



# **Santa Margarita Groundwater Agency**

## **Annual Financial Report**

**For the Fiscal Years Ended June 30, 2021 and 2020**

The logo for the Santa Margarita Groundwater Agency features the text "SANTA MARGARITA" in a bold, blue, sans-serif font, with "Groundwater Agency" in a slightly smaller, blue, sans-serif font below it. A blue wavy line is positioned under the text.

**Board of Directors as of June 30, 2021**

<b>Name</b>	<b>Title</b>	<b>Member Agency</b>	<b>Current Term</b>
Chris Perri	Chair	Scotts Valley Water District	Undesignated
Gail Mahood	Vice Chair	San Lorenzo Valley Water District	Undesignated
Jack Dilles	Secretary	City of Scotts Valley	Undesignated
Edan Cassidy	Director	Well Owner Representative	Undesignated
Doug Engfer	Director	City of Santa Cruz	Undesignated
Manu Koenig	Director	County of Santa Cruz	Undesignated
Jeff Koopman	Director	Well Owner Representative	Undesignated
Bruce McPherson	Director	County of Santa Cruz	Undesignated
Ruth Stiles	Director	Scotts Valley Water District	Undesignated
Dale Pollock	Director	Mount Hermon Association	Undesignated
Mark Smolley	Director	San Lorenzo Valley Water District	Undesignated

**Nicholas Kurns, Treasurer**  
**2 Civic Center Drive,**  
**Scotts Valley, CA 95066**  
**(831) 430-4620**  
**[smgwa.org](http://smgwa.org)**

**Santa Margarita Groundwater Agency**

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**For the Fiscal Years Ended June 30, 2021 and 2020**

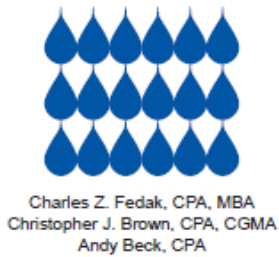
**Santa Margarita Groundwater Agency**  
**Annual Financial Report**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

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## **Financial Section**





# Fedak & Brown LLP

Certified Public Accountants

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## Independent Auditor's Report

Governing Board  
Santa Margarita Groundwater Agency  
Scotts Valley, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Margarita Groundwater Agency (Agency) as of and for the years ended June 30, 2021 and 2020, which collectively comprise the Agency's basic financial statements as listed in the 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*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of the Santa Margarita Groundwater Agency, as of June 30, 2021 and 2020, and the respective changes in net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report, continued**

### ***Other Matter***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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. 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 audits 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 December 17, 2021, 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. This report can be found on pages 17 and 18.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California  
December 17, 2021

**Santa Margarita Groundwater Agency**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

As management of the Santa Margarita Groundwater Agency (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of financial activities and performance of the Agency for the fiscal years ended June 30, 2021 and 2020. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

### **Financial Highlights**

- The Agency's net position increased 252.24% or \$124,576 to \$173,963. In 2020, the Agency's net position decreased 67.54% or \$102,765 to \$49,387.
- The Agency's total revenues increased 53.82% or \$379,177 to \$1,083,762. In 2020, the Agency's total revenues increased 45.15% or \$219,159 to \$704,585.
- The Agency's total expenses increased 18.81% or \$151,836 to \$959,186. In 2020, the Agency's total expenses increased 96.68% or \$396,857 to \$807,350.

### **Using This Financial Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Agency, and assessing the liquidity and financial flexibility of the Agency. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the Agency's operations and can be used to determine the Agency's profitability and credit worthiness.

### **Financial Analysis of the Agency**

#### **Statement of Net Position and Statement of Activities**

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency in a way that helps answer this question.

These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Agency's *net position* and changes in it. One can think of the Agency's net position – assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors, such as changes in the Agency's organizational agreements, to assess the *overall health* of the Agency in future periods.

**Santa Margarita Groundwater Agency**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 9 through 16.

**Statement of Net Position**

Below is a summary of the Agency's Statements of Net Position:

<b>Condensed Statements of Net Position</b>					
	<b>2021</b>	<b>2020</b>	<b>Change</b>	<b>2019</b>	<b>Change</b>
<b>Assets:</b>					
Current assets	\$ 341,959	154,566	187,393	243,748	(89,182)
<b>Total assets</b>	<u>341,959</u>	<u>154,566</u>	<u>187,393</u>	<u>243,748</u>	<u>(89,182)</u>
<b>Liabilities:</b>					
Current liabilities	167,996	105,179	62,817	91,596	13,583
<b>Total liabilities</b>	<u>167,996</u>	<u>105,179</u>	<u>62,817</u>	<u>91,596</u>	<u>13,583</u>
<b>Net position:</b>					
Unrestricted	173,963	49,387	124,576	152,152	(102,765)
<b>Total net position</b>	<u>\$ 173,963</u>	<u>49,387</u>	<u>124,576</u>	<u>152,152</u>	<u>(102,765)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$173,963 and \$49,387 as of June 30, 2021 and 2020, respectively.

**Statements of Revenues, Expenses, and Changes in Net Position**

Below is a summary of the Agency's Statements of Activities:

<b>Condensed Statements of Revenues, Expenses, and Changes in Net Position</b>					
	<b>2021</b>	<b>2020</b>	<b>Change</b>	<b>2019</b>	<b>Change</b>
<b>Revenues:</b>					
Operating revenues	\$ 1,083,762	704,585	379,177	485,426	219,159
<b>Total revenues</b>	<u>1,083,762</u>	<u>704,585</u>	<u>379,177</u>	<u>485,426</u>	<u>219,159</u>
<b>Expenses:</b>					
Operating expenses	959,186	807,350	151,836	410,493	396,857
<b>Total expenses</b>	<u>959,186</u>	<u>807,350</u>	<u>151,836</u>	<u>410,493</u>	<u>396,857</u>
<b>Changes in net position</b>	124,576	(102,765)	227,341	74,933	(177,698)
<b>Net position, beginning of year</b>	<u>49,387</u>	<u>152,152</u>	<u>(102,765)</u>	<u>77,219</u>	<u>74,933</u>
<b>Net position, end of year</b>	<u>\$ 173,963</u>	<u>49,387</u>	<u>124,576</u>	<u>152,152</u>	<u>(102,765)</u>

**Santa Margarita Groundwater Agency**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**Statement of Revenues, Expenses, and Changes in Net Position, continued**

The statement of revenues, expenses, and changes in net position shows how the Agency's net position changed during the fiscal year. During the fiscal year ended June 30, 2021, the Agency's net position increased 252.24% or \$124,576 to \$173,963, from continuing operations. During fiscal year 2020, the Agency's net position decreased \$102,765 to \$49,387, from continuing operations.

Total revenues increased \$379,177 to \$1,083,762, primarily due to increases of \$257,312 in operating grants and \$121,865 in membership revenues. In fiscal year 2020, total revenues increased \$219,159 to \$704,585, primarily due to an increase of \$211,550 in operating grants.

For the year ended June 30, 2021, the operating revenues of \$1,083,762 consist of the dues contributed by each member agency and operating grant. For the year ended June 30, 2020, the operating revenues of \$704,585 consist of the dues contributed by each member agency and operating grant.. Each member agency is invoiced a percentage of the projected budget for the fiscal year based on the following schedule:

<u>Member Agency</u>	<u>2021</u>	<u>2020</u>
Scotts Valley Water District	60 %	60 %
San Lorenzo Valley Water District	30	30
County of Santa Cruz	10	10
Total	<u>100 %</u>	<u>100 %</u>

Total expenses increased \$151,836 to \$959,186, primarily due to an increase of \$153,193 in groundwater management expense. In fiscal year 2020, total expenses increased \$396,857 to \$807,350, primarily due to increases of \$380,294 in groundwater management expense and \$16,563 in of general and administrative expense.

**Conditions Affecting Current Financial Position**

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. However, the related financial impact on Agency and the duration cannot be estimated at this time.

Management is unaware of any other conditions which could have a significant impact on the Agency's current financial position, net position, or operating results in terms of the present and future.

**Requests for Information**

The Agency's basic financial statements are designed to present users with a general overview of the Agency's finances and to demonstrate the Agency's accountability. If you have any questions about the report or need additional information, please contact the Agency's Treasurer, Nicholas Kurns at Santa Margarita Groundwater Agency, 2 Civic Center Drive, Scotts Valley, CA 95066 or (831) 430-4620.

# **Basic Financial Statements**

**Santa Margarita Groundwater Agency**  
**Statements of Net Position**  
**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 29,599	23,885
Grant receivable	<u>312,360</u>	<u>130,681</u>
<b>Total current assets</b>	<u>341,959</u>	<u>154,566</u>
<b>Current liabilities:</b>		
Accounts payable	<u>167,996</u>	<u>105,179</u>
<b>Total current liabilities</b>	<u>167,996</u>	<u>105,179</u>
<b>Net position:</b>		
Unrestricted	<u>173,963</u>	<u>49,387</u>
<b>Total net position</b>	<u>\$ 173,963</u>	<u>49,387</u>

See accompanying notes to the basic financial statements

**Santa Margarita Groundwater Agency**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Operating revenues:</b>		
Membership revenue	\$ 614,900	493,035
Operating grant	<u>468,862</u>	<u>211,550</u>
<b>Total operating revenues</b>	<u>1,083,762</u>	<u>704,585</u>
<b>Operating expenses:</b>		
Groundwater management	840,277	687,084
General and administrative	<u>118,909</u>	<u>120,266</u>
<b>Total operating expenses</b>	<u>959,186</u>	<u>807,350</u>
<b>Changes in net position</b>	124,576	(102,765)
<b>Net position, beginning of period</b>	<u>49,387</u>	<u>152,152</u>
<b>Net position, end of period</b>	<u><u>\$ 173,963</u></u>	<u><u>49,387</u></u>

See accompanying notes to the basic financial statements

**Santa Margarita Groundwater Agency**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from members	\$ 614,900	493,035
Payments to vendors for materials and services	(896,369)	(793,767)
Operating grant	<u>287,183</u>	<u>80,869</u>
<b>Net cash provided by(used in) operating activities</b>	<u>5,714</u>	<u>(219,863)</u>
<b>Net increase(decrease) in cash and cash equivalents</b>	5,714	(219,863)
<b>Cash and cash equivalents, beginning of year</b>	<u>23,885</u>	<u>243,748</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 29,599</u>	<u>23,885</u>
 <b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>		
<b>Operating loss</b>	\$ 124,576	(102,765)
<b>Change in assets and liabilities:</b>		
Increase in assets:		
Grants receivable	(181,679)	(130,681)
Increase in liabilities:		
Accounts payable	<u>62,817</u>	<u>13,583</u>
<b>Net cash provided by(used in) operating activities</b>	<u>\$ 5,714</u>	<u>(219,863)</u>

See accompanying notes to the basic financial statements

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

On June 1, 2017, the Scotts Valley Water District, the San Lorenzo Valley Water District, and the County of Santa Cruz (Members) entered into a joint powers agreement creating the Santa Margarita Groundwater Agency (Agency). Each Member is a local agency, as defined by the Sustainable Groundwater Management Act of 2014 (SGMA), duly organized and existing under and by virtue of the laws of the State of California; whereby, each Member can exercise powers related to groundwater management. The purpose of the agreement is to adopt a groundwater sustainability plan by January 31, 2022, to manage groundwater basins designated by the California Department of Water Resources as medium and high priority basins. The Agency is a basin consolidation of all four common groundwater basins located in Santa Cruz County in the vicinity of Scotts Valley, Felton, Ben Lomond, and Boulder Creek.

Under the Joint Exercise of Powers Act of 2000 (Act), including the Marks-Roos Local Bond Pooling Act of 1985 (Government Code sections 6584, et seq.), the Agency is authorized to issue bonds, and under certain circumstances, to purchase bonds issued by, or to make loans to the Members for financing public capital improvements, working capital, liability, and other insurance needs or projects whenever doing so results in significant public benefit as determined by the Members. The Act further authorizes and empowers joint powers authorities to sell bonds that are issued or purchased to public or private purchasers at public or negotiated sales.

The term of the agreement shall remain in effect until terminated by unanimous written consent of all Members, except during the outstanding term of any Agency indebtedness. Upon termination of the agreement, the assets shall be distributed in proportion to the contributions of each Member agency.

**B. Basis of Accounting and Measurement Focus**

The Agency is accounted for as an enterprise fund in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the expenses of providing goods and services to the general public are recovered through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, or other purposes. Because the Agency is accounted for as an enterprise fund, the Agency uses the economic resources measurement focus and the accrual basis of accounting for financial statement reporting purposes. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place. With the economic resources measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statements of Net Position.

**C. Financial Reporting**

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

The Agency has adopted the following GASB pronouncements in the current year:

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

**D. Assets, Liabilities, and Net Position**

**1. Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Agency's net position during the reporting period. Actual results could differ from those estimates.

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Position, continued**

**2. Uncertainty**

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and closing of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the its duration. However, the related financial impact on Agency and the duration cannot be estimated at this time.

**3. Cash and Cash Equivalents**

Substantially, all of the Agency's cash is held in a financial institution bank account. The Agency considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**4. Revenue Recognition**

Membership dues are recognized as revenue at the time each member agency is invoiced or when a resolution is approved by the Board during the year.

**5. Net Position**

The financial statements utilize a net position presentation. Net position categories are follows:

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation, and reduced by any outstanding debt against the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – consists of the net position balance that does not meet the definition of *restricted* or *net investment in capital assets* components of net position.

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 29,599	23,885
Total cash and cash equivalents	<u>\$ 29,599</u>	<u>23,885</u>

Cash and cash equivalents as of June 30 consist of the following:

	<u>2021</u>	<u>2020</u>
Deposits with financial institutions	\$ 29,599	23,885
Total cash and cash equivalents	<u>\$ 29,599</u>	<u>23,885</u>

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(2) Cash and Cash Equivalents, continued**

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of 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 and the Agency's investment policy 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 public agencies. Of the Agency's bank balance, up to \$250,000 is federally insured and the remaining balance, if any, is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

**(3) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 87***

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 89***

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(3) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 89, continued***

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

***Governmental Accounting Standards Board Statement No. 91***

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 92***

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(3) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 92, continued***

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

***Governmental Accounting Standards Board Statement No. 93***

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(3) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 94***

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 96***

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

**Santa Margarita Groundwater Agency**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2021 and 2020**

**(3) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 97***

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

**(4) Contingencies**

***Litigation***

In the ordinary course of operations, the Agency is subject to claims and litigation from outside parties. After consultation with legal counsel, the Agency believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(5) Subsequent Events**

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of December 17, 2021, which is the date the financial statements were available to be issued.

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# **Report on Internal Controls and Compliance**





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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on Audits of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Governing Board  
Santa Margarita Groundwater Agency  
Scotts Valley, 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 Santa Margarita Groundwater Agency (Agency) as of and for the year ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated December 17, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the 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. 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 audits, 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.

**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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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*.

**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on Audits of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, continued**

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

*Fedak & Brown LLP*

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