

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
(A JOINT POWER AUTHORITY)  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
ORGANIZATION STRUCTURE  
DECEMBER 31, 2019**

The Authority is administered by an eleven-member Board of Directors each serving four-year terms. Directors are appointed as follows:

- (1) One elected member of the governing body of each of the seven member entities.
- (2) Two representatives of a mutual water company or water corporation regulated by the Public Utilities Commission as defined in Water Code Section 10723.6(b), servicing an area within the Authority's jurisdiction, nominated by their respective governing body, and appointed by the Board of Directors.
- (3) One representative from a landowner and groundwater user in a "white area," appointed by the County. A 'white area' shall be defined as such area where the County of Tulare is the only public agency with jurisdiction as defined by SGMA.
- (4) One At Large representative nominated and appointed by the Board of Directors.

<u>Name</u>	<u>Office</u>	<u>Represents</u>	<u>Term Expiration</u>
Ed Milaneseo	Chair	Lindmore Irrigation District	December, 2021
Joe Ferrara	Vice-Chair	Exeter Irrigation District	December, 2021
Terry Peltzer	Director	Ivanhoe Irrigation District	December, 2023
Mike George	Director	Lindsay-Strathmore Irrigation District	December, 2023
David Roberts	Director	Stone Corral Irrigation District	December, 2023
Brian Watson	Director	City of Lindsay	December, 2021
Kyle Crocker	Director	County of Tulare	December, 2023
Paul Buldo	Director	Sentinal Butte	December, 2021
Timothy Gobler	Director	Watchumna	December, 2021
Rod Burkett	Director	"White Area"	December, 2023
Cruz Rivera	Director	At Large	December, 2023

Michael Hagman, Executive Director and Secretary

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**FINANCIAL SECTION**

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## REPORT OF INDEPENDENT AUDITOR

To the Board of Directors of  
East Kaweah Groundwater Sustainability Agency  
Lindsay, California

I have audited the accompanying financial statements of the governmental activities and major fund of East Kaweah Groundwater Sustainability Agency (the Authority), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the accompanying table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the East Kaweah Groundwater Sustainability Agency as of December 31, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

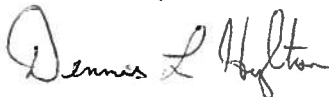
### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, which management has elected not to include, and budgetary comparison information on page 12 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. I 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

The Authority's organization structure has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide assurance on it.

Dennis L. Hylton, CPA



March 2, 2020

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 148,175
Accounts receivable	<u>21,287</u>
Total assets	<u>169,462</u>
<b>Liabilities</b>	
Accounts payable	<u>75,281</u>
Total liabilities	<u>75,281</u>
<b>Net Position</b>	
Unrestricted	<u>94,181</u>
Total net position	<u>\$ 94,181</u>

The accompanying notes are an integral  
part of these financial statements

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants and Contributions</u>	<u>Net Revenues (Expenses) and Changes in Net Position</u> <u>Total</u>
<b>GOVERNMENTAL ACTIVITIES:</b>			
Governance	\$ 203,790	\$ 222,000	\$ 18,210
Groundwater plan development	496,415	290,708	(205,707)
Groundwater plan implementaion	6,430	4,287	(2,143)
Total expenses	<u>\$ 706,635</u>	<u>\$ 516,995</u>	
			(189,640)
			283,821
			<u>\$ 94,181</u>

The accompanying notes are an integral part of these financial statements



**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
BALANCE SHEET  
DECEMBER 31, 2019**

	<u>General Fund</u>	<u>Total Governmental Fund</u>
<b>Assets</b>		
Cash	\$ 148,175	\$ 148,175
Accounts receivable	21,287	21,287
<b>Total Assets</b>	<u><u>\$ 169,462</u></u>	<u><u>\$ 169,462</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 75,281	\$ 75,281
<b>Total liabilities</b>	<u>75,281</u>	<u>75,281</u>
<b>Fund balances</b>		
Assigned for:		
Governance	28,194	28,194
Groundwater Plan Development	68,130	68,130
Unassigned	<u>(2,143)</u>	<u>(2,143)</u>
<b>Total fund balances</b>	<u>94,181</u>	94,181
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 169,462</u></u>	
<b>Net Position of Governmental Activities</b>		<u><u>\$ 94,181</u></u>

The accompanying notes are an integral  
part of these financial statements

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
DECEMBER 31, 2019**

	<u>General Fund</u>	<u>Total Governmental Fund</u>
<b>Revenues</b>		
Call for funds for governance	\$ 222,000	\$ 222,000
Call for funds for groundwater plan	165,000	165,000
Intergovernmental	129,995	129,995
<b>Total revenues</b>	<u>516,995</u>	<u>516,995</u>
<b>Expenditures</b>		
<b>Current</b>		
Governance	203,790	203,790
Groundwater plan development	496,415	496,415
Groundwater plan implementation	6,430	6,430
<b>Total expenditures</b>	<u>706,635</u>	<u>706,635</u>
Excess expenditures over revenues	(189,640)	(189,640)
Fund balance, beginning of year	283,821	
Fund balance, end of year	<u>\$ 94,181</u>	
Change in net position of governmental activities		<u>\$ (189,640)</u>

The accompanying notes are an integral  
part of these financial statements

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Authority**

The Authority is organized pursuant to the Sustainable Groundwater Act of 2014 which requires certain regions in California to develop and implement a plan that sustainably manages the shared groundwater resources for the benefit of the communities, agriculture and the environment. This act authorizes the formation of entities termed Groundwater Sustainability Agency (GSA). Under the act, each GSA will be responsible for assuming its regulatory role by June 30, 2017, and for submitting a Groundwater Sustainability Plan to the Department of Water Resources by January 31, 2020. The East Kaweah GSA is one of three agencies formed in the Kaweah Subbasin, a region that overlies portions of Tulare and Kings Counties. The East Kaweah GSA is led by an eleven member Board of Directors of which seven are selected from among the agency's members.

**B. Basis of Presentation**

The Authority accounts for its financial transactions in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants, and in accordance with those policies and procedures.

**C. Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Authority's nonfiduciary activities with all interfund activities removed. Governmental activities include programs supported primarily by call for funds for member contributions. The District has no business type activities that rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Separate fund financial statements provide reports on the financial condition and results of operations for the governmental fund category.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statement of this fund presents net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable. The expenditures related to certain claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The Authority considers all revenues available if they are collectible within 60 days after the year end.

**E. Fund Accounting**

The Authority reports the general fund as a major governmental fund. The general fund is the Authority's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

**F. Budgets and Budgetary Accounting**

Annual budgets are legally required to be and are adopted by the Board of Directors for the general fund to provide for operations and capital expenditures of the Authority. The adopted budget is subject to amendment during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The amounts reported as the original budgeted amounts in the budgetary comparison schedule reflect the amount when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary comparison schedule reflect the amounts after all budget amendments have been accounted for. Budgetary accounting controls do not include the use of encumbrances.

**G. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**H. Deposits and Investments**

Cash balances held in banks are insured to \$250,000 by the Federal Depository Insurance Corporation.

**I. Fund Balance**

Fund balance in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Authority considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classification of fund balance could be used, then committed or assigned will be considered to have been spent first.

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

**Nonspendable Fund Balance** – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.

**Restricted Fund Balance** – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

**Committed Fund Balance** – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government’s highest level of decision-making authority.

**Assigned Fund Balance** – Amounts that are constrained by the Authority’s intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom the authority has been given.

**Unassigned Fund Balance** – These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other categories, or negative balances in all other funds.

**J. Net Position**

GASB No. 63 requires that the difference between assets, liabilities and deferred outflows/inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt.

Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

**K. Evaluation Subsequent Events**

The Authority has evaluated subsequent events through the report date of these financial statements.

**NOTE 2 - CASH AND INVESTMENTS**

The following is a summary of the Authority’s cash with fiscal agents at December 31, 2019:

Bank of the Sierra demand account      \$ 148,175

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

Investments

The Authority does not have any policy regarding investments and therefore is subject to California Government Code Sections 53600-53609. Investing must meet the following three objectives: first to safeguard the principal, second to meet liquidity needs, and third to achieve a return on funds. At time of investment, the security term remaining to maturity cannot exceed five years. Investments can include the following: United States Treasury notes, bonds, bills, or those which the faith and credit of the United States are Pledged for payment; California local agency bonds; Federal agency or United States government-sponsored enterprise obligations; negotiable certificates of deposit; corporate notes rated "A" or higher, and other specified securities.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity has a greater sensitivity for its fair value to changes in market interest rates.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. California Government Code requires a rating of "A" or higher.

Concentration of Credit Risk

The Authority has no investment policy for concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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 provision for deposits: a financial institution shall secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities under a letter of credit shall have a market value of at least 110% of the total amount deposited by the public agencies in excess of FDIC.

**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 3 – EXCESS EXPENDITURES OVER APPROPRIATIONS**

At December 31, 2019, the Authority’s general fund expenditures exceeded the budgeted amount as follows:

Groundwater Plan Implementation      \$ 6,430      Annual water report not budgeted

**NOTE 4 – RELATED PARTY TRANSACTIONS**

The agreement to form a joint power authority was signed December 8, 2016 by the following member governments which have been subject to calls for funds for governance in equal amounts and calls for funds for groundwater plan based upon total applicable acres of each member within the boundary of the Authority as follows:

	Call for Funds	
	Governance	Groundwater Plan
City of Lindsay	\$ 31,714	\$ 2,324
County of Tulare	31,715	61,274
Exeter Irrigation District	31,714	18,327
Ivanhoe Irrigation District	31,714	15,161
Lindmore Irrigation District	31,715	37,635
Lindsay-Strathmore Irrigation District	31,714	20,935
Stone Corral Irrigation District	31,714	9,344
	<u>\$ 222,000</u>	<u>\$ 165,000</u>

The Authority signed a management and administrative services agreement with Lindmore Irrigation District through December 31, 2019. The total expense during the year for this service was \$155,000 of which \$12,917 was payable at December 31, 2019.

**NOTE 5 – COMMITMENTS**

The Authority signed a two year management and administrative services agreement with Lindmore Irrigation District through December 31, 2021. The Authority shall make quarterly payments of \$87,500 during 2020 for a total of \$350,000, and \$90,000 quarterly payments during 2021 for a total of \$360,000.

The Authority approved October 28, 2019 an engagement letter with Dennis L. Hylton, CPA to audit the financial statements of the governmental activities and major fund, including the related notes to the financial statements which collectively comprise the basic financial statements of the Authority as of and for the year ended December 31, 2019. The fee for this service is \$5,900.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**EAST KAWEAH GROUNDWATER SUSTAINABILITY AGENCY**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended December 31, 2019**

	Budgeted Amounts (GAAP Basis)		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Call for governance	\$ 222,000	\$ 222,000	\$ 222,000	\$ -
Call for groundwater plan	-	-	165,000	165,000
Intergovernmental	-	-	129,995	129,995
Grant for Basin setting	212,923	212,923	-	(212,923)
Grant for Authority	287,077	287,077	-	(287,077)
Total Revenues	<u>722,000</u>	<u>722,000</u>	<u>516,995</u>	<u>(205,005)</u>
<b>Expenditures</b>				
Current:				
Governance	213,725	213,725	203,790	9,935
Groundwater plan development	584,000	584,000	496,415	87,585
Groundwater plan implementation	-	-	6,430	(6,430)
Total expenditures	<u>797,725</u>	<u>797,725</u>	<u>706,635</u>	<u>91,090</u>
Excess of revenues over (under) expenditures	<u>\$ (75,725)</u>	<u>\$ (75,725)</u>	(189,640)	<u>\$ (113,915)</u>
Fund balances - January 1, 2019			<u>283,821</u>	
Fund balances - December 31, 2019			<u>\$ 94,181</u>	