



FREEMPORT REGIONAL WATER AUTHORITY

Fiscal Years Ended June 30, 2023 and 2022 Basic Financial Statements

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FREEPORT REGIONAL WATER AUTHORITY

Basic Financial Statements
Fiscal Years Ended June 30, 2023 and 2022

Table of Contents

	<u>Page</u>
<i>Independent Auditors' Report</i>	1
<i>Management's Discussion and Analysis</i>	4
<i>Basic Financial Statements:</i>	
Statements of Net Position.....	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to the Basic Financial Statements	10
<i>Independent Auditors' Report on Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	16

FREEPORT REGIONAL WATER AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2023 and June 30, 2022

	2023	2022
Operating revenue:		
East Bay Municipal Utility District	\$ 1,641,102	\$ 1,889,096
Sacramento County Water Agency	1,133,891	1,403,683
Operating revenue	2,774,993	3,292,779
Operating expenses:		
General and administrative	(2,776,145)	(3,103,765)
Depreciation (Note 3)	(7,295,691)	(7,223,087)
Operating expenses	(10,071,836)	(10,326,852)
Net operating (loss)	(7,296,843)	(7,034,073)
Nonoperating revenue and (expenses):		
Nonoperating miscellaneous revenue	-	407,424
Interest income	23,410	3,746
Reimbursement of member contributions	-	(407,424)
Nonoperating revenue and expenses	23,410	3,746
(Loss) before capital contributions	(7,273,433)	(7,030,327)
Capital contributions	283,304	11,818
Change in net position	(6,990,129)	(7,018,509)
Total net position - beginning	339,302,262	346,320,771
Total net position - ending	\$ 332,312,133	\$ 339,302,262

See accompanying notes to financial statements.

FREEPORT REGIONAL WATER AUTHORITY
Statements of Cash Flows
For the Years Ended June 30, 2023 and June 30, 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from members for operating purposes	\$ 3,629,136	\$ 2,907,406
Cash paid for supplies and services	<u>(2,822,017)</u>	<u>(3,184,763)</u>
Net cash provided (used) by operating activities	<u>807,119</u>	<u>(277,357)</u>
Cash flows from capital and related financing activities:		
Cash paid to member agencies	-	(407,424)
Cash received from members	283,304	11,818
Cash paid for construction of capital assets	<u>(283,304)</u>	<u>(11,818)</u>
Net cash (used) in capital and related financing activities	<u>-</u>	<u>(407,424)</u>
Cash flows provided by investing activities:		
Interest and other income received	<u>17,500</u>	<u>410,213</u>
Net increase (decrease) in cash and equivalents, and investments	824,619	(274,568)
Cash and equivalents, and investments at beginning of period	<u>2,158,058</u>	<u>2,432,626</u>
Cash and equivalents, and investments at end of period	<u><u>\$ 2,982,677</u></u>	<u><u>\$ 2,158,058</u></u>
Reconciliation of cash and cash equivalents and investments to amounts reported on the statement of net position:		
Cash and cash equivalents	\$ 1,965,177	\$ 1,158,058
Investments	<u>1,017,500</u>	<u>1,000,000</u>
Cash and equivalents, and investments at end of period	<u><u>\$ 2,982,677</u></u>	<u><u>\$ 2,158,058</u></u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (7,296,843)	\$ (7,034,073)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	7,295,691	7,223,087
Changes in operating assets and liabilities:		
Accounts payable	(45,872)	(80,998)
Accounts receivable	<u>854,143</u>	<u>(385,373)</u>
Net cash provided (used) by operating activities	<u><u>\$ 807,119</u></u>	<u><u>\$ (277,357)</u></u>

See accompanying notes to financial statements.

FREERPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements For the Years Ended June 30, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Freeport Regional Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated February 14, 2002, between the Sacramento County Water Agency (SCWA) and the East Bay Municipal Utility District (EBMUD). The Authority was established to construct a new surface water diversion on the Sacramento River with a capacity of 185 million gallons per day located upstream of the Freeport Bridge on the Sacramento River.

An additional member may be added through the execution of an amendment to the Joint Exercise of Powers Agreement. An associate member may be added upon the execution of an Associate Member Agreement.

Members are currently required to contribute funds in the allocation of 45.946% from SCWA and 54.054% from EBMUD to the Authority towards any revenue shortfalls that are specified in the Authority's approved operational expenditure budgets. When the facilities become operational, operating expenses will be allocated based on each member's actual usage, and capital costs, including debt service, will be allocated based on each member's available capacity.

B. Basis of Accounting and Presentation

The accompanying financial statements report the financial position of the Authority in accordance with accounting principles generally accepted in the United States of America. As the Authority is a governmental entity, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority as a proprietary enterprise is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Statements of Net Position – The statement of net position is designed to display the financial position of the Authority. The Authority's fund equity is reported as net position, which is broken down into the following categories:

- *Investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, if any, that are attributable to the acquisition, construction, or improvement of those assets.
- *Unrestricted* – This component of net position consists of net position that do not meet the definition of "restricted" or "Net investment in capital assets."

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements For the Years Ended June 30, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statements of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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 expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

The additions to capital assets are capitalized at historical cost. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight-line method of depreciation, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the assets is fully depreciated.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the related assets (5 to 100 years).

The depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

E. Cash and Cash Equivalents

The Authority considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

F. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

FREEMPORT REGIONAL WATER AUTHORITY

**Notes to Basic Financial Statements
For the Years Ended June 30, 2023 and 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 – CASH AND INVESTMENTS

A. Composition

The Authority's cash and cash equivalents at June 30 consisted of the following deposits and investments held by EBMUD on the Authority's behalf:

	<u>2023</u>	<u>2022</u>
Cash in Bank	\$ 1,965,177	\$ 1,158,058
Local Agency Investment Fund	1,017,500	1,000,000
Total cash and cash equivalents	<u>\$ 2,982,677</u>	<u>\$ 2,158,058</u>

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit or first trust deed mortgage notes with a value of 150% of the Authority's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Authority's name and places the Authority ahead of general creditors of the institution pledging the collateral. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

C. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2023 and 2022.

FREEPORT REGIONAL WATER AUTHORITY

**Notes to Basic Financial Statements
For the Years Ended June 30, 2023 and 2022**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

D. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The California Local Agency Investment Fund is exempt from classification for fair value hierarchy.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by purchasing a combination of short-term and long-term investments and holding investments to maturity. The Authority's only investment is in the California Local Agency Investment Fund which can be withdrawn at any time usually within a day.

F. Local Agency Investment Fund (LAIF)

The Authority is a participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. The value of the pool shares in LAIF is determined on an amortized cost basis, which is different from the fair value of its position in the pool. The Authority's investments with LAIF at June 30, 2023 and 2022 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

- Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2023 and 2022, the Authority had investments of \$1,017,500 and \$1,000,000, respectively, invested in LAIF, which had invested 2.78% and 1.88% of the pooled investment funds in Structured Notes and Asset-Backed Securities.

FREEPORT REGIONAL WATER AUTHORITY

**Notes to Basic Financial Statements
For the Years Ended June 30, 2023 and 2022**

NOTE 3 – CAPITAL ASSETS

Capital assets as of June 30, 2023 and 2022 consist of land, not being depreciated and capital assets being depreciated. The capital assets began depreciation effective November 2011. Construction of capital assets is funded through member contributions.

	<u>Balance at June 30, 2022</u>	<u>Additions and Transfers, net</u>	<u>Retirements and Transfers, net</u>	<u>Balance at June 30, 2023</u>
Capital assets not being depreciated:				
Land	\$ 11,702,188	\$ -	\$ -	\$ 11,702,188
Construction in progress	-	283,304	(283,304)	-
Total capital assets not being depreciated	<u>11,702,188</u>	<u>283,304</u>	<u>(283,304)</u>	<u>11,702,188</u>
Capital assets, being depreciated:				
Intake Facility	202,182,316	283,304	-	202,465,620
Pipelines	<u>198,534,638</u>	<u>-</u>	<u>-</u>	<u>198,534,638</u>
Total capital assets being depreciated	<u>400,716,954</u>	<u>283,304</u>	<u>-</u>	<u>401,000,258</u>
Total accumulated depreciation	(76,416,888)	(7,295,691)	-	(83,712,579)
Net capital assets being depreciated	<u>324,300,066</u>	<u>(7,012,387)</u>	<u>-</u>	<u>317,287,679</u>
Capital assets, net	<u>\$ 336,002,254</u>	<u>\$ (6,729,083)</u>	<u>\$ (283,304)</u>	<u>\$ 328,989,867</u>

NOTE 4 – DUE FROM AND PAYABLE TO MEMBER AGENCIES

The Authority entered into contracts with two vendors for professional consulting and construction services on the Freeport Regional Water Authority (FRWA) project. Under these contracts, the service providers provide services to the FRWA project, as well as to member agencies' exclusive projects. As of June 30, 2023, the Authority recorded payables to EBMUD and SCWA in the amounts less than \$0.01 and \$0.01 million, respectively.

As of June 30, 2023, the Authority recorded receivables from EBMUD and SCWA in the amounts of \$0.05 million and \$0.36 million, respectively.

FREEPORT REGIONAL WATER AUTHORITY

**Notes to Basic Financial Statements
For the Years Ended June 30, 2023 and 2022**

NOTE 5 - RELATED PARTY TRANSACTION

SCWA and EBMUD both provide professional services to the Authority, including SCWA's operation of the facilities in which these costs are shared by the two agencies. EBMUD provides certain treasury management and accounting services including conducting all cash transactions and providing for the annual audit. The two members received the following total reimbursements for their services for the year ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
SCWA	\$ 1,201,105	\$ 544,792
EBMUD	22,271	20,167
	<u>\$ 1,223,377</u>	<u>\$ 564,960</u>

NOTE 6 - RISK MANAGEMENT

The Authority's liability and property risks are insured through the Special District Risk Management Authority insurance carriers. Selected insurance coverages include:

<u>Coverage</u>	<u>Policy limit</u>
General liability	\$ 10,000,000
Public officials and employees errors	10,000,000
Personal liability for board members	500,000
Employment practices liability	10,000,000
Employee benefit liability	10,000,000
Employee dishonesty coverage	1,000,000
Auto liability	10,000,000
Uninsured/underinsured motorists	1,000,000

Any liability the Authority may have for uninsured claims is limited to general liability claims. However, the Authority has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported. Capital assets are covered under insurance policies held by the Authority.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Freeport Regional Water Authority
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Freeport Regional Water Authority (the "Authority"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 11, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Directors
Freeport Regional Water Authority
Oakland, California

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Sacramento, California
October 11, 2023