for Charges for Services. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There were no sensitive accounting estimates affecting the financial statements during the year ended June 30, 2025.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no unusual transactions noted as a result of our audit procedures.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected misstatements detected during the audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. During the audit, one material adjustment was made to modify revenue recognition for Charges for Services.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated September 17, 2025.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Authority's auditors.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Davis Fan w

Irvine, California
September 17, 2025



**FENNER VALLEY
WATER AUTHORITY**

FENNER VALLEY WATER AUTHORITY

MEMORANDUM

TO: Board of Directors **DATE:** September 25, 2025

FROM: Kristine Day, Treasurer
Plante Moran, Accounting Consultant

SUBJECT: Fiscal Year 2026 Financial Statements (through August 31, 2025)

FINANCIAL SUMMARY HIGHLIGHTS

This report includes the Authority's Balance Sheet and Income Statement (Revenue and Expenditure Report) for the period ending August 31, 2025.

- Total Authority expenses incurred for the fiscal year to date are \$24,659.77 (7.37% of the adopted budget).
- As of August 31, the Authority's cash balance was \$37,357.55.
- Unaudited financial statements as of August 31 have been prepared by Plante Moran.

The Balance Sheet and Revenue and Expenditure Reports are provided on the following pages.

Fenner Valley Water Authority
 COMPARATIVE BALANCE SHEET
 As of August 31, 2025

	YEAR ENDED 6/30/2025	PERIOD ENDED 8/31/2025	CHANGE Period Diff	% CHANGE Period % Var
Assets				
Bank Accounts				
1100000 - Cash	\$ 59,907.49	\$ 37,357.55	\$ (22,549.94)	(37.64) %
Total Bank Accounts	59,907.49	37,357.55	(22,549.94)	(37.64) %
Other Current Assets				
1301100 - Prepaid Expense	629.87	0.00	(629.87)	(100.00) %
Total Other Current Assets	629.87	0.00	(629.87)	(100.00) %
Total Assets	60,537.36	37,357.55	(23,179.81)	(38.29) %
Liabilities and Equity				
Liabilities				
Accounts Payable				
2000000 - Accounts Payable	1,530.00	7,752.50	6,222.50	406.69 %
Total Accounts Payable	1,530.00	7,752.50	6,222.50	406.69 %
Other Current Liabilities				
2019001 - Due to SMWD	4,743.44	0.00	(4,743.44)	(100.00) %
2400000 - Unearned Revenue	54,263.92	0.00	(54,263.92)	(100.00) %
Total Other Current Liabilities	59,007.36	0.00	(59,007.36)	(100.00) %
Total Liabilities	60,537.36	7,752.50	(52,784.86)	(87.19) %
Equity				
Fund Balance				
3902000 - Unrestricted	14,787.75	0.00	(14,787.75)	(100.00) %
Total Fund Balance	14,787.75	0.00	(14,787.75)	(100.00) %
Net Revenue	(14,787.75)	29,605.05	44,392.80	(300.19) %
Total Equity	0.00	29,605.05	29,605.05	100.00 %
Total Liabilities and Equity	\$ 60,537.36	\$ 37,357.55	\$ (23,179.81)	(38.29) %

Fenner Valley Water Authority
 REVENUE AND EXPENDITURE REPORT
 As of August 31, 2025

	YEAR ENDING	YEAR ENDING	Year To Date	% BUDGET
	6/30/2025	6/30/2026	8/31/2025	
	END BALANCE	BUDGET	YTD BALANCE	
Revenue				
4150600 - Bank Interest Income	\$ 7.16	\$ 0.00	\$ 0.90	0.00%
4172503 - Misc. Revenue - Other Operating Revenue Cadiz	230,736.08	0.00	54,263.92	0.00%
Total Revenues	230,743.24	0.00	54,264.82	0.00%
Expenditures				
Operating				
5308300 - Insurance	3,779.24	5,000.00	629.87	12.60%
5340410 - Accounting Services	17,385.00	25,000.00	6,507.50	26.03%
5340420 - Administrative Services	13,688.83	50,000.00	0.00	0.00%
5340440 - Auditing Services	10,760.00	12,000.00	4,000.00	33.33%
5340510 - Legal - Attorney Fees	67,867.40	100,000.00	13,522.40	13.52%
5340570 - Consultant and Professional Services - TRP	873.50	40,000.00	0.00	0.00%
5340580 - Consultant and Professional Services - External -	131,177.02	100,000.00	0.00	0.00%
5390900 - Other Items of Expense - Bank Fees Service	0.00	2,500.00	0.00	0.00%
Total Operating	245,530.99	334,500.00	24,659.77	7.37%
Total Expenditures	245,530.99	334,500.00	24,659.77	7.37%
Revenue in Excess of Expenses	\$ (14,787.75)	\$ (334,500.00)	\$ 29,605.05	(8.85) %