

SANTIAGO AQUEDUCT COMMISSION
QUARTERLY MEETING
THURSDAY, DECEMBER 14, 2023

CALL TO ORDER: 8:00 a.m., IRWD Board Room, 15600 Sand Canyon Avenue, Irvine, CA

ATTENDANCE Commission Chair: Don Chadd (TCWD) _____
Commission Vice Chair: John Withers (IRWD) _____

Commissioner Mike Gaskins (ETWD) _____
Commissioner Sherry Wanninger (MNWD) _____
Commissioner Jeffery Thomas (MWDOC) _____
Commissioner Saundra Jacobs (SMWD) _____

ALSO PRESENT Paul Cook _____ Kevin Burton _____
Malcolm Cortez _____ Neveen Adly _____
Eileen Lin _____ Diane Squyres _____

Legal Counsel: Allison Burns (SYC&R) _____

COMMUNICATIONS

1. Pledge of Allegiance
2. Public Comments
3. Determine the need to discuss and/or take action on item(s) introduced that came to the attention of the Commission subsequent to the agenda being posted.

ACTION ITEMS

4. APPOINTMENT OF TREASURER – COOK
Recommendation: That an election be conducted of the Treasurer.
5. MINUTES OF REGULAR COMMISSION MEETING, MARCH 16, 2023
Recommendation: That the minutes of the March 16, 2023 meeting be approved as presented.
6. 2023-24 FINANCIAL REPORT
 - A. Ratify Disbursement Resolution No. 718 dated March 2023.
 - B. Ratify Disbursement Resolution No. 719 dated June 2023.
 - C. Ratify Disbursement Resolution No. 720 dated October 2023.
 - D. Receive and file Financial Statement dated November 30, 2023.

Recommendation: That the Commission ratify Disbursement Resolutions Nos. 718 through 720 and receive and file the Financial Statement dated November 30, 2023, for the Santiago Aqueduct Commission.

ACTION ITEMS, continued

7. FISCAL YEAR 2022-23 FINANCIAL REPORT – CRAIG / LIN / ADLY

Recommendation: That the Commission approve the financial report for the fiscal year ended June 30, 2023.

OTHER BUSINESS

8. GENERAL MANAGER REPORT – COOK

9. ENGINEER REPORT – BURTON

10. MWDOC REPORT

11. ATTORNEY REPORT

12. COMMISSIONER COMMUNICATIONS

Commissioners may discuss meetings, communications, correspondence, or other items of general interest relating to matters within the Commission’s jurisdiction. There will be no voting or formal action taken.

13. ADJOURN

Availability of agenda materials: Agenda exhibits and other writings that are disclosable public records distributed to all or a majority of the members of the Santiago Aqueduct Commission in connection with a matter subject to discussion or consideration at an open meeting of the Commission are available for public inspection in the District’s office, 15600 Sand Canyon Avenue, Irvine, California. If such writings are distributed to members of the Commission less than 72 hours prior to the meeting, these writings will be available from the IRWD District Secretary at the same time as they are distributed to Commission members, except that if such writings are distributed one hour prior to, or during, the meeting, they will be available at the entrance of the meeting room at the District Office. The IRWD Board Room is wheelchair accessible. If you require any special disability-related accommodations (e.g., access to an amplified sound system, etc.), please contact the District Secretary at (949) 453-5300 during business hours at least seventy-two (72) hours prior to the scheduled meeting. This agenda can be obtained in an alternative format upon written request to the District Secretary at least seventy-two (72) hours prior to the scheduled meeting.

December 14, 2023

Prepared and
Submitted and

Approved by: Paul A. Cook 

SANTIAGO AQUEDUCT COMMISSION

APPOINTMENT OF TREASURER
TO SANTIAGO AQUEDUCT COMMISSION

SUMMARY:

Ms. Cheryl Clary, Treasurer of the Santiago Aqueduct Commission (SAC), retired in July 2023. Staff recommends the appointment of Ms. Neveen Adly, IRWD's Executive Director of Finance and Administration, as Treasurer of SAC.

FISCAL IMPACTS:

Services of the Treasurer to SAC are included in both operation and maintenance budgets approved annually by the SAC.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental quality Act (CEQA), Code of Regulations, Title 14, Chapter 3, Section 15378 (b)(2).

RECOMMENDATION:

That the Commission appoint Ms. Neveen Adly as Treasurer of the Santiago Aqueduct Commission.

LIST OF EXHIBITS:

None.

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MINUTES OF THE QUARTERLY REGULAR MEETING
OF THE SANTIAGO AQUEDUCT COMMISSION

March 16, 2023

The quarterly meeting of the Santiago Aqueduct Commission (“SAC”) was duly noticed and was held at 8:30 a.m. on March 16, 2023 at the Sand Canyon Board Room of the Irvine Ranch Water District, 15600 Sand Canyon Avenue, Irvine, California. Chairman CHADD called the meeting to order at 8:30 a.m. ALLISON E. BURNS recorded the Minutes of the meeting.

COMMISSIONERS PRESENT

MIKE GASKINS, El Toro Water District (“ETWD”); JOHN WITHERS, Irvine Ranch Water District (“IRWD”); DON CHADD, Trabuco Canyon Water District (“TCWD”); SAUNDRA JACOBS, Santa Margarita Water District (“SMWD”); SHERRY WANNINGER, Moulton Niguel Water District (“MNWD”); and CHARLES BUSSLINGER, Municipal Water District of Orange County (“MWDOC”).

Also present were: PAUL COOK, SAC General Manager, CHERYL CLARY, SAC Treasurer, KEVIN BURTON, SAC Engineer, IRWD; ALLISON E. BURNS, SAC General Counsel/Secretary; DIANE SQUYRES, Administrative Secretary, IRWD; JESSICA CRAIG, IRWD; MALCOLM CORTEZ, Assistant Engineer, IRWD; IRWD; JAVIER TOBAR, IRWD; MATT COLLINGS, MNWD; CHRISTINE FRANCHVILLE, IRWD; LESLIE BONKOWSKI, IRWD and FERNANDO PALUDI, TCWD.

COMMUNICATIONS

1. Pledge of Allegiance – The Commission recited the Pledge of Allegiance.
2. Public Comments - No public comments.
3. Determine the need to discuss and/or take action on item(s) introduced that came to the attention of the Commission subsequent to the agenda being posted – No new items needed.

ACTION ITEMS

4. ELECTION OF OFFICERS – COOK

Nominations: JACOBS – Declined; JACOBS nominated current chair (DON CHADD) and vice chair (JOHN WITHERS). JACOBS moved the slate as nominated, second by BUSSLINGER and passed unanimously.

5. MINUTES OF REGULAR COMMISSION MEETING, DECEMBER 16, 2022

Recommendation: That the Minutes of the December 16, 2022, meeting be approved as presented. WITHERS moved the item as presented, second by WANNINGER and passed unanimously.

6. FEBRUARY 2023 FINANCIAL REPORTS – DISBURSEMENT AND STATEMENT OF NET POSITIONS – CRAIG

- A. Ratify Disbursement Resolution No. 717 dated February 2023.
- B. Receive and file the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Positions for the period ending February 28, 2023.

Recommendation: That the Commission ratify Disbursement Resolution No. 717 dated February 2023 in the total amount of \$31,718.50 and receive and file the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Positions for the period ending February 28, 2023. JACOBS moved the item as presented, second by WITHERS and passed unanimously.

7. PROPOSED FISCAL YEARS 2023-24 AND 2024-25 OPERATIONS, MAINTENANCE, AND RESTORATION PROJECT BUDGET – CRAIG

Recommendation: That the Commission review and approve the proposed Fiscal Years 2023-24 and 2024-25 Operations, Maintenance, and Restoration Project Budget as presented. CRAIG presented the 2023-24 and 2024-25 Budgets, including:

- Exhibit A-1 – Proposed total budget for 2023-24: \$187,165
- Exhibit A-2 – Proposed total budget for 2024-25: \$190,220
- Exhibit A-3 – Surcharge and allocations for 2023-24 - \$1.09/AF; 2024-25 - \$1.12/AF; Member agencies' share for the Reach 1U landscape maintenance costs are included.

JACOBS – On Exhibit A-3, what is the difference between non-Baker and Baker items?

CRAIG – It reflects the allocation for water purchased.

BURTON – IRWD and TCWD take some water deliveries prior to the Baker plant. The deliveries off the pipeline prior to going into the Baker Plant are referred to as “Non-Baker”.

JACOBS – Requested an explanation on the exclusion of depreciation as stated in the Note on Exhibit “A-1” and “A-2”.

CLARY – Depreciation is excluded because the Commission approved two years ago to forgo setting aside reserves to pay for future SAC projects therefore future projects will be on a “pay as you go” basis. Each SAC participant should set funds to pay for future projects and SAC will request a cash call when funding is needed.

JACOBS – Is there a point in time we would want to go back to setting aside reserves for future projects?

CLARY – That is always an option. The Commission can elect to reverse that decision, but current direction is to “pay as you go” for each project.

JACOBS – Requested an explanation as to whether staff records depreciation?

CLARY – Staff does record depreciation expense on the books but the Commission does not fund the depreciation.

JACOBS – When it rains so much, IRWD gets a lot of water in Irvine Lake. How is it allocated?

COOK – 75/25 IRWD/Serrano Water District.

JACOBS – Is there any opportunity to participate in adding water to the reservoir?

COOK – IRWD has discussed this option with member agency staffs. IRWD has put this issue to the Baker Partners to have an emergency reserve of water so there is always water for the Baker plant. Conversations have always stalled out. It is not free water as there are significant capital costs to own and operate a dam.

JACOBS – Does Serrano pay 25% of the costs?

COOK – Yes. The Baker Partners entered into one emergency water contracts when certain MWD facilities were offline.

WANNINGER – Does staff conduct long term forecasting for capital projects?

BURTON – Yes. Part of the project last year was to replace the pipe exposed in the creek. While the line was exposed, staff ran cameras up and down the line. Another project later this year will provide an opportunity to run cameras again. From observations to date, it looks like the line has another 30-50 years of life.

CHADD – 7A-3 – Landscape budget – mitigation monitoring for habitat; how long will this be required?

BURTON – Five years of mitigation is required.

WANNINGER moved the item as presented, second by JACOBS and passed unanimously.

OTHER BUSINESS

8. GENERAL MANAGER’S REPORT – COOK

COOK - Nothing major. Cook introduced Christine Franchville.

9. ENGINEER’S REPORT – BURTON

BURTON – Mitigation has been replanted and is doing well; the rain has helped. Mitigation planting near the creek has held up. A narrow channel through the middle of the planting area has been impacted from creek flows, but the irrigation system has survived. Staff expects the habitat to grow fast once there is sunlight.

Orange Heights Development – this project has been on and off over the years. It is currently scheduled to kick off in September 2023. The pipe has been purchased and stored pending the plan to start later this year.

JACOBS – has the budget changed at all?

BURTON – no cost to SAC; all costs will be borne by the developer.

10. MWDOC’S REPORT

BUSSLINGER –With the rain, come a lot of changes. State water project allocations increased to 35%, meaning MET can start moving water our way. It’s been 74 months since that was possible. A flow gate has been damaged; now transitioning the Diemer plant to the state water project. Staff has dewatered the forebay and is working on repairs. Emergency drought regulations imposed on state water project dependent areas have been lifted. It appears SWP Article 21 water (surplus water) may become available.

Released yesterday –Tentative statement of decision by the Court in the lawsuits with SDCWA. SDCWA is seeking \$300M damages through a series of lawsuits. The Court ruled in favor of MET in all matters and allegations. SDCWA’s only success was regarding the stewardship rate. SDCWA can object, but the tentative is very good for MET.

WITHERS – Will MET be able to recover its fees?

BURNS – Not likely.

JACOBS – EPA PFAS maximums – Do we have any problems at Baker?

BURTON – We have tested but no sign of PFAS.

BUSSLINGER– MET is very cognizant of the issue and is conducting repeated testing. MET has found traces of one. If levels are lowered, water agencies will have to treat every molecule of water.

JACOBS – Is it an unfunded mandate?

COOK – When regulators lower levels that far, it has dramatic impacts on all water districts. Staff knows their way around PFAS.

11. ATTORNEY’S REPORT

BURNS – Reminder that Form 700s are due by April 3, 2023.

12. COMMISSIONERS’ COMMUNICATIONS

None.

13. ADJOURN

CHADD adjourned the meeting at 8:57 a.m.

Respectfully submitted,
Allison E. Burns, Secretary

SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 718

March 2023

RESOLVED by Santiago Aqueduct Commission that items shown below be approved for payment and charges to the Contracting Agencies and to holders of capacity rights in the Santiago Aqueduct Commission in accordance with the policy with respect to standby charges, water surcharges and operation and maintenance costs adopted by this Commission on April 10, 1963: That the Contracting Public Agencies and other holders of capacity rights in said Santiago Aqueduct be called upon to pay this Commission for their respective shares of such items, and payments, such items and the distribution thereof are as follows:

OPERATIONS, MAINTENANCE AND BAKER PIPELINE CHARGES

1	AT&T		
	Charges for Feb 2023	\$	178.84
2	Southern California Edison		
	Charges for Feb 2023		248.30
3	Stradling Yocca Carlson & Rauth		
	Charges for legal fees		700.00
4	Kill-N-Bugs		
	Charges for bug treatment		5,620.00
5	Baker Pipeline		
	SABP Embee Companies SA (Curative I.T. LLC)		26.89
	Home Deport		69.96
	Natures Image Inc		90,968.00
	Irvine Ranch Water District Staff Labor and G&A		5,759.35
			<hr/>
6	TOTAL DISBURSEMENT RESOLUTION NO. 718	\$	<u>103,571.34</u>

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 719

June 2023

RESOLVED by Santiago Aqueduct Commission that items shown below be approved for payment and charges to the Contracting Agencies and to holders of capacity rights in the Santiago Aqueduct Commission in accordance with the policy with respect to standby charges, water surcharges and operation and maintenance costs adopted by this Commission on April 10, 1963: That the Contracting Public Agencies and other holders of capacity rights in said Santiago Aqueduct be called upon to pay this Commission for their respective shares of such items, and payments, such items and the distribution thereof are as follows:

OPERATIONS, MAINTENANCE AND BAKER PIPELINE CHARGES

1	AT&T		
	Charges for Mar - May 2023	\$	509.10
2	Southern California Edison		
	Charges for Mar - June 2023		259.35
3	Stradling Yocca Carlson & Rauth		
	Charges for legal fees		1,288.00
4	Micheal Baker		
	Charges for Cathodic Protection Monitoring		3,972.00
5	Irvine Ranch Water District		
	Baker Pipeline Operation Jan - May 2023		9,031.60
	Baker Pipeline Maintenance Jan - May 2023		17,938.78
6	Irvine Ranch Water District		
	Baker Pipeline Relocation in Santiago Creek		<u>21,299.80</u>
7	TOTAL DISBURSEMENT RESOLUTION NO. 719	\$	<u><u>54,298.63</u></u>

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 720

October 2023

RESOLVED by Santiago Aqueduct Commission that items shown below be approved for payment and charges to the Contracting Agencies and to holders of capacity rights in the Santiago Aqueduct Commission in accordance with the policy with respect to standby charges, water surcharges and operation and maintenance costs adopted by this Commission on April 10, 1963: That the Contracting Public Agencies and other holders of capacity rights in said Santiago Aqueduct be called upon to pay this Commission for their respective shares of such items, and payments, such items and the distribution thereof are as follows:

OPERATIONS, MAINTENANCE AND BAKER PIPELINE CHARGES

1	AT&T Charges for Sept 2023	\$ 165.13
2	Southern California Edison Charges for June - Aug 2023	811.74
3	Stradling Yocca Carlson & Rauth Charges for legal fees	84.00
4	ACWA/JPIA Charges for insurance	847.72
5	Irvine Ranch Water District Baker Pipeline Operation (June 2023) Baker Pipeline Maintenance (June 2023)	1,505.28 2,992.58
6	Alliant Treasury Bond	1,000.00
7	Landscape Reach 1U Home Depot LandCare State Water Resources Control Board Irvine Ranch Water District Staff Labor and G&A	29.81 10,415.00 1,958.00 <u>25,973.50</u>
8	TOTAL DISBURSEMENT RESOLUTION NO. 720	<u>\$ 45,782.76</u>


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Santiago Aqueduct Commission
Statement of Net Position
November 30, 2023

	<u>Unaudited 11/30/2023</u>
ASSETS	
Current assets:	
Cash and investments	\$ 170,973
Receivables:	
Accounts receivable	6,752
Interest receivable	798
Total receivables	<u>7,550</u>
Total current assets	<u>178,523</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,197,631</u>
Total noncurrent assets, net	<u>1,197,631</u>
TOTAL ASSETS	<u><u>1,376,154</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>68,232</u>
TOTAL LIABILITIES	<u><u>68,232</u></u>
NET POSITION	
Investment in capital assets	1,197,631
Unrestricted for water services	110,291
TOTAL NET POSITION	<u><u>\$ 1,307,922</u></u>

Santiago Aqueduct Commission
Statement of Revenues, Expenses and Changes in Net Position
For the Period Ended November 30, 2023

	Unaudited <u>11/30/2023</u>
OPERATING REVENUES	
Water surcharge	\$ 11,277
Member charges	<u>82,615</u>
Total operating revenues	<u>93,892</u>
OPERATING EXPENSES	
Equipment usage	57
Utilities	789
Landscape/Baker Pipeline Reach (1U)	32,883
Cathodic protection monitoring and maintenance	12,928
Telemetry alarm	825
General and administrative:	
Audit	4,000
Insurance	6,746
Legal	305
Administration management	8,100
Other	546
Depreciation	<u>13,790</u>
Total operating expenses	<u>80,969</u>
Operating income (loss)	<u>12,923</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	875
Increase (decrease) in fair value of investments	<u>120</u>
Total nonoperating revenues	<u>995</u>
Increase (decrease) in net position	13,918
NET POSITION AT BEGINNING OF YEAR	<u>1,294,004</u>
NET POSITION AT END OF JUNE	<u><u>\$ 1,307,922</u></u>

December 14, 2023
Prepared by: J. Craig / E. Lin
Submitted by: N. Adly
Approved by: Paul A. Cook 

SANTIAGO AQUEDUCT COMMISSION

FISCAL YEAR 2022-23 FINANCIAL REPORT

SUMMARY:

The Santiago Aqueduct Commission hired Davis Farr, LLP, an outside audit firm, to conduct an audit of the Commission's financial statements for the Fiscal Year (FY) ended June 30, 2023. Davis Farr has completed its audit and concluded that in all material aspects, the statements fairly present the Commission's financial position as of June 30, 2023, and conform with generally accepted accounting principles.

BACKGROUND:

The FY 2022-23 Financial Report was prepared by the Commission as required by the California Government Code Section 6505 and will be available on the Commission website. The Financial Report, including audited financial statements, accompanying auditor's report, and Management's Discussion and Analysis of significant changes, is attached as Exhibit "A".

Provided as Exhibit "B" is the required Auditor Communication pursuant to the Statement on Auditing Standards 114 *The Auditor's Communication with Those Charged with Governance*. The letter reflects the auditor's understanding of key management assumptions and practices, and notes that there were no disagreements with management during the scope of the audit. Davis Farr has also provided a *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*, provided as Exhibit "C", which states that the Commission did not identify any material weakness deficiencies in internal control. In addition, the report states that the result of the audit disclosed no instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

FISCAL IMPACTS:

None.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental Quality Act (CEQA), Code of Regulations, Title 14, Chapter 3, Section 15378.

RECOMMENDATION:

That the Commission approve the financial report for the fiscal year ended June 30, 2023.

LIST OF EXHIBITS:

Exhibit "A" – FY 2022-23 Financial Report

Exhibit "B" – SAS 114 Auditor's Communication with Those Charged with Governance
from Davis Farr LLP

Exhibit "C" – 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 from Davis Farr LLP

Exhibit "A"

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2023

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2023

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Independent Auditor's Report

Board of Directors
Santiago Aqueduct Commission
Irvine, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Santiago Aqueduct Commission (the "Commission") as of and for the year June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission'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 the business-type activities of the Commission, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 the Commission 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 opinions.

Responsibilities of Management for the Financial Statements

The Commission's 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 Commission'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 the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission'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 the Commission’s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 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 6, 2023 on our consideration of the Commission’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 Commission’s internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
December 6, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Santiago Aqueduct Commission (SAC) provides an overview of SAC's financial activities for the fiscal year ended June 30, 2023. This section should be read in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

Financial Highlights:

- Total assets exceeded total liabilities by \$1,294,004 (net position), representing \$1,211,421 investment in capital assets and \$82,583 in unrestricted for water services. This was a decrease of \$91,449 or 6.6 percent from the prior fiscal year net position of \$1,385,453.
- Total assets were \$1,341,386, a decrease of \$74,297 or 5.2 percent from the prior fiscal year. The decrease was due primarily to a \$194,357 decrease in cash and investment, partially offset by a \$116,983 increase in net capital assets and a \$3,077 increase in total receivables.
- Total liabilities were \$47,382, an increase of \$17,152 or 56.7 percent from the prior fiscal year. The increase was due primarily to a \$42,542 increase in landscape costs for the Baker Pipeline Reach 1U, partially offset by a \$12,642 decrease in capital project expenditures and a \$10,349 decrease in cathodic protection monitoring and maintenances costs.
- Total revenues decreased \$309 or 0.3 percent from \$101,431 in the prior fiscal year to \$101,122 in the current fiscal year. The decrease was due primarily to a \$6,855 decrease in other income and a \$1,525 decrease in member charges, offset by a \$3,411 increase in fair value of investments, a \$2,657 increase in interest income, and a \$1,973 increase in water surcharge.
- Total operating expenses were \$192,571, an increase of \$49,364 or 34.5 percent from the prior fiscal year. The increase was due primarily to a \$43,192 increase in landscape costs for the Baker Pipeline Reach 1U and a \$24,526 increase in depreciation expense, partially offset by a \$23,270 decrease in cathodic protection monitoring and maintenance costs.

A more detailed analysis about the overall SAC's financial position and operations is provided in the following sections.

Overview of the Financial Statements:

The basic financial statements of SAC consist of the financial statements (Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows) and notes to the basic financial statements. The basic financial statements are prepared using the accrual basis of accounting.

Statement of Net Position depicts SAC's financial position at June 30, 2023 the end of SAC's fiscal year. The statement of net position shows all financial assets and liabilities of SAC. Net position represents the SAC's residual interest after liabilities are deducted from assets. Net position is displayed in two components: investment in capital assets and unrestricted net position for water services.

Statement of Revenues, Expenses and Changes in Net Position provides information on SAC's operations and can be used to determine whether SAC has recovered all its costs through operating and non-operating revenues.

Statement of Cash Flows provides information on SAC's cash receipts, cash payments and changes in cash resulting from operations and investments activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Notes to the Basic Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of SAC:

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating SAC's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A).

Financial Position Summary:

The Statement of Net Position reflects SAC's financial position as of June 30, 2023. The statement includes assets and liabilities. The net position represents SAC's net worth including, but not limited to contributions and investments in capital assets. A condensed summary of SAC's total net position at June 30 is set forth below:

Table 1 - Summary of Net Position

	2023	2022	Increase/(Decrease)	
			Amount	Percentage
Assets				
Current assets	\$ 129,965	\$ 321,245	\$ (191,280)	-59.5%
Noncurrent assets	1,211,421	1,094,438	116,983	10.7%
Total assets	<u>1,341,386</u>	<u>1,415,683</u>	<u>(74,297)</u>	<u>-5.2%</u>
Liabilities				
Current liabilities	47,382	30,230	17,152	56.7%
Total liabilities	<u>47,382</u>	<u>30,230</u>	<u>17,152</u>	<u>56.7%</u>
Net position				
Investment in capital assets	1,211,421	1,094,438	116,983	10.7%
Unrestricted for water services	82,583	291,015	(208,432)	-71.6%
Total net position	<u>\$ 1,294,004</u>	<u>\$ 1,385,453</u>	<u>\$ (91,449)</u>	<u>-6.6%</u>

As shown in Table 1, SAC's total assets decreased \$74,297 or 5.2 percent during the current fiscal year. Total current assets were \$129,965, a decrease of \$191,280 or 59.5 percent from the prior fiscal year. Cash and investments decreased \$194,357 or 61.0 percent from \$318,572 in the prior fiscal year to \$124,215 in the current fiscal year. The decrease was due primarily to a \$146,715 decrease in capital cash for the construction of capital assets and \$51,714 in cash used by operating activities. Accounts receivable increased \$2,735 or 113.8 percent from \$2,404 in the prior fiscal year to \$5,139 in the current fiscal year. The increase in account receivables was due to an increase in water deliveries of 2,712.2 acre-feet (AF) from 2,478.4 AF at a \$0.97 operating surcharge rate in the prior fiscal year to 5,190.6 AF at a \$0.99 operating surcharge rate in the current fiscal year. Deliveries were lower in the prior fiscal year due to the shutdown of the Baker Pipeline in April and May 2022 for construction activities.

Noncurrent assets were \$1,211,421, an increase of \$116,983 or 10.7 percent from the prior fiscal year. The increase was due to \$146,715 of additional capital expenditures for the Baker Pipeline capital project in the current fiscal year, offset by \$29,732 current fiscal year depreciation of capital assets.

SAC's total liabilities were \$47,382, an increase of \$17,152 or 56.7 percent from \$30,230 in the prior fiscal year. The increase was due primarily to a \$42,542 increase in landscape costs for the Baker Pipeline Reach

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

1U, partially offset by a \$12,642 decrease in capital project expenditures and a \$10,349 decrease in cathodic protection monitoring and maintenances costs.

Net position at end of the current fiscal year was \$1,294,004 representing the excess of total assets over total liabilities. Net position decreased \$91,449 or 6.6 percent from \$1,385,453 in the prior fiscal year to \$1,294,004 in the current fiscal year. Net position consists of investment in capital assets of \$1,211,421 or 93.6 percent and an unrestricted net position for water services of \$82,583 or 6.4 percent.

Activities and Changes in Net Position:

The Statement of Revenues, Expenses and Changes in Net Position summarizes SAC's operations during the current fiscal year. A Summary of SAC's changes in net position for the fiscal years ended June 30 is included in Table 2 below:

Table 2 - Revenues, Expenses and Changes in Net Position

	2023	2022	Increase/(Decrease)	
			Amount	Percentage
Operating revenues				
Water surcharge	\$ 27,283	\$ 25,310	\$ 1,973	7.8%
Member charges	69,425	70,950	(1,525)	-2.1%
Total operating revenues	96,708	96,260	448	0.5%
Non-operating revenues	4,414	5,171	(757)	-14.6%
Total revenues	101,122	101,431	(309)	-0.3%
Operating expenses				
Contract labor	6,695	4,519	2,176	48.2%
Equipment usage	622	474	148	31.2%
Utilities	2,514	1,868	646	34.6%
Landscape	53,482	10,290	43,192	419.7%
Cathodic protection monitoring and maintenance	49,216	72,486	(23,270)	-32.1%
Telemetry alarm	1,759	2,120	(361)	-17.0%
General and administrative	48,551	46,244	2,307	5.0%
Depreciation expense	29,732	5,206	24,526	471.1%
Total operating expenses	192,571	143,207	49,364	34.5%
Income (loss) before capital contributions	(91,449)	(41,776)	(49,673)	118.9%
Capital Contributions				
Contributions from member agencies	-	1,001,872	(1,001,872)	-100.0%
Change in net position	(91,449)	960,096	(1,051,545)	-109.5%
Beginning net Position	1,385,453	425,357	960,096	225.7%
Ending net position	\$ 1,294,004	\$ 1,385,453	\$ (91,449)	-6.6%

Revenues:

As shown in Table 2, SAC's total revenues were \$101,122, a decrease of \$309 or 0.3 percent from the prior fiscal year. SAC's operating revenues increased \$448 or 0.5 percent. The increase was due primarily to a \$1,973 increase in water surcharge revenues. The surcharge rate increased from \$0.97 per acre foot in the prior fiscal year to \$0.99 per acre foot in the current fiscal year. Water deliveries increased 1,464.9 acre feet from 26,093.2 acre feet in the prior fiscal year to 27,558.1 acre feet in the current fiscal year. Deliveries were lower in the prior fiscal year due to the shutdown of the Baker Pipeline in April and May

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

2022 for construction activities. The member agencies charges to fund the current fiscal year’s maintenance expenses decreased \$1,525 due primarily to lower maintenance expenses.

SAC’s non-operating revenues decreased \$757 or 14.6 percent from the prior fiscal year. The decrease was due primarily to a \$6,855 decrease in insurance refund from Association of California Water Agency received in the prior fiscal year, offset by a \$3,441 increase in changes in fair value investments and a \$2,657 increase in interest income.

Expenses:

As shown in Table 2, SAC’s operating expenses increased \$49,364 or 34.5 percent from \$143,207 in the prior fiscal year to \$192,571 in the current fiscal year. Contract labor and general and administrative expenses increased \$4,483 and contributed 28.7 percent of the total current fiscal year’s operating expenses. Landscape maintenance increased \$43,192 and contributed 27.8 percent of the total operating expenses. The increase was primarily due to a \$42,542 increase in landscape costs for the Baker Pipeline Reach 1U. Cathodic protection related expenses decreased \$23,270 and contributed 25.6 percent of the total operating expenses. Total other expenses increased \$433 and contributed 2.5 percent of the total operating expenses. Depreciation expenses increased \$24,526 and contributed 15.4 percent of the total operating expenses.

Capital Assets:

As shown in Table 3, SAC’s capital assets, net of depreciation consists of the following as of June 30:

Table 3 - Capital Assets, Net of Depreciation

	2023	2022	Increase/(Decrease)	
			Amount	Percentage
Meters	\$ 50,788	\$ 50,788	\$ -	0.0%
Bypass valve	63,609	63,609	-	0.0%
Vault covers	56,543	56,543	-	0.0%
Pipeline	1,203,641	1,056,926	146,715	13.9%
Less : accumulated depreciation	(163,160)	(133,428)	(29,732)	22.3%
Total	\$ 1,211,421	\$ 1,094,438	\$ 116,983	10.7%

Capital assets, net of depreciation increased \$116,983 or 10.7 percent in the current fiscal year. The construction of the Baker Pipeline capital project incurred \$146,715 which was transferred from Construction in Progress to Capital Assets during the current fiscal year. Accumulated depreciation increased by \$29,732 for depreciation expense in the current fiscal year. The increase was primarily due to depreciation of the Baker Pipeline capital assets. Additional information on SAC’s capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

Contacting the District’s Financial Management:

This financial report is designed to provide a general review of SAC’s finances. If you have questions about this report or need additional financial information, contact the Treasurer at the Santiago Aqueduct Commission, 15600 Sand Canyon Avenue, Irvine, California 92618-7500.

Santiago Aqueduct Commission
Statement of Net Position
June 30, 2023
(with comparative data as of June 30, 2022)

	2023	2022
ASSETS		
Current assets:		
Cash and investments (note 2)	\$ 124,215	\$ 318,572
Receivables:		
Accounts receivable	5,139	2,404
Interest receivable	611	269
Total receivables	5,750	2,673
Total current assets	129,965	321,245
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	1,211,421	1,094,438
Total noncurrent assets	1,211,421	1,094,438
TOTAL ASSETS	1,341,386	1,415,683
 LIABILITIES		
Current liabilities:		
Accounts payable	47,382	30,230
TOTAL LIABILITIES	47,382	30,230
 NET POSITION		
Investment in capital assets	1,211,421	1,094,438
Unrestricted for water services	82,583	291,015
TOTAL NET POSITION	\$ 1,294,004	\$ 1,385,453

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2023

(with comparative data for the Fiscal Year Ended June 30, 2022)

	2023	2022
OPERATING REVENUES		
Water surcharge	\$ 27,283	\$ 25,310
Member charges	69,425	70,950
Total operating revenues	96,708	96,260
OPERATING EXPENSES		
Contract labor	6,695	4,519
Equipment usage	622	474
Utilities	2,514	1,868
Landscape	53,482	10,290
Cathodic protection monitoring and maintenance	49,216	72,486
Telemetry alarm	1,759	2,120
General and administrative:		
Audit	5,000	5,000
Insurance	7,568	6,781
Legal	3,378	2,789
Administration management	30,800	30,600
Other	1,805	1,074
Depreciation	29,732	5,206
Total operating expenses	192,571	143,207
Operating income (loss)	(95,863)	(46,947)
NONOPERATING REVENUES		
Interest income	3,367	710
Increase (decrease) in fair value of investments	1,047	(2,394)
Other income	-	6,855
Total nonoperating revenues	4,414	5,171
Income (loss) before capital contributions	(91,449)	(41,776)
CAPITAL CONTRIBUTIONS		
Contributions from member agencies	-	1,001,872
Increase (decrease) in net position	(91,449)	960,096
NET POSITION AT BEGINNING OF YEAR	1,385,453	425,357
NET POSITION AT END OF YEAR	\$ 1,294,004	\$ 1,385,453

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023
(with comparative data for the Fiscal Year Ended June 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member agencies and others	\$ 93,973	\$ 103,089
Cash paid to suppliers of goods and services	(145,687)	(202,025)
Net cash provided by (used for) operating activities	(51,714)	(98,936)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Insurance reimbursement	-	6,855
Net cash provided by (used for) noncapital financing activities	-	6,855
CASH FLOWS FROM CAPITAL ACTIVITIES		
Construction of capital assets	(146,715)	(895,926)
Capital contributions	-	1,001,872
Net cash provided by (used for) capital activities	(146,715)	105,946
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,025	534
Net cash provided by (used for) investing activities	3,025	534
Net increase (decrease) in cash and cash equivalents	(195,404)	14,399
Cash and cash equivalents at beginning of year	320,951	306,552
Cash and cash equivalents at end of year	\$ 125,547	\$ 320,951
Reconciliation of cash and cash equivalents to amounts reported on the Statements of Net Position:		
Cash and investments	\$ 124,215	\$ 318,572
Less fair value adjustment	1,332	2,379
Cash and cash equivalents at end of year	\$ 125,547	\$ 320,951
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (95,863)	\$ (46,947)
Depreciation	29,732	5,206
(Increase) decrease in accounts receivable	(2,735)	6,829
Increase (decrease) in accounts payable	17,152	(64,024)
Net cash provided by (used for) operating activities	\$ (51,714)	\$ (98,936)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Fair value of investments adjustment	\$ 1,047	\$ (2,394)

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Santiago Aqueduct Commission (SAC) was formed in September 1961 as a multi-agency joint powers agency under the California Government Code section 6500. SAC was formed to finance, construct and maintain the Baker Pipeline designed to bring imported untreated water from the Metropolitan Water District of Southern California (MWD) to South Orange County. The Baker Pipeline was completed in 1962 and extended the MWD Santiago Lateral by 15 miles. SAC's member agencies include East Orange County Water District, Irvine Ranch Water District, Santa Margarita Water District, Trabuco County Water District, El Toro Water District and Moulton Niguel Water District.

B. Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Basic Financial Statements.

C. Basis of Accounting and Measurement Focus

SAC's financial activities are accounted for as an enterprise fund. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from surcharges and member charges. Revenues and expenses are recognized on the accrual basis. 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 flow takes place.

SAC's operating revenues and expenses generally result from providing pipeline capacity and operations and maintenance services to member agencies in connection with water operations. The principal operating revenues of SAC are member charges to cover operation and maintenance expenses. Operating expenses include operations and maintenance expenses associated with the pipeline, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, SAC uses restricted resources and then unrestricted resources.

D. Cash and Investments

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of 12 months or less. Investments are reported at fair value.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued

For the Fiscal Year Ended June 30, 2023

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

D. Cash and Investments (Continued)

Changes in fair value that occur during the fiscal year are recognized as an increase (decrease) in fair value of investments reported for that fiscal year. Interest income includes interest earnings on SAC's investments.

E. Accounts Receivable

SAC's accounts receivable is from its member agencies in the normal course of operations. Management has evaluated the accounts and believes they are collectible.

F. Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical costs exist. SAC capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Meters	30 years
Valves	40 years
Vault Covers	40 years
Pipeline	40 years

G. Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect SAC's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the SAC's own data.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2023

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

H. Net Position

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

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of 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** – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

I. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Comparative Financial Statements and Reclassifications

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

(2) Cash and Investments

Cash and investments as of June 30, 2023 consist of the following:

Deposits with financial institution	\$ 37,790
Local Agency Investment Fund	<u>86,425</u>
Total cash and investments	<u><u>\$ 124,215</u></u>

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued

For the Fiscal Year Ended June 30, 2023

(2) Cash and Investments (continued)

Investments Authorized by the California Government Code

The following table identifies the investment types that are authorized for SAC by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by a bond trustee governed by the provisions of debt agreements of SAC, rather than the general provisions of the California Government Code.

<u>Authorized Investment type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Orange County Treasury Pool	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposit 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 the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2023

(2) Cash and Investments (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The remaining maturity of SAC's LAIF investment is 12 months or less.

Investment in State Investment Pool

SAC is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of SAC's investment in this pool is reported in the accompanying financial statements at amounts based upon SAC'S pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. SAC categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The LAIF investment is not subject to the fair value measurement classification.

(3) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023 is as follows:

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023
Capital assets, being depreciated:				
Meters	\$ 50,788	\$ -	\$ -	\$ 50,788
Bypass valve	63,609	-	-	63,609
Vault covers	56,543	-	-	56,543
Pipeline	1,056,926	146,715	-	1,203,641
Sub-total	<u>1,227,866</u>	<u>146,715</u>	<u>-</u>	<u>1,374,581</u>
Less accumulated depreciation:				
Meters	(50,788)	-	-	(50,788)
Bypass valve	(42,938)	(1,589)	-	(44,527)
Vault covers	(37,500)	(1,414)	-	(38,914)
Pipeline	(2,202)	(26,729)	-	(28,931)
Sub-total	<u>(133,428)</u>	<u>(29,732)</u>	<u>-</u>	<u>(163,160)</u>
Total depreciable capital assets, net	1,094,438	116,983	-	1,211,421
Capital assets, non-depreciable:				
Construction in progress	-	146,715	(146,715)	-
Total capital assets, net	<u>\$ 1,094,438</u>	<u>\$ 263,698</u>	<u>\$ (146,715)</u>	<u>\$ 1,211,421</u>

Note: This page is intentionally left blank.

Board of Directors
Santiago Aqueduct Commission
Irvine, California

We have audited the financial statements of the Santiago Aqueduct Commission (the "Commission") as of and for the year ended June 30, 2023 and have issued our report thereon dated December 6, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 8, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Commission solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

Significant Risks Identified

As a result of the new accounting pronouncement, Governmental Accounting Standards Board (GASB) 96: Subscription-Based Information Technology Arrangements, we identified the new standard as a significant risk as part of the audit risk assessment. Our procedures included evaluating transactions for potential applicability of the standard in addition to our standard audit approach. There were no subscriptions identified that qualified for reporting under GASB 96.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Commission is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are management's estimate of the fair value of investments.

Management's estimate of the fair value of investments is based on the valuation inputs consistent with the market used to measure the fair value of investments. We evaluated the key factors and assumptions used to develop the fair value measurement and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Commission's financial statements relate to the cash and investments disclosures.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no material misstatements noted. Professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no uncorrected misstatements noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Commission's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated December 6, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Commission's auditors.

This report is intended solely for the information and use of the Board of Directors, and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Davis Farr LLP

Irvine, California
December 6, 2023

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Board of Directors
Santiago Aqueduct Commission

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

Independent Auditors' Report

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 Santiago Aqueduct Commission (the "Commission") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 6, 2023.

Report Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 financial statements. However,

providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 6, 2023