

**Santa Margarita Groundwater Agency**

**Management Report**

**June 30, 2021**



**Fedak & Brown LLP**  
Certified Public Accountants

# **Santa Margarita Groundwater Agency**

## **Management Report**

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Board of Directors  
Santa Margarita Groundwater Agency  
Scotts Valley, California

### **Dear Members of the Board:**

In planning and performing our audit of the financial statements of the business-type activities the Santa Margarita Groundwater Agency (Agency) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, 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 opinion 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 may exist that have not been identified.

Our comment, of which have been discussed with the appropriate members of management, are summarized as follows:

### **Current Year Comment and Recommendation**

#### Disclosure of Audit Adjustment

As your external auditor, we assume that the books and records of the Agency are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the Agency's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process, we have presented this audit adjustment as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustment that was made and to provide the Board of Directors with a better understanding of the scope of the audit.

## **Current Year Comment and Recommendation, continued**

### Disclosure of Audit Adjustment, continued

#### *Management's Response*

We have reviewed and approved the audit adjusting entry provided by the auditor and will enter the entry into the Agency's accounting system to close-out the Agency's year-end trial balance.

## **Prior Year Comment and Recommendation**

### Disclosure of Audit Adjustment

As your external auditor, we assume that the books and records of the Agency are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the Agency's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process, we have presented this audit adjustment as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustment that was made and to provide the Board of Directors with a better understanding of the scope of the audit.

#### *Management's Response*

We have reviewed and approved the audit adjusting entry provided by the auditor and will enter the entry into the Agency's accounting system to close-out the Agency's year-end trial balance.

\* \* \* \* \*

This report is intended solely for the information and use of management and the Board of Directors of the Agency. This restriction is not intended to limit the distribution of this letter, which is a matter of public record. We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
December 17, 2021

## **APPENDIX**

**Santa Margarita Groundwater Agency**

**Audit/Finance Committee Letter**

**June 30, 2021**



Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Andy Beck, CPA

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Board of Directors  
Santa Margarita Groundwater Agency  
Scotts Valley, California

We have audited the financial statements of the business-type activities the Santa Margarita Groundwater Agency (Agency) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated February 26, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Agency's financial statements was:

Management's estimate of the fair value of cash and investments which is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements which represents amounts susceptible to market fluctuations.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Significant Audit Matters, continued

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 17, 2021.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Conclusion

We appreciate the cooperation extended us by Nicholas Kurns, Treasurer, in the performance of our audit testwork. We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Agency.

Conclusion, continued

This information is intended solely for the information and use of the Board of Directors and management of the Agency, and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

A handwritten signature in dark ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

**Fedak & Brown LLP**  
Cypress, California  
December 17, 2021



**Santa Margarita Groundwater Agency**  
**Schedule of Adjusting Journal Entries**  
**June 30, 2021**

<b>Account</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
<b>Adjusting Journal Entries JE # 1</b>			
To reconcile prior year ending net position to current year beginning net position.			
53800	Other Business Expenses	26.10	
30000	Retained Earnings		26.10
<b>Total</b>		<b>26.10</b>	<b>26.10</b>