



Santa Margarita Groundwater Agency
Annual Financial Report
For the Fiscal Years Ended June 30, 2022 and 2021



Board of Directors as of June 30, 2022

Name	Title	Member Agency	Current Term
Gail Mahood	Chair	San Lorenzo Valley Water District	Undesignated
Chris Perri	Vice Chair	Scotts Valley Water District	Undesignated
Jack Dilles	Secretary	City of Scotts Valley	Undesignated
Jayme Ackemann	Director	San Lorenzo Valley Water District	Undesignated
Edan Cassidy	Director	Well Owner Representative	8/20 – 8/23
Doug Engfer	Director	City of Santa Cruz	Undesignated
Manu Koenig	Director	County of Santa Cruz	Undesignated
Jeff Koopman	Director	Well Owner Representative	8/20 – 8/23
Bruce McPherson	Director	County of Santa Cruz	Undesignated
Dale Pollock	Director	Mount Hermon Association	Undesignated
Ruth Stiles	Director	Scotts Valley Water District	Undesignated

Santa Margarita Groundwater Agency
Nick Kurns, Treasurer
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Scotts Valley, California 95066
(831) 438-2363 – www.svwd.org

SANTA MARGARITA GROUNDWATER AGENCY

For the Fiscal Years Ended June 30, 2022 and 2021

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Santa Margarita Groundwater Agency
Scotts Valley, California

Opinion

We have audited the accompanying financial statements of the Santa Margarita Groundwater Agency (Agency) which comprise the balance sheet as of June 30, 2022, the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the 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 financial position of the Agency as of June 30, 2022 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Auditor's 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 opinion.

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.

Auditor's 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 auditor's report that includes our opinion. 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 judgment 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 judgment 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 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 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.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2021, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 8, 2022, 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 the effectiveness of the Agency's 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.

Walnut Creek, California
December 8, 2022

SANTA MARGARITA GROUNDWATER AGENCY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2022 and 2021

Management's Discussion and Analysis (MD&A) offers readers of Santa Margarita Groundwater Agency's financial statements a narrative overview of the Agency's financial activities for the fiscal years ended June 30, 2022 and 2021. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Agency's net position increased by 47.47% or \$82,575, compared to the prior year.
- Agency had 2022 operating revenue of \$557,277 as compared to 2021 operating revenue of \$1,083,762 primarily from decreased member contributions in 2022.
- Agency's operating expenses for 2022 decreased \$484,484 from \$959,186 in 2021 to \$474,702 in 2022 due primarily to a decrease of \$476,656 in technical services for Groundwater Sustainability Plan development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the Agency's financial statements. The Agency's basic financial statements reflect the combined results of the operating and capital programs and include four components: (1) Balance Sheet; (2) Statement of Revenues, Expenses and Changes in Net Position; (3) Statement of Cash Flows; and (4) Notes to the Financial Statements.

The financial statements accompanying this MD&A present the net position and results of operations during the fiscal year ending June 30, 2022 and 2021. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Balance Sheet

The Balance Sheet presents information on the Agency's assets and liabilities the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when evaluating financial position. Assets exceed liabilities, resulting in a net position of \$256,538 as of June 30, 2022.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Agency's net position changed during the fiscal year. All of the year's revenues and expenses are accounted for in this statement. This statement measures the results of the Agency's operations for the year and can be used to determine if the Agency has successfully recovered all of its costs through fees and charges. Operating revenues and expenses are related to the Agency's core activities. Non-operating revenues and expenses are not directly related to the core activities of the Agency. For the fiscal year ended June 30, 2022 net position increased by 47.47% or \$82,575.

SANTA MARGARITA GROUNDWATER AGENCY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2022 and 2021

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheet

	<u>2022</u>	<u>2021</u>	<u>Change</u>
ASSETS			
Current assets	\$ 357,085	\$ 341,959	\$ 15,126
Total assets	<u>\$ 357,085</u>	<u>\$ 341,959</u>	<u>\$ 15,126</u>
LIABILITIES			
Current liabilities	\$ 100,547	\$ 167,996	\$ (67,449)
Total liabilities	<u>100,547</u>	<u>167,996</u>	<u>(67,449)</u>
NET POSITION			
Unrestricted	256,538	173,963	82,575
Total net position	<u>256,538</u>	<u>173,963</u>	<u>82,575</u>
Total liabilities and net position	<u>\$ 357,085</u>	<u>\$ 341,959</u>	<u>\$ 15,126</u>

The Agency's net position increased by approximately 47.47% or \$82,275, compared to the prior year.

Analysis of Revenues and Expenses

Table A-2: Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Operating Revenues	\$ 557,277	\$ 1,083,762	\$ (526,485)
Operating Expenses	<u>474,702</u>	<u>959,186</u>	<u>(484,484)</u>
Change in net position	82,575	124,576	<u>\$ (42,001)</u>
Net Position			
Beginning of year	173,963	49,387	
End of year	<u>\$ 256,538</u>	<u>\$ 173,963</u>	

SANTA MARGARITA GROUNDWATER AGENCY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2022 and 2021

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses (continued)

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers to the nature and source of these changes. The main factor in the change in net position is due to the following:

The operating revenues of the agency consist of the dues contributed by each member agency and an 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>2022</u>	<u>2021</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>

- The Agency had 2022 operating revenue of \$557,277 as compared to 2021 operating revenue of \$1,083,762 due to decreased member contributions in 2022.
- The Agency's operating expenses for 2022 decreased \$484,484 from \$959,186 in 2021 to \$474,702 in 2022 due primarily to a decrease of \$476,656 in technical services for the Groundwater Sustainability Plan development.

FACTORS AFFECTING CURRENT FINANCIAL POSITION

The Agency anticipates that operating revenues and expenses for fiscal year 2023 will be about the same as fiscal year 2022. This is reflected in the Agency's budget for the 2023 fiscal year.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is intended to provide the Board of Directors, creditors, and other interested parties with general overview of the Agency's financial operations and condition at the year ended June 30, 2022, and to demonstrate the Agency's accountability for the funds it receives. If you have any questions about this report or need additional information, you may contact the Agency's Treasurer, at Santa Margarita Groundwater Agency, 2 Civic Center Drive, Scotts Valley, CA 65066 or (831) 600 – 1904.

SANTA MARGARITA GROUNDWATER AGENCY*Balance Sheets**June 30, 2022 and 2021*

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents (note 2)	\$ 57,251	\$ 29,599
Grant receivable	<u>299,834</u>	<u>312,360</u>
Total assets	<u><u>\$ 357,085</u></u>	<u><u>\$ 341,959</u></u>
LIABILITIES		
Accounts payable	<u>\$ 100,547</u>	<u>\$ 167,996</u>
Total liabilities	<u>100,547</u>	<u>167,996</u>
NET POSITION		
Unrestricted	<u>256,538</u>	<u>173,963</u>
Total net position	<u>256,538</u>	<u>173,963</u>
Total liabilities and net position	<u><u>\$ 357,085</u></u>	<u><u>\$ 341,959</u></u>

SANTA MARGARITA GROUNDWATER AGENCY*Statements of Revenues Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2022 and 2021*

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Member agency contributions	\$ 140,000	\$ 614,900
Operating grant	<u>417,277</u>	<u>468,862</u>
Total operating revenues	<u>557,277</u>	<u>1,083,762</u>
Operating Expenses		
Groundwater management	363,621	840,277
General and administrative	<u>111,081</u>	<u>118,909</u>
Total operating expenses	<u>474,702</u>	<u>959,186</u>
Change in net position	82,575	124,576
Net Position		
Beginning of year	<u>173,963</u>	<u>49,387</u>
End of year	<u>\$ 256,538</u>	<u>\$ 173,963</u>

SANTA MARGARITA GROUNDWATER AGENCY*Statements of Cash Flows**For the Fiscal Years Ended June 30, 2022 and 2021*

	2022	2021
Cash flows from operating activities:		
Cash received from member agencies	\$ 140,000	\$ 614,900
Cash received from water and other revenue	429,803	287,183
Cash payments for operating expenses	<u>(542,151)</u>	<u>(896,369)</u>
Net cash provided by operating activities	<u>27,652</u>	<u>5,714</u>
Net increase in cash and cash equivalents	<u>27,652</u>	<u>5,714</u>
Cash and cash equivalents:		
Beginning of year	<u>29,599</u>	<u>23,885</u>
End of year	<u><u>\$ 57,251</u></u>	<u><u>\$ 29,599</u></u>
	2022	2021
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 82,575	\$ 124,576
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in assets:		
Grants receivable	12,526	(181,679)
Increase (decrease) in liabilities:		
Accounts payable	<u>(67,449)</u>	<u>62,817</u>
Net cash provided by operating activities	<u><u>\$ 27,652</u></u>	<u><u>\$ 5,714</u></u>

SANTA MARGARITA GROUNDWATER AGENCY

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Santa Margarita Groundwater Agency (Agency) was formed under a Joint Exercise of Powers Agency on June 1, 2017, pursuant to Sections 6506 and 6507 of the Exercise of Powers Act, codified at California Government Code sections 6500, authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Agency was formed between the Scotts Valley Water District, the San Lorenzo Valley Water District, and the County of Santa Cruz. 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 Agency is an independent public agency separate from the Members. The Agency's board consists of two members from each of the Member agencies, one director each from the Cities of Santa Cruz and Scotts Valley, as well as three appointed directors representing private well owners.

The purpose of the Agency is to develop a groundwater sustainability plan, implement projects and management activities which achieve sustainability by 2042, and to ensure sustainability for the following thirty years. The Agency is a basin consolidation of four common groundwater basins located in Santa Cruz County in the vicinity of Scotts Valley, Felton, Ben Lomond, and Boulder Creek.

Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing services be financed or recovered primarily through user (member) charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. 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.

Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States Board (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Agency's proprietary fund.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Management administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

SANTA MARGARITA GROUNDWATER AGENCY

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the Agency categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Agency has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Agency's own assumptions about the factors market participants would use in pricing an investment and is based on the best information available in the circumstances.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the Agency's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.

Unrestricted – This component of net position is the net amount of the assets less liabilities that are not included in the determination of the investment in capital assets component of net position.

SANTA MARGARITA GROUNDWATER AGENCY

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Member Agency Contributions

The Agency's joint exercise of powers agreement provides that any member may make contributions of money or assets to the Agency; make or advance payments of public funds to defray the cost of Agency's operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Agency as set out in separate agreements between the Agency and the member and approved by the board and the governing body of the member. Contributions for 2022 and 2021 made by each member agency were as follows:

<u>Member Agency</u>	<u>2022</u>	<u>2021</u>
Scotts Valley Water District	84,000	368,940
San Lorenzo Valley Water District	42,000	184,470
County of Santa Cruz	<u>14,000</u>	<u>61,490</u>
Total	<u><u>140,000</u></u>	<u><u>614,900</u></u>

Grants

Grant revenues are recorded when earned on grants that have been approved and funded by the grantor.

Member's Equity

In the event of a member withdrawal, member termination, or dissolution of the Agency, any property interest remaining in the Agency, following a discharge of all obligations shall be disposed of pursuant to the Joint Powers Agreements as adopted by the Governing Board.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2022 and 2021, are classified on the balance sheet as follows:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	<u>\$ 57,251</u>	<u>\$ 29,599</u>
Total cash and investments	<u><u>\$ 57,251</u></u>	<u><u>\$ 29,599</u></u>

Cash and investments at June 30, 2022 and 2021, are reported at fair value and consisted of the following:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Demand deposits with financial institutions	<u>\$ 57,251</u>	<u>\$ 29,599</u>
Total cash and investments	<u><u>\$ 57,251</u></u>	<u><u>\$ 29,599</u></u>

SANTA MARGARITA GROUNDWATER AGENCY

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 2 – CASH AND INVESTMENTS (continued)

Demand Deposits with Financial Institutions

At June 30, 2022 the carrying amount of the Agency's demand deposits, and the financial institution's balance was \$57,251. There was no net difference and/or other reconciling items between the financial institution's balance and the Agency's balance for each year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

NOTE 3 – COMMITMENTS AND CONTINGENCIES

Litigation

The Agency is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 4 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 8, 2022, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



**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**

Board of Directors
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) which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December , 2022.

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 to determine the 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 Agency'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 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 of 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.

Walnut Creek, California
December 8, 2022