



SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Annual Financial Report

For the Year Ended June 30, 2020



Board of Directors as of June 30, 2020

Name	Title	Member Agency	Current Term
Tom LaHue	Chairman	Soquel Creek Water District	03/20 - 03/24
Cynthia Mathews	Vice Chairman	City of Santa Cruz	03/20 - 03/24
Jim Kerr	Secretary	Private Well Representative	Undesignated
Jon Kennedy	Director	Private Well Representative	Undesignated
Curt Abramson	Director	Private Well Representative	Undesignated
Bruce Daniels	Director	Soquel Creek Water District	03/18 - 03/22
David Baskin	Director	City of Santa Cruz	03/18 - 03/22
Robert Marani	Director	Central Water District	03/20 - 03/24
Marco Romanini	Director	Central Water District	03/18 - 03/22
Zach Friend	Director	County of Santa Cruz	03/20 - 03/24
John Leopold	Director	County of Santa Cruz	03/18 - 03/22

Santa Cruz Mid-County Groundwater Agency

Leslie Strohm, Treasurer

5180 Soquel Drive

Soquel, California 95073

(831) 475-8500

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SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Annual Financial Report

For the Year Ended June 30, 2020

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Annual Financial Report

For the Fiscal Year Ended June 30, 2020

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Financial Section

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Santa Cruz Mid-County Groundwater Agency (the "Agency") as of and for the year ended June 30, 2020, and the related notes to the financial statements, 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; 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 our 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 the business-type activities of the Santa Cruz Mid-County Groundwater Agency, as of June 30, 2020, and the respective changes in financial 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

Emphasis of Matter

The financial statements for the year ended June 30, 2019 reflect certain prior period adjustments as described further in note 3 to the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The financial statements of the Agency for the year-ended June 30, 2019 were audited by other auditors whose report dated December 11, 2019 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

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 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 23, 2020, 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 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.

Davis Farr LLP

Irvine, California
December 23, 2020

**Santa Cruz Mid-County Groundwater
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

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, 2020 and 2019. 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 243.44% or \$1,394,298 to \$1,967,046. In fiscal year 2019, the Agency's net position increased 75.88% or \$247,110 to \$572,748.
- The Agency's total revenues decreased 45.36% or \$540,005 to \$650,415. In fiscal year 2019, the Agency's total revenues increased 105.75% or \$611,834 to \$1,190,420.
- The Agency's total expenses decreased 48.54% or \$457,883 to \$485,427. In fiscal year 2019, the Agency's total expenses increased 24.79% or \$187,404 to \$943,310.

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 provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 9 through 11.

**Santa Cruz Mid-County Groundwater
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

Statement of Net Position

Condensed Statement of Net Position			
	2020	2019	Change
Assets:			
Current Assets	\$ 2,006,514	798,974	1,207,540
Total assets	<u>2,006,514</u>	<u>798,974</u>	<u>1,207,540</u>
Liabilities:			
Current liabilities	39,468	226,226	(186,758)
Total liabilities	<u>39,468</u>	<u>226,226</u>	<u>(186,758)</u>
Net Position:			
Unrestricted	1,967,046	572,748	1,394,298
Total net position	<u>\$ 1,967,046</u>	<u>572,748</u>	<u>1,394,298</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 \$1,967,046 and 572,748 as of June 30, 2020 and 2019, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

Condensed Statement of Revenues, Expenses, and Changes in Net Position			
	2020	2019	Change
Revenues:			
Operating revenues	\$ 650,415	1,190,420	(540,005)
Total revenues	<u>650,415</u>	<u>1,190,420</u>	<u>(540,005)</u>
Expenses:			
Operating expenses	485,427	943,310	(457,883)
Total expenses	<u>485,427</u>	<u>943,310</u>	<u>(457,883)</u>
Non-operating revenues:			
Grant revenue	205,793	-	205,793
Total non-operating revenues	<u>205,793</u>	<u>-</u>	<u>205,793</u>
Changes in net position	370,781	247,110	123,671
Net position, beginning of year	572,748	325,638	247,110
Prior period adjustment	1,023,517	-	1,023,517
Net position, end of year	<u>\$ 1,967,046</u>	<u>572,748</u>	<u>1,394,298</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 243.44% or \$1,394,298 to \$1,967,046, as a result of ongoing operations. In fiscal year 2019, the Agency's net position increased 75.88% or \$247,110 to \$572,748, as a result of ongoing operations.

Total revenues decreased 45.36% or \$540,005 to \$650,415, due primarily to an increase in dues contributed by each member agencies. In fiscal year 2019, total revenues increased 105.75% or \$611,834 to \$1,190,420, due primarily to an increase in dues contributed by each member agencies.

**Santa Cruz Mid-County Groundwater
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

For the years ended June 30, 2020 and 2019, the operating revenues of \$650,415 and \$1,190,420, respectively, consist of the dues contributed by each member agency. Each member agencies are invoiced a percentage of the projected budget for the fiscal year based on the following schedule:

Member Agency	2020	2019
Soquel Creek Water District	70%	70%
Central Water District	10	10
City of Santa Cruz	10	10
County of Santa Cruz	10	10
Total	100%	100%

Total expenses decreased 48.54% or \$457,883 to \$485,427, due primarily to decreases of \$455,942 in groundwater management expense and \$1,941 in general and administrative expense. In fiscal year 2019, total expenses increased 24.79% or \$187,404 to \$943,310, due primarily to increases of \$118,559 in groundwater management expense and \$68,845 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, 2020

	2020	2019
Current assets:		
Cash and cash equivalent (Note 2)	\$ 1,891,207	797,575
Accounts receivable	113,549	-
Prepaid expenses	1,758	1,399
Total current assets	2,006,514	798,974
Current liabilities:		
Accounts payable	39,468	226,226
Total current liabilities	39,468	226,226
Net position:		
Unrestricted	1,967,046	572,748
Total net position	\$ 1,967,046	572,748

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Membership revenue	\$ 650,415	1,190,420
Total operating revenues	<u>650,415</u>	<u>1,190,420</u>
Operating expenses:		
Groundwater management	135,501	591,443
General and administrative	349,926	351,867
Total operating expenses	<u>485,427</u>	<u>943,310</u>
Total operating income	<u>164,988</u>	<u>247,110</u>
Non-operating revenues:		
Grant revenue	205,793	-
Total non-operating revenues	<u>205,793</u>	<u>-</u>
Change in net position	370,781	247,110
Net position, beginning of period	572,748	325,638
Prior period adjustment (Note 3)	1,023,517	-
Net position, end of period	<u>\$ 1,967,046</u>	<u>\$ 572,748</u>

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY
Statement of Cash Flows
For the Year Ended June 30, 2020

	2020	2019
Cash flows from operating activities:		
Cash receipts from members	\$ 650,415	1,190,420
Payments to vendors for materials and services	(672,544)	(1,096,290)
Net cash provided by operating activities	(22,129)	94,130
Cash flows from financing activities:		
Grant revenue	1,115,761	-
Net cash provided by financing activities	1,115,761	-
Net increase in cash and cash equivalents	1,093,632	94,130
Cash and cash equivalents, beginning of year	797,575	703,445
Cash and cash equivalents, end of year	\$ 1,891,207	797,575
 Reconciliation of operating income(loss) to net cash provided by(used) in operating activities:		
Operating income(loss)	\$ 164,988	247,110
Changes in assets and liabilities:		
(Increase) in assets:		
Prepaid expenses	(359)	(1,118)
Increase(decrease) in liabilities:		
Accounts payable	(186,758)	(151,862)
Net cash provided by operating activities	\$ (22,129)	94,130

Noncash Investing, Capital and Financing Activities:

There were no significant noncash investing, capital or financing activities during the year ended June 30, 2020.

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2020

(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, 2020

(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.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2020 is classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$	1,891,207
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Cash and cash equivalents as of June 30, 2020 consists of the following:

Deposits with financial institutions	\$	1,891,207
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SANTA CRUZ MID-COUNTY GOUNDWATER AGENCY

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2020

(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, 2020, 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) Restatement of Net Position

A prior period adjustment was recorded to recognize grant revenues relating to prior periods. The Agency recorded the following prior period adjustment:

Net position as previously reported at June 30, 2019	\$ 572,748
Prior period revenues	<u>1,023,517</u>
Net position as restated at June 30, 2019	<u>\$1,596,265</u>

(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, 2020 have been evaluated for possible adjustment to the financial statements or disclosure as of December 23, 2020, which is the date the financial statements were available to be issued.

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, 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 23, 2020.

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.

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 23, 2020