



**SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY**

**Annual Financial Report**

**For the Year Ended June 30, 2023**



**Board of Directors as of June 30, 2023**

<b>Name</b>	<b>Title</b>	<b>Member Agency</b>	<b>Current Term</b>
Jon Kennedy	Chairman	Private Well Representative	01/23 – 01/26
David Baskin	Vice Chairman	City of Santa Cruz	01/23 – 01/24
Jim Kerr	Secretary	Private Well Representative	01/23 – 01/24
Curt Abramson	Director	Private Well Representative	01/23 – 01/26
Carla Christensen	Director	Soquel Creek Water District	01/23 – 01/24
Zack Friend	Director	County of Santa Cruz	01/23 – 01/24
Fred Keeley	Director	City of Santa Cruz	01/23 – 01/24
Manu Koenig	Director	County of Santa Cruz	01/23 – 01/24
Tom LaHue	Director	Soquel Creek Water District	01/23 – 01/24
Robert Marani	Director	Central Water District	03/20 - 03/24
Marco Romanini	Director	Central Water District	11/22 – 11/26

**Santa Cruz Mid-County Groundwater Agency**

**Leslie Strohm, Treasurer**

**5180 Soquel Drive**

**Soquel, California 95073**

**(831) 475-8500**

**[www.midcountygroundwater.org](http://www.midcountygroundwater.org)**

**SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY**

**Annual Financial Report**

**For the Year Ended June 30, 2023**

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**For the Fiscal Year Ended June 30, 2023**

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## **Financial Section**

## **Independent Auditor's Report**

Governing Board  
Santa Cruz Mid-County Groundwater Agency  
Santa Cruz, California

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Santa Cruz Mid-County Groundwater Agency ("Agency"), as of and for the year June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of Santa Cruz Mid-County Groundwater Agency, as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Santa Cruz Mid-County Groundwater 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***

Santa Cruz Mid-County Groundwater Agency 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 one year after the date that the financial statements are issued.

## ***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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS, 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 Santa Cruz Mid-County Groundwater 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 Santa Cruz Mid-County Groundwater 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Report on Summarized Comparative Information**

We have previously audited Santa Cruz Mid-County Groundwater Agency’s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023 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 solely 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 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.

*Davis Farr LLP*

Irvine, California  
December 8, 2023



**Santa Cruz Mid-County Groundwater Agency  
Management's Discussion and Analysis  
For the Year Ended June 30, 2023**

As management of the Santa Cruz Mid-County Groundwater Agency (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities and performance of the Agency for the fiscal years ended June 30, 2023 and 2022. 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 1.71% or \$32,731 to \$1,952,182. In fiscal year 2022, the Agency's net position increased 12.85% or \$218,501 to \$1,919,451.
- The Agency's operating revenues increased 4.00% or \$12,000 to \$312,000 due to higher member agency contributions. In fiscal year 2022, the Agency's total revenues increased 100.00% or \$300,000 to \$300,000 because no member contributions were charged in the prior year.
- The Agency's total expenses increased 124.58% or \$555,277 to \$1,000,991 due to increased groundwater monitoring costs and the recognition of pass-through grant expenses related to the Sustainable Groundwater Management grant. In fiscal year 2022, the Agency's total expenses increased 38.16% or \$123,101 to \$445,714.

**Using This Financial Report**

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Activities provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statements of Net Position includes all of the Agency's 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 revenue and expenses are accounted for in the Statements of Activities. These statements measure 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?" A Statement of Net Position and a Statement of Activities report information about the Agency in a way that helps answer this question.

These statements include all assets and 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 them. One can think of the Agency's net position – the difference between 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 organizational agreements to assess the *overall health* of the Agency in future periods.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data

**Santa Cruz Mid-County Groundwater Agency  
Management's Discussion and Analysis  
For the Year Ended June 30, 2023**

provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 10 through 12.

**Statement of Net Position**

**Condensed Statement of Net Position**

	2023	2022	Change
<b>Assets:</b>			
Current Assets	\$ 2,351,918	2,133,257	218,661
<b>Total assets</b>	<u>2,351,918</u>	<u>2,133,257</u>	<u>218,661</u>
<b>Liabilities:</b>			
Current liabilities	399,736	213,806	185,930
<b>Total liabilities</b>	<u>399,736</u>	<u>213,806</u>	<u>185,930</u>
<b>Net position:</b>			
Unrestricted	1,952,182	1,919,451	32,731
<b>Total net position</b>	<u>\$ 1,952,182</u>	<u>1,919,451</u>	<u>32,731</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 \$1,952,182 and \$1,919,451 as of June 30, 2023 and 2022, respectively.

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

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

	2023	2022	Change
<b>Revenues:</b>			
Operating revenues	\$ 312,000	300,000	12,000
<b>Total operating revenues</b>	<u>312,000</u>	<u>300,000</u>	<u>12,000</u>
<b>Expenses:</b>			
Operating expenses	1,000,991	445,714	555,277
<b>Total operating expenses</b>	<u>1,000,991</u>	<u>445,714</u>	<u>555,277</u>
<b>Non-operating revenues:</b>			
Grant revenue	721,722	228,232	493,490
<b>Total non-operating revenues</b>	<u>721,722</u>	<u>228,232</u>	<u>493,490</u>
<b>Change in net position</b>	32,731	82,518	(49,787)
<b>Net position, beginning of period</b>	1,919,451	1,700,950	218,501
Prior period adjustment	-	135,983	(135,983)
<b>Net position, end of period</b>	<u>\$ 1,952,182</u>	<u>1,919,451</u>	<u>32,731</u>

The statements of revenues, expenses, and changes in net position show how the government's net position changed during the fiscal years. In the case of the Agency, net position increased 1.71% or \$32,731 to \$1,952,182, as a result of ongoing operations. In fiscal year 2022, the Agency's net position increased 12.85% or \$218,501 to \$1,919,451, as a result of ongoing operations.

Total operating revenues increased 4.00% or \$12,000 to \$312,000, due to an increase in dues contributed by each member agencies. In fiscal year 2022, total operating revenues increased 100.00% or \$300,000 to \$300,000, because member agency contributions were not charged in the prior fiscal year.

**Santa Cruz Mid-County Groundwater Agency  
Management's Discussion and Analysis  
For the Year Ended June 30, 2023**

For the years ended June 30, 2023 and 2022, the operating revenues of \$312,000 and \$300,000, respectively, consist of the dues contributed by each member agency. Member agencies are invoiced a percentage of the projected budget for the fiscal year based on the following schedule:

<b>Member Agency</b>	<b>2023</b>	<b>2022</b>
Soquel Creek Water District	70 %	70 %
Central Water District	10	10
City of Santa Cruz	10	10
County of Santa Cruz	10	10
	100 %	100 %

Total expenses increased 124.58% or \$555,277 to \$1,000,991, due primarily to an increase of \$541,233 in groundwater management expenses. The increase in groundwater management expenses is predominately related to increased expenses for basin groundwater monitoring and data collection as well as the recognition of pass-through grant expenses. These pass-through expenses are for the sub-recipients of the Sustainable Groundwater Management Implementation (SGMI) grant the MGA was awarded by the Department of Water Resources (DWR). In fiscal year 2022, total expenses increased 38.16% or \$123,101 to \$445,714, due primarily to an increase of \$99,077 in groundwater management and a decrease of \$24,024 in general and administrative expense.

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions which could have a significant impact on the Agency's current financial position, net position, or operating results in terms of past, 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, Leslie Strohm at Santa Cruz Mid-County Groundwater Agency, 5180 Soquel Drive, Soquel CA 95073 or (831) 475-8500.

## **Basic Financial Statements**

**SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY**  
**Statement of Net Position**  
**June 30, 2023**  
*(with prior year data for informational purposes)*

	<b>2023</b>	<b>2022</b>
<b>Current assets:</b>		
Cash and cash equivalent (Note 2)	\$ 1,821,027	\$ 1,814,953
Accounts receivable	528,997	316,231
Prepaid expenses	1,894	2,073
<b>Total current assets</b>	<b>2,351,918</b>	<b>2,133,257</b>
<b>Current liabilities:</b>		
Accounts payable	399,736	213,806
<b>Total current liabilities</b>	<b>399,736</b>	<b>213,806</b>
<b>Net position:</b>		
Unrestricted	1,952,182	1,919,451
<b>Total net position</b>	<b>\$ 1,952,182</b>	<b>\$ 1,919,451</b>

See accompanying notes to the basic financial statements

**SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**June 30, 2023**  
*(with prior year data for informational purposes)*

	<u>2023</u>	<u>2022</u>
<b>Operating revenues:</b>		
Membership revenue	\$ 312,000	300,000
<b>Total operating revenues</b>	<u>312,000</u>	<u>300,000</u>
<b>Operating expenses:</b>		
Groundwater management	794,509	253,276
General and administrative	<u>206,482</u>	<u>192,438</u>
<b>Total operating expenses</b>	<u>1,000,991</u>	<u>445,714</u>
<b>Total operating income (loss)</b>	<u>(688,991)</u>	<u>(145,714)</u>
<b>Non-operating revenues:</b>		
Grant revenue	<u>721,722</u>	<u>228,232</u>
<b>Total non-operating revenues</b>	<u>721,722</u>	<u>228,232</u>
<b>Change in net position</b>	32,731	82,518
<b>Net position, beginning of period</b>	1,919,451	1,700,950
Prior period adjustment (Note 3)	<u>-</u>	<u>135,983</u>
<b>Net position, end of period</b>	<u>\$ 1,952,182</u>	<u>1,919,451</u>

See accompanying notes to the basic financial statements

**SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY**  
**Statement of Cash Flows**  
**June 30, 2023**  
*(with prior year data for informational purposes)*

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from members	\$ 312,000	\$ 300,000
Payments to vendors for materials and services	(814,882)	(337,998)
<b>Net cash provided by operating activities</b>	(502,882)	(37,998)
<b>Cash flows from financing activities:</b>		
Grant revenue	508,956	112,061
<b>Net cash provided by financing activities</b>	508,956	112,061
<b>Net increase in cash and cash equivalents</b>	6,074	74,063
<b>Cash and cash equivalents, beginning of year</b>	1,814,953	1,740,890
<b>Cash and cash equivalents, end of year</b>	\$ 1,821,027	\$ 1,814,953
 <b>Reconciliation of operating income(loss) to net cash provided by(used) in operating activities:</b>		
Operating income(loss)	\$ (688,991)	\$ (145,714)
<b>Changes in assets and liabilities:</b>		
<b>(Increase) in assets:</b>		
Prepaid expenses	179	(394)
<b>Increase(decrease) in liabilities:</b>		
Accounts payable	185,930	108,110
<b>Net cash provided by operating activities</b>	\$ (502,882)	\$ (37,998)

**Noncash Investing, Capital and Financing Activities:**

There were no significant noncash investing, capital or financing activities during the years ended June 30, 2023 or 2022.

# SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

## Notes to the Basic Financial Statements

For the Year Ended June 30, 2023

### (1) Summary of Significant Accounting Policies

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

On March 17, 2016, the Central Water District, the City of Santa Cruz, the County of Santa Cruz, and the Soquel Creek Water District (Members) entered into a joint powers agreement creating the Santa Cruz Mid-County 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, and each Member can exercise powers related to groundwater management. The purpose of the agreement is to create a groundwater sustainability agency by June 30, 2017 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 or parts of four existing groundwater basins: Soquel Valley, West Santa Cruz Terrace, Santa Cruz Purisima Formation, and Pajaro Valley Groundwater Basins.

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 benefits, 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.

SGMA requires the adoption of a groundwater sustainability plan (GSP) by January 31, 2020, for all medium and high priority basins identified as being subject to critical conditions of overdraft. The Members will develop the GSP and manage the Basin pursuant to SGMA.

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 revenue 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 measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement 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 CRUZ MID-COUNTY GROUNDWATER AGENCY**

**Notes to the Basic Financial Statements (Continued)**

**For the Year Ended June 30, 2023**

**(1) Summary of Significant Accounting Policies (Continued)**

**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.

**2. 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.

**3. 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.

**4. Net Position/Fund Balances**

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 net position** – 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 net position** – consists of the net position balance that does not meet the definition of *restricted* or *net investment in capital assets* components of net position.

**5. Comparative Data**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2023 is classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 1,821,027
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Cash and cash equivalents as of June 30, 2023 consists of the following:

Deposits with financial institutions	\$ 1,821,027
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**SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY**

**Notes to the Basic Financial Statements (Continued)**

**For the Year Ended June 30, 2023**

**(2) Cash and Cash Equivalents (Continued)**

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The California Government Code and the Agency's investment policy do 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. As of June 30, 2023, bank balances are federally insured up to \$250,000. The remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

**(3) 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.

## **Report on Internal Controls and Compliance**

## **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**

Governing Board  
Santa Cruz Mid-County Groundwater Agency  
Santa Cruz, 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 Cruz Mid-County Groundwater Agency (Agency) as of and for the year ended June 30, 2023, 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 8, 2023.

### **Report on 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 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.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing 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 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.

Davis Farr LLP

Irvine, California  
December 8, 2023