SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Annual Financial Report

For the Year Ended June 30, 2025

Board of Directors as of June 30, 2025

Name	Title	Member Agency	Current Term
Jon Kennedy	Chair	Private Well Owner	1/2022 – 1/2026
Carla Christensen	Vice Chair	Soquel Creek Water District	1/2025 – 1/2026
Jim Kerr	Secretary	Private Well Owner	1/2024 – 1/2028
Curt Abramson	Director	Private Well Owner	1/2022 – 1/2026
David Baskin	Director	City of Santa Cruz	1/2025 – 1/2026
Kim De Serpa	Director	County of Santa Cruz	1/2025 – 1/2026
Susie O'Hara	Director	City of Santa Cruz	1/2025 – 1/2026
Manu Koenig	Director	County of Santa Cruz	1/2025 – 1/2026
Dr. Bruce Jaffe	Director	Soquel Creek Water District	1/2025 – 1/2026
Robert Marani	Director	Central Water District	3/2024 – 3/2026
Marco Romani	Director	Central Water District	3/2024 – 3/2026

Santa Cruz Mid-County Groundwater Agency

Leslie Strohm, Treasurer

5180 Soquel Drive

Soquel, California 95073
(831) 475-8500
www.midcountygroundwater.org

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Annual Financial Report

For the Year Ended June 30, 2025

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY

Annual Financial Report

For the Fiscal Year Ended June 30, 2025

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Financial Section

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2025, 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, 2025, 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 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 27, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, 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 January 16, 2026 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.

Irvine, California
January 16, 2026

Santa Cruz Mid-County Groundwater Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2025

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, 2025 and 2024. 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 decreased 9.59% or $182,030 to $1,717,073. In fiscal year 2024, the Agency's net position decreased 2.72% or $53,079 to $1,899,103.
- The Agency's operating revenues decreased 52.71% or $79,236 to $71,096 due to lower member agency contributions. In fiscal year 2024, the Agency's total revenues decreased 51.82% or $161,668 to $150,332 due to lower member agency contributions.
- The Agency's total expenses increased 0.37% or $11,330 to $3,094,757 due to increased general and administrative costs. In fiscal year 2024, the Agency's total expenses increased 208.04% or $2,082,426 to $3,083,417 due to the recognition of pass-through grant expenses related to the Sustainable Groundwater Management grant.

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 10 through 12.

Statement of Net Position

	2025	2024	Change
Assets:			
Current Assets	$ 2,657,310	3,864,889	(1,207,579)
Total assets	2,657,310	3,864,889	(1,207,579)
Liabilities:			
Current liabilities	940,237	1,965,786	(1,025,549)
Total liabilities	940,237	1,965,786	(1,025,549)
Net position:			
Unrestricted	1,717,073	1,899,103	(182,030)
Total net position	$ 1,717,073	1,899,103	(182,030)

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 $1,717,073 and $1,899,103 as of June 30, 2025 and 2024, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

	2025	2024	Change
Revenues:			
Operating revenues	$ 71,096	150,332	(79,236)
Total operating revenues	71,096	150,332	(79,236)
Expenses:			
Operating expenses	3,094,747	3,083,417	11,330
Total operating expenses	3,094,747	3,083,417	11,330
Non-operating revenues:			
Interest revenue	283	-	283
Grant revenue	2,841,338	2,880,006	(38,668)
Total non-operating revenues	2,841,621	2,880,006	(38,385)
Change in net position	(182,030)	(53,079)	(128,951)
Net position, beginning of period	1,899,103	1,952,182	(53,079)
Net position, end of period	$ 1,717,073	1,899,103	(182,030)

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 decreased 9.59% or $182,030 to $1,717,073, as a result of ongoing operations. In fiscal year 2024, the Agency's net position decreased 2.72% or $53,079 to $1,899,103, as a result of ongoing operations

Total operating revenues decreased 52.71% or $79,236 to $71,096 due to no member agency contributions being charged. In fiscal year 2024, total operating revenues decreased 51.82% or $161,668 to $150,332, due to a decrease in dues contributed by each member agency.

For the years ended June 30, 2025 and 2024, the operating revenues of $0 and $100,000, 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:

Member Agency	2025	2024
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 0.37% or $11,330 to $3,094,757. The increase is predominantly due to an increase in general and administrative costs. There was an increase of $49,390 (45.83%) in administrative personnel costs due to more time being required to administer and account for the growing complexity of the agency's operations. The increase in administrative personnel costs was offset by a decrease of $35,640 (19.81%) in GSP consulting services. In fiscal year 2024, total expenses increased 208.04% or $2,082,426 to $3,083,417, due primarily to an increase of $1,953,321 in groundwater management expenses.

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, 2025
(with prior year data for informational purposes)

	2025	2024
Current assets:		
Cash and cash equivalent (Note 2)	$ 1,467,822	$ 1,686,470
Accounts receivable	1,187,594	2,176,525
Prepaid expenses	1,894	1,894
Total current assets	2,657,310	3,864,889
Current liabilities:		
Accounts payable	940,237	1,965,786
Total current liabilities	940,237	1,965,786
Net position:		
Unrestricted	1,717,073	1,899,103
Total net position	$ 1,717,073	$ 1,899,103

See accompanying notes to the basic financial statements

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ending June 30, 2025
(with prior year data for informational purposes)

	2025	2024
Operating revenues:		
Membership revenue	$ -	$ 100,000
Grant administrative revenue	71,096	50,332
Total operating revenues	71,096	150,332
Operating expenses:		
Groundwater management	2,743,125	2,747,830
General and administrative	351,622	335,587
Total operating expenses	3,094,747	3,083,417
Total operating income (loss)	(3,023,651)	(2,933,085)
Non-operating revenues:		
Interest revenue	283	-
Grant revenue	2,841,338	2,880,006
Total non-operating revenues	2,841,621	2,880,006
Change in net position	(182,030)	(53,079)
Net position, beginning of period	1,899,103	1,952,182
Net position, end of period	$ 1,717,073	1,899,103

See accompanying notes to the basic financial statements

SANTA CRUZ MID-COUNTY GROUNDWATER AGENCY
Statement of Cash Flows
For the Year Ending June 30, 2025
(with prior year data for informational purposes)

	2025	2024
Cash flows from operating activities:		
Cash receipts from members	$ 71,096	150,332
Payments to vendors for materials and services	(4,120,296)	(1,517,367)
Net cash used by operating activities	(4,049,200)	(1,367,035)
Cash flows from noncapital financing activities:		
Operating grants	3,830,269	1,232,478
Net cash provided by noncapital financing activities	3,830,269	1,232,478
Cash flows from investing activities:		
Investment earnings	283	-
Net cash provided by investing activities	283	-
Net increase in cash and cash equivalents	(218,648)	(134,557)
Cash and cash equivalents, beginning of year	1,686,470	1,821,027
Cash and cash equivalents, end of year	$ 1,467,822	1,686,470
Reconciliation of operating income(loss) to net cash provided by(used) in operating activities:		
Operating income(loss)	$ (3,023,651)	(2,933,085)
Increase(decrease) in liabilities:		
Accounts payable	(1,025,549)	1,566,050
Net cash used by operating activities	$ (4,049,200)	(1,367,035)

Noncash Investing, Capital and Financing Activities:
There were no significant noncash investing, capital or financing activities during the years ended June 30, 2025 or 2024.

See accompanying notes to the basic financial statements

(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.

(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

Grant revenues are recognized as the related eligible expenditures are incurred, and all grant requirements have been met. 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, 2025 is classified in the accompanying financial statements as follows:

Cash and cash equivalents	$	1,467,882

Cash and cash equivalents as of June 30, 2025 consists of the following:

Deposits with financial institutions	$	1,467,882

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, 2025, 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

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2025, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated January 16, 2026.

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.

Irvine, California
January 16, 2026