KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2025

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HUDSON& COMPANY INC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kings River East Groundwater Sustainability Agency

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kings River East Groundwater Sustainability Agency (the Agency) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of September 30, 2025, and the respective changes in financial position 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 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, 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

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 Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 Agency'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 Agency'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 and budgetary comparison information 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 January 13, 2026, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Agency's internal control over financial reporting and compliance.

HUDSON & COMPANY, INC.

Fresno, California
January 13, 2026

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

The following narrative provides an overview and analysis of the financial activities of the Kings River East Groundwater Sustainability Agency (the Agency) as of and for the years ended June 30, 2025 and 2024. It is provided in order to enhance the information in the financial audit and should be reviewed together with that report.

OVERALL PROGRAM HIGHLIGHTS

Kings River East Groundwater Sustainability Agency (the Agency) was formed January 1, 2017 as an agency created by the State of California Legislature. The Agency operates entirely within central California. The Agency was formed in compliance with the Sustainable Groundwater Management Act of 2014 (SGMA), which requires that all groundwater basins in the State of California form at least one "Groundwater Sustainability Agency", develop a plan for groundwater sustainability by January 31, 2020 and achieve sustainability on or before 2040. The SGMA gives authority to local government agencies to form GSA's to adopt groundwater sustainability plans to manage and regulate pumping from groundwater basins or subbasins.

The Agency is governed by a board of seven directors. Each director shall represent members of the JPA. Regular board meetings are held every three months.

The budget is adopted by the Board of Directors prior to the commencement of each fiscal year. The principal source of the Agency's income is interest income earned from interest accrued on cash in accounts.

Day-to-day operations of the Agency are the responsibility of the Chair acting through the following described personnel and committees:

- Chairman
- Secretary/Treasurer
- Vice Chairman
- Director
- Director
- Director
- Director

FINANCIAL HIGHLIGHTS FOR THE YEARS ENDING JUNE 30, 2025 AND 2024

- Operating revenues are $3,964 and $24,355, respectively.
- General and Administrative expenses are $173,748 and $220,533, respectively.
- Total assets are $7,337 and $184,674, respectively.
- Total liabilities are $28,087 and $35,640, respectively.,
- Net position is $(20,750) and $149,034, respectively.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business. The assets, liabilities, revenues, and expenses are reported on a full-accrual basis.

- The **Statements of Net Position** presents information on the Agency's assets, deferred outflows, liabilities, and deferred inflows; the difference between them representing net position, or equity.

- The **Statements of Activities** presents information showing total revenues versus total expenses and how the Agency's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., reimbursable ongoing project expenses).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Agency can be divided into two categories: governmental funds and proprietary funds. The Agency has no proprietary funds and only one governmental fund, the General Fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the governmentwide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenue, Expenditures and Change in Fund Balance provide a reconciliation to facilitate this comparison between the two.

The Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the Agency's operations and significant accounting policies, as well as clarify unique financial information.

Hudson & Company, Inc. has performed an independent audit of our financial statements in accordance with auditing standards generally accepted in the United States of America. Their opinion is included in the Independent Auditors' Report.

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATION

As noted earlier, over time net position may serve as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. In the case of the Agency, liabilities exceeded assets by $20,050 as of September 30, 2025 and an overall decrease of $169,784 from the prior year.

A comparison of the Statements of Net Position can determine the change in the components of financial position (the assets and liabilities) of the Agency from year-end to year-end. This comparison is presented in the following table as of September 30, 2025 and 2024.

Summary Statements of Net Position

	September 30, 2025	September 30, 2024	Dollar Change	Percentage Change
Current assets	$ 7,337	$ 184,674	$ (177,337)	-96.03%
Total assets	7,337	184,674	(177,337)	-96.03%
Current liabilities	28,087	35,640	(7,553)	-21.19%
Total liabilities	28,087	35,640	(7,553)	-21.19%
Net position - unrestricted	$ (20,750)	$ 149,034	$ (169,784)	-113.92%

Current assets consist of cash and cash equivalents and interest receivable. Cash and cash equivalents include funds on deposit at Valley Strong Bank and the Agency's investment in the Local Agency Investment Fund (LAIF). Total assets at June 30, 2025 were $7,337, a decrease of $177,337 from the prior year, resulting from a decrease in cash and cash equivalent balances. Current liabilities consist of accounts payable and a short-term loan payable to a member agency. Total liabilities at September 30, 2025 were $28,087, a decrease of $7,553 from the prior year, primarily due to the paydown of accrued liabilities and outstanding accounts payable.

The Agency has no long-term debt. The Agency's unrestricted net position is available to fund ongoing future expenses.

A comparison of the Statements of Activities and Changes in Net Position for each year will explain the changes in financial position that resulted from the operating activities during the year. This comparison is presented in the following table for the years ended September 30, 2025 and 2024.

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATION (continued)

Summary Statements of Activities and Changes in Net Position

	Year ended September 30, 2025	Year ended September 30, 2024	Dollar Change	Percentage Change
Operating revenues	$ 3,964	$ 24,355	$ (20,391)	-83.72%
Expenditures	173,748	220,532	(46,784)	-21.21%
Change in Net Position	(169,784)	(196,177)	26,393	-13.45%
Net Position - Beginning of Year	149,034	345,211	(196,177)	-56.83%
Net Position - End of Year	$ (20,750)	$ 149,034	$ (169,784)	-113.92%

The table shows the Agency's net position decreased for the year ended September 30, 2025 by $169,784. Factors contributing to this increase include:

- During the year ended September 30, 2020, the Agency ended a three-year period of board approved Proposition 26 fees. Since then, there have not been additional fees.
- For the year ended September 30, 2025 ongoing expenditures totaled $173,748. Expenditures included, among other expenditures, administration of the Agency and development of the Domestic Well Mitigation Program.

Total revenues consist of interest income accrued on the cash and cash equivalent balances kept within the Agencies accounts and grant income. Total revenues for the years ended September 30, 2025 and 2024 were $ 3,964 and $24,355, respectively.

CAPITAL ASSETS

The Agency has no capital assets.

LONG-TERM DEBT

The Agency has no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In developing the budget for the 2025-2026 fiscal year and the near future years, the Board of Directors considered the factors that had and will have significant potential to affect the budgeted figures, primarily the decrease in engineering costs, and the increase in outside services and legal fees.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kings River East Groundwater Sustainability Agency, 289 North L Street, Dinuba, CA 93618. The Agency's website is https://kingsrivereast.org.

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

ASSETS		
Current Assets		
Cash and cash equivalents	$	7,311
Interest receivable		26
Total Current Assets		7,337
Total Assets		7,337
LIABILITIES		
Current Liabilities		
Accounts payable		12,937
Accounts payable, related party		1,150
Loan payable, related party		14,000
Total Current Liabilities		28,087
Total Liabilities		28,087
NET POSITION (DEFICIT)		
Unrestricted		(20,750)
Total Net Position (Deficit)	$	(20,750)

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

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Functions/Programs	Expenditures	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities:			
Groundwater sustainability	$ 173,748	$ -	$ (173,748)
Total Governmental Activities	$ 173,748	$ -	(173,748)
General Revenues:			
Investment income			3,964
Total General Revenues			3,964
Change in Net Position			(169,784)
Net Position, Beginning of Year			149,034
Net Position, End of Year			$ (20,750)

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

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2025

ASSETS

Cash and cash equivalents	$	7,311
Interest receivable		26
Total Assets	$	7,337

LIABILITIES AND FUND BALANCE (DEFICIT)

Liabilities		
Accounts payable	$	12,937
Accounts payable, related party		1,150
Loan payable, related party		14,000
Total Liabilities		28,087
Fund Balance (Deficit)		
Unassigned		(20,750)
Total Fund Balance (Deficit)		(20,750)
Total Liabilities and Fund Balance (Deficit)	$	7,337

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total Fund Balance (Deficit) - Governmental Fund	$	(20,750)
Adjustments to the Balance Sheet of the Governmental Fund to reconcile with the Statement of Net Position:		-
Total Net Position (Deficit) - Governmental Activities	$	(20,750)

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

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

REVENUES	
Investment income	$ 3,964
Total Revenues	3,964
EXPENDITURES	
Administrative services	4,435
Dues and subscriptions	1,556
Engineering services	112,756
Insurance	1,788
Legal	29,859
Office expenses	214
Outreach	1,258
Professional fees	21,359
Travel expenses	523
Total Expenditures	173,748
Change in Fund Balance	(169,784)
Fund Balance, Beginning of Year	149,034
Fund Balance, End of Year	$ (20,750)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in Fund Balance - Governmental Fund	$ (169,784)
Adjustments to the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to reconcile with the Statement of Activities:	-
Change in Net Position - Governmental Activities	$ (169,784)

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

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Kings River East Groundwater Sustainability Agency (the Agency) was formed January 1, 2017 as an agency created by the State of California Legislature. The Agency operates within Central California. The Agency was formed to comply with the requirements of the Sustainable Groundwater Management Act (SGMA) which required that all groundwater basins in the State of California form at least one "Groundwater Sustainability Agency", develop a plan for groundwater sustainability by January 31, 2020 and achieve sustainability on or before 2040. The SGMA gives authority to local government agencies to form GSA's to adopt groundwater sustainability plans to manage and regulate pumping from groundwater basins or subbasins.

The SGMA establishes a timeline of activities and milestones for all GSAs within "high-priority" groundwater basins. The Agency submitted a GSA formation notification with the State Department of Water Resources (DWR), and the DWR formally approved the Agency as an "exclusive" GSA in 2017. The Agency has submitted a Groundwater Sustainability Plan (GSP) to the DWR that describes the Agency's plan to achieve groundwater sustainability within its boundary by 2040.

Member Agencies: In March 2016, the following Agencies held a public hearing and signed a memorandum of understanding to form the Kings River East Groundwater Sustainability Agency: Orange Cove Irrigation District, Alta Irrigation District, Hills Valley Irrigation District, Tri-Valley Irrigation District, Cutler Public Utility District, East Orosi Community Services District, London Community Services District, Orosi Public Utility District, and Sultana Community Services District. The entities above as well as Kings River Water District are members of the Agency.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: The accounts of the Agency are organized on the basis of fund accounting. Under fund accounting, different types of Agency operations are accounted for in different funds, each with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures as appropriate. Resources are allocated to and accounted for in individual funds, based upon the purpose for which they are spent and the means by which spending activities are controlled. Since the Agency does not have any financial resources that are required to be accounted for in other funds, it utilizes only a "General Fund" for its operations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible soon enough thereafter to be used to pay liabilities of the current period, usually within sixty days.

Expenditures are generally recognized when the related fund liability is incurred, except that principal and interest on general long-term debt is recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Government wide financial statements of net position and activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. If acquired, general capital asset acquisitions are included with assets of the Agency as a whole and depreciated over their estimated useful lives.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued): Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included in the Statement of Net Position. The Statement of Activities present increases (revenues) and decreases (expenses) in total net position. Under 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.

Fund Balances: Governmental funds report fund balances in classification primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance — includes amounts that are (a) not in spendable form such as prepaid insurance or (b) legally or contractually required to be maintained intact. The Agency did not have any nonspendable fund balance resources as of September 30, 2025.

Restricted fund balance — includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other government or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. The Agency did not have any restricted fund balance resources as of September 30, 2025.

Committed fund balance — includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Agency did not have any committed fund balance resources as of September 30, 2025.

Assigned fund balance — includes amounts that are constrained by the Agency's intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by (a) the Board of Directors or (b) an appointed body or official to which the Board of Directors has delegated the Agency to assign, modify, or rescind amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed. The Agency did not have any assigned fund balance resources as of September 30, 2025.

Unassigned fund balance — this classification includes the residual fund balance for the General Fund that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, it is the Agency's policy to use restricted resources first, followed by committed, assigned and unassigned. However, the Agency reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Cash and Cash Equivalents: The Agency considers all cash accounts and all highly liquid debt instruments purchased with an original maturity of three (3) months or less to be cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable: The Agency utilizes the allowance method of accounting for uncollectible or doubtful accounts based on historical experience and current information as it becomes available. There was no allowance for doubtful accounts recorded at September 30, 2025. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. All accounts receivables are non-interest bearing.

Accounts Payable: Certain costs are incurred by the Agency during the current reporting period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements. The Agency's accounts payable balance as of September 30, 2025 was $14,087.

Net Position: Net position represents the residual interest in the Agency's assets after liabilities are deducted. The Statement of Net Position reports total net position and presents it in three broad components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets includes capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. Amounts included as unrestricted net assets are available for designation for specific purposes established by the Agency's Board of Directors. The Agency's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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 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 expenses during the reporting period. Actual results could differ from those estimates.

Governmental Accounting Standards Update: During the year ending September 30, 2025, the Agency implemented the following standards with no impact on the financial statements:

GASB Statement No. 101 – *Compensated Absences*. The requirements of this statement are effective for reporting periods beginning after December 15, 2023.

GASB Statement No. 102 – *Certain Risk Disclosures*. The requirements of this statement are effective for fiscal years beginning after June 15, 2024.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 103 – *Financial Reporting Model Improvements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104 – *Disclosure of Certain Capital Assets*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through January 13, 2026, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

At September 30, 2025, cash consisted of the following:

Valley Strong Credit Union	$	4,893
State of California - Local Agency Investment Fund		2,418
	$	7,311

Investment in State Investment Pool: The Local Agency Investment Fund is a government investment pool managed and directed by the California State Treasurer. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The Agency may withdraw monies upon one-day notice. The Agency's investment in the Local Agency Investment Fund was not subject to credit risk categorization and is carried at amortized cost which approximates fair value. All pooled funds are regulated by the California Government Code.

Authorized Deposits and Investments: The Agency's investment policy authorizes investments in Local Agency Investment Fund. The Agency's investment policy does not contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Disclosures Relating to Interest Risk Rate: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Agency does not have a formal investment policy that would further limit investment maturities as a means of managing its exposure to fair value losses arising from increasing 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; however, the Local Agency Investment Fund is not rated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The Agency's deposit portfolio with governmental agencies consists of Local Agency Investment Fund at 33.07% as of September 30, 2025, of the Agency's total depository and investment portfolio. The Agency does not have a formal investment policy that would further limit exposure to 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: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Local Agency Investment Pool).

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk (continued): The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires California banks and savings and loan associations to collateralize an Agency's deposits by pledging government securities. The market value of the pledged securities must equal at least 110% of an Agency's deposits. California law also allows financial institutions to collateralize an Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an Agency's total deposits. The Agency may waive Deposit insurance up to $250,000.

NOTE 3 – LOAN PAYABLE, RELATED PARTY

Loan payable, related party, consisted of the following as of September 30, 2025 and 2024:

The Agency has a loan payable to Alta Irrigation District, a member agency, in the amount of $14,000 to provide funding for its Domestic Well Mitigation Program while the Agency pursues other funding opportunities. The loan occured on September 26, 2025 and is expected to be paid off within one year and is therefore considered short-term. Interest is not being assessed on the loan. The loan is uncollateralized.	$ 14,000

NOTE 4 – RISK MANAGEMENT

The Agency is a member of the Association of California Water Agencies Joint Powers Insurance Agency (ACWA/JPIA) for liability insurance. The relationship is such that this public entity risk pool is not a component unit of the Agency for financial reporting purposes.

The risk pool is governed by a board consisting of a representative from each member agency. The board controls their operations, including selection of management and approval of operating budgets. The pooling agreement does not permit the pool to make additional assessments or distribute retrospective refunds to its members, however, future annual premiums are adjusted for any surpluses or deficits experienced by the pool.

During the year ending September 30, 2025, there were no settlements or reductions in insurance coverage.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Agency.

NOTE 6 – RELATED PARTY TRANSACTIONS

Alta Irrigation District (the District), a member agency, maintains the Agency's accounting records and incurs administrative and other expenses on behalf of the Agency. Any transaction that occurs between the District and the Agency is considered a related party transaction. Accounts payable to the District at September 30, 2025 was $1,150. During the year ended September 30, 2025, the Agency paid $5,172 in administrative and office expenses to the District.

REQUIRED SUPPLEMENTARY INFORMATION

KINGS RIVER EAST
GROUNDWATER SUSTAINABILITY AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts			Variance Favorable
	Original	Final	Actual	(Unfavorable)
REVENUES				
Investment income	$ 7,500	$ 7,500	$ 3,964	$ (3,536)
Total Revenues	7,500	7,500	3,964	(3,536)
EXPENDITURES				
Administrative services	10,000	10,000	4,435	5,565
Bank fees	50	50	-	50
Domestic Well Mitigation Program	200,000	200,000	-	200,000
Dues and subscriptions	3,300	3,300	1,556	1,744
Engineering services	250,000	250,000	112,756	137,244
Insurance	1,800	1,800	1,788	12
Legal	20,000	20,000	29,859	(9,859)
Meetings	500	500	-	500
Miscellaneous	5,000	5,000	-	5,000
Office expenses	350	350	214	136
Outreach	5,000	5,000	1,258	3,742
Professional fees	55,200	55,200	21,359	33,841
Travel expenses	500	500	523	(23)
Total Expenditures	551,700	551,700	173,748	377,952
Excess Revenues Over (Under) Expenditures	(544,200)	(544,200)	(169,784)	374,416
Net Position, Beginning of Year			149,034	
Net Position, End of Year			$ (20,750)	

HUDSON& COMPANY INC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Kings River East Groundwater Sustainability Agency

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 governmental activities and each major fund of the Kings River East Groundwater Sustainability Agency (the Agency) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 13, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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*.

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

HUDSON & COMPANY, INC.

Fresno, California
January 13, 2026