SANTIAGO AQUEDUCT COMMISSION
QUARTERLY MEETING
THURSDAY, DECEMBER 15, 2022

CALL TO ORDER: 8:30 a.m., IRWD Board Room, 15600 Sand Canyon Avenue, Irvine, CA

ATTENDANCE	Commission Chair: Don Chadd (TCWD)	_______
	Commission Vice Chair: John Withers (IRWD)	_______
	Commissioner Kay Havens (ETWD)	_______
	Commissioner Sherry Wanninger (MNWD)	_______
	Commissioner Jeffery Thomas (MWDOC)	_______
	Commissioner Donald Bunts (SMWD)	_______
	________________________________	_______
	________________________________	_______

ALSO PRESENT	Paul Cook	_______	Kevin Burton	_______
	Malcolm Cortez	_______	Cheryl Clary	_______
	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. MINUTES OF REGULAR COMMISSION MEETING, JUNE 16, 2022

   Recommendation: That the minutes of the June 16, 2022 meeting of the Santiago Aqueduct Commission be approved as presented.

5. 2022-23 FINANCIAL REPORT

   a. Ratify Disbursement Resolution No. 713 dated June 2022.
   b. Ratify Disbursement Resolution No. 714 dated June 2022.
   c. Ratify Disbursement Resolution No. 715 dated September 2022.
   d. Ratify Disbursement Resolution No. 716 dated November 2022.
   e. Receive and file Financial Statement dated November 30, 2022.

   Recommendation: That the Commission ratify Disbursement Resolutions Nos. 713 through 716 and receive and file the Financial Statement dated November 30, 2022 for the Santiago Aqueduct Commission.

ACTION ITEMS, continued

6. FISCAL YEAR 2021-22 FINANCIAL REPORT – CRAIG / TOBAR / LIN / CLARY

Recommendation: That the Commission receive and file the Fiscal Year 2020-21 Financial Report for the Santiago Aqueduct Commission.

REPORTS

7. GENERAL MANAGER'S REPORT – COOK

8. ENGINEER'S REPORT – BURTON

9. MWDOC'S REPORT

10. ATTORNEY'S REPORT

11. COMMISSIONER'S 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.

12. ADJOURN

MINUTES OF THE QUARTERLY REGULAR MEETING OF THE SANTIAGO AQUEDUCT COMMISSION

June 16, 2022

The quarterly meeting of the Santiago Aqueduct Commission ("SAC") was duly noticed and was held at 8;30 a.m. on June 16, 2022 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 8:31 a.m. ALLISON BURNS recorded the Minutes of the meeting.

COMMISSIONERS PRESENT

KAREN MCLAUGHLIN, Irvine Ranch Water District ("IRWD"); DON CHADD, Trabuco Canyon Water District ("TCWD"); DON BUNTS, Santa Margarita Water District ("SMWD"); SHERRY WANNINGER, Moulton Niguel Water District ("MNWD"); CHARLES BUSSLINGER, Municipal Water District of Orange County ("MWDOC"); and KAY HAVENS, El Toro Water District ("ETWD").

Also present were: SAC General Manager PAUL COOK; SAC Treasurer CHERYL CLARY; SAC Engineer KEVIN BURTON; SAC General Counsel / Secretary ALLISON BURNS; Director MIKE GASKINS, ETWD; DIANE SQUYRES, Administrative Secretary, IRWD; JESSICA CRAIG, IRWD; MALCOLM CORTEZ, Assistant Engineer, IRWD; EILEEN LIN, Assistant Treasurer, IRWD; JAVIER TOBAR, IRWD; BARBARA MOURANT, IRWD; RICH MORI, IRWD; and JOE MCGEHEE, IRWD.

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. MINUTES OF REGULAR COMMISSION MEETING, DECEMBER 9, 2021

Recommendation: That the Minutes of the December 9, 2021, meeting of the Santiago Aqueduct Commission be approved as presented.

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

5. 2021-22 FINANCIAL REPORT

   a. Ratify Disbursement Resolution No. 710 dated January 2022.
   b. Ratify Disbursement Resolution No. 711 dated March 2022.
   c. Ratify Disbursement Resolution No. 712 dated April 2022.
   d. Receive and file Financial Statement dated May 31, 2022.

Recommendation: That the Commission ratify Disbursement Resolutions Nos. 710 through 712 and receive and file the Financial Statement dated May 31, 2022, for the Santiago Aqueduct Commission.

CLARY – Balance sheet, income statement and disbursements were included with the board packet; no comments.

HAVENS moved the item as presented, second by BUNTS and passed unanimously.

6. BAKER PIPELINE EXPOSURE THROUGH SANTIAGO CREEK FINAL ACCEPTANCE- MCGEHEE/MORI/BURTON

Recommendation: That the Santiago Aqueduct Commission accept construction of the 54-inch Baker Pipeline Realignment in Reach 1U through Santiago Creek, authorize the General Manager to file a Notice of Completion, and authorize the payment of the retention 35 days after the date of recording the Notice of Completion for Project 11615.

BURTON – The pipeline relocation is completed, cleaned up and the contractor has demobilized. The Board packet contains photos showing the course of construction, which took several weeks longer than anticipated. Only one change order of $16,000 was required due to dewatering issues. In the last day or two, SAC received a $10,000 credit back from the contractor for a connection that was not installed and for which the contractor received a credit from the manufacturer.

During construction, staff conducted a pipeline condition assessment. This portion of the pipe is in a valley, so the assessment was performed as far upstream and downstream as possible. Summary: The pipe is in very good condition; no real signs of aging or issues. The contractor stated in writing that the pipe should have at least 20 more years of useful life, staff believes the useful life to be longer.

The last activity to complete the project is habitat restoration. Construction was completed within the 25-foot-wide easement across the creek. All agencies have approved the habitat mitigation, but staff has not yet contracted to install the plants and irrigation system. SAC will also need to have annual inspections and reports on the habitat restoration for five years. Staff expects costs of $100,000 for planting / irrigation and $57,000 for monitoring; still working on costs for maintenance. Expect approximately $40,000 per year to maintain. Planting will be done in the fall. The area to be planted comprises approximately 10,000 sq feet and staff hopes irrigation will be available from a tap off one of the nearby Irvine Regional Park's irrigation lines.

A summary of the budget for the project is on the last page in packet. The budget was $1,068,000; the estimated cost to complete is $1,074,000 with $10,000 credit coming from the contractor.

Staff plans to close the capital project after the plants are installed and put the reporting and maintenance costs into the annual operating costs portion of the budget for the next five years. Staff will do a final cost reconciliation once the contract is awarded for planting.

BUNTS: Confirmed that p.2 is no longer the final contract cost due to the $10,000 credit and offered that SMWD has contractors who do landscape maintenance.

CHADD – Commended staff and all involved, noting that it was good that we caught it early.

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

REPORTS

7. GENERAL MANAGER'S REPORT – COOK

COOK – The Baker Water Treatment Plant was off for a while; now back at full production. Staff was able to do a lot of maintenance during the down time.

8. ENGINEER'S REPORT – BURTON

BURTON – Over the hill from the park into Orange Heights, the Irvine Company has recommenced design. Irvine Company is planning on mass grading in September 2022 and will need to relocate 3,200 feet of pipeline in Reach 1U. Irvine Company will cover all costs. Design was completed in 2016 and then placed on hold. Staff does not expect the grading to materially impact SAC operations. Staff expects a 72-hour shutdown for two pipeline tie ins that will take place in late spring or early summer next year.

BUNTS – Will they guarantee 80 years life?

BURTON – SAC will get a guarantee of at least 20 and it will be comprised of the same material as the existing pipe.

9. MWDOC'S REPORT

BUSSLINGER – Drought update. Table A allocations placed some areas in dire circumstances. Orange County is benefitting from participation in the pool. Metropolitan is working on replacing an expansion valve on its Upper Feeder. Shutdown dates have not been finalized yet.

10. ATTORNEY'S REPORT

BURNS – No report.

11. COMMISSIONERS' 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.

ETWD – KAY HAVENS: Congratulations on bringing project in on time.

IRWD – DON CHADD: Commended IRWD and staff for their hard work. Nice to see this low-profile government agency works so efficiently.

12. ADJOURN

CHADD adjourned the meeting at 8:50 a.m.

Respectfully submitted,

Allison E. Burns, Secretary

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 713

June 2022

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 AND MAINTENANCE CHARGES

1	Irvine Ranch Water District		
	Baker Pipeline Operation (Apr - May 2022)		3,148.77
	Baker Pipeline Maintenance (Apr - May 2022)		3,754.00
2	TOTAL DISBURSEMENT RESOLUTION NO. 713	$	6,902.77

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 714

June 2022

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:

BAKER PIPELINE RELOCATION PROJECT 11615

1	DMC Engineering	5,212.93
	NMG Geotechnicial	6,412.60
	Rodney Harmsworth Associates	27,150.00
	Santa Ana Blue Print	647.04
	T.E. Roberts, Inc	693,417.03
	West Yost & Associates	38,867.05
	Irvine Ranch Water District	4,091.96
	Labor Charges	120,127.00
2	TOTAL DISBURSEMENT RESOLUTION NO. 714	$ 895,925.61

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 715

September 2022

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 AND MAINTENANCE CHARGES

1	AT&T	
	Charges for May - Aug 2022	713.84
2	Southern Calif Edison	
	Charges for June - Aug 2022	631.76
3	Stradling Yocca Carlson & Rauth	980.00
4	ACWA JPIA	500.00
5	Michael Baker	10,349.00
6	Alliant	2,250.00
7	Irvine Ranch Water District	
	Baker Pipeline Operation (June 2022)	1,574.39
	Baker Pipeline Maintenance (June 2022)	3,653.00
8	TOTAL DISBURSEMENT RESOLUTION NO. 715	$ 20,651.99

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 716

November 2022

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 - Oct 2022	356.92
2	Southern Calif Edison	
	Charges for Sept - Oct 2022	404.09
3	Stradling Yocca Carlson & Rauth	634.00
4	ACWA JPIA	4,990.40
5	Kill-N-Bugs	5,320.00
6	Farwest Corrosion Control Company	17,115.00
7	Irvine Ranch Water District	
	Baker Pipeline Operation (July - Sep 2022)	4,966.72
	Baker Pipeline Maintenance (July - Sep 2022)	4,947.99
	BAKER PIPELINE RELOCATION CHARGES	
8	DMC Engineering Inc	4,070.00
9	Drake Traffic Control Service	840.00
10	NMG Geotechnical Inc	3,253.60
11	Rodney Harmsworth Association	2,600.00
12	West Yost & Associates, Inc	13,087.50
13	Irvine Ranch Water District	17,942.95
14	TOTAL DISBURSEMENT RESOLUTION NO. 716	$ 80,529.17

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Santiago Aqueduct Commission
Statement of Net Position
November 30, 2022

ASSETS	Unaudited
Current assets:	
Cash and investments	$ 293,446
Receivables:	
Interest receivable	552
Total receivables	552
Total current assets	293,999
Noncurrent assets:	
Capital assets, net of accumulated depreciation	1,087,082
Capital assets, not being depreciated	28,591
Total noncurrent assets, net	1,115,673
TOTAL ASSETS	1,409,672
LIABILITIES	
Current liabilities:	
Account payable	16,675
TOTAL LIABILITIES	16,675
NET POSITION	
Investment in capital assets	1,115,673
Unrestricted for water services	277,324
TOTAL NET POSITION	$ 1,392,997

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Santiago Aqueduct Commission

Statement of Revenues, Expenses and Changes in Net Position

For the Period Ended November 30, 2022

	Unaudited
OPERATING REVENUES	
Water surcharge	$ 5,613
Member charges	69,425
Total operating revenues	75,038
OPERATING EXPENSES	
Contract labor	947
Equipment usage	170
Utilities	922
Landscape	5,320
Cathodic protection monitoring and maintenance	34,710
Telemetry alarm	892
General and administrative:	
Audit	
Insurance	7,740
Legal	634
Administration management	7,700
Other	550
Depreciation	7,357
Total operating expenses	66,942
Operating income (loss)	8,096
NONOPERATING REVENUES (EXPENSES)	
Interest income	630
Increase (decrease) in fair value of investments	(1,182)
Total nonoperating revenues (expenses)	(552)
Increase (decrease) in net position	7,544
NET POSITION AT BEGINNING OF YEAR	1,385,453
NET POSITION AT END OF NOVEMBER	$ 1,392,997

December 15, 2022
Prepared by: J. Craig/ J. Tobar / E. Lin
Submitted by: C. Clary
Approved by: Paul A. Cook

SANTIAGO AQUEDUCT COMMISSION

FISCAL YEAR 2021-22 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, 2022. 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, 2022 and conform with generally accepted accounting principles.

BACKGROUND:

The FY 2021-22 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 provided 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 receive and file the Fiscal Year 2020-21 Financial Report for the Santiago Aqueduct Commission.

LIST OF EXHIBITS:

Exhibit “A” – FY 2021-22 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

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2022

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2022

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DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

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, 2022, 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, 2022, 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 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 November 8, 2022 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
November 8, 2022

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, 2022. 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 $1,385,453 (net position), representing $1,094,438 investment in capital assets and $291,015 in unrestricted for water services. This was an increase of $960,096 or 225.7 percent from the prior fiscal year net position of $425,357.
- Total assets were $1,415,683, an increase of $910,325 or 180.1 percent from the prior fiscal year. The increase was due primarily to a $904,973 increase in total net capital assets and a $12,005 increase in cash and investments, partially offset by a $6,653 decrease in total receivables.
- Total liabilities were $30,230, a decrease of $49,771 or 62.2 percent from the prior fiscal year. The decrease was due primarily to accrued repair costs on the fire damage of the SAC pipeline in Silverado Canyon in the prior fiscal year.
- Total revenues decreased $9,713 or 8.7 percent from $111,144 in the prior fiscal year to $101,431 in the current fiscal year. The decrease was due primarily to a $68,885 decrease in an insurance claim reimbursement and a $9,758 decrease in water surcharge, partially offset by a $70,950 increase in member charges to fund maintenance expenses.
- Total operating expenses were $143,207, a decrease of $2,367 or 1.6 percent from the prior fiscal year. The decrease was due primarily to a $24,491 decrease in contact labor charges, partially offset by a $12,030 increase in cathodic protection monitoring and maintenance costs, a $7,592 increase in general and administrative costs, and a $2,202 increase in depreciation expense.

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, 2022 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.

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, 2022. 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

			Increase/(Decrease)	
	2022	2021	Amount	Percentage
Assets				
Current assets	$ 321,245	$ 315,893	$ 5,352	1.7%
Noncurrent assets	1,094,438	189,465	904,973	477.6%
Total assets	1,415,683	505,358	910,325	180.1%
Liabilities				
Current liabilities	30,230	80,001	(49,771)	-62.2%
Total liabilities	30,230	80,001	(49,771)	-62.2%
Net position				
Investment in capital assets	1,094,438	189,465	904,973	477.6%
Unrestricted for water services	291,015	235,892	55,123	23.4%
Total net position	$ 1,385,453	$ 425,357	$ 960,096	225.7%

As shown in Table 1, SAC's total assets increased $910,325 or 180.1 percent during the current fiscal year. Total current assets were $321,245, an increase of $5,352 or 1.7 percent from the prior fiscal year. Cash and investments increased $12,005 or 3.9 percent from $306,567 in the prior fiscal year to $318,572 in the current fiscal year. The increase was due primarily to a $105,946 net increase in capital cash contributions from member agencies and construction of capital assets, partially offset by $98,936 in cash used by operating activities. Accounts receivable decreased $6,829 or 74.0 percent from $9,233 in the prior fiscal year to $2,404 in the current fiscal year. The decrease in account receivables was from member agencies and due to a decrease in water deliveries of 5,764.5 acre-feet (AF) from 8,242.9 AF at a $1.12 operating surcharge rate in the prior fiscal year to 2,478.4 AF at a $0.97 operating surcharge rate in the current year. The decrease in water deliveries was due to the shutdown of the Baker Pipeline for construction in April and May 2022.

Noncurrent assets were $1,094,438, an increase of $904,973 or 477.6 percent from the prior fiscal year. The increase was due to $910,179 of additional capital expenditures for the Baker Pipeline capital project in the current fiscal year, offset by $5,206 current fiscal year depreciation of capital assets.

SAC's total liabilities were $30,230, a decrease of $49,771 or 62.2 percent from $80,001 in the prior fiscal year. The decrease was due primarily to a $62,572 reduction in accrued repair costs for fire damage of the SAC pipeline in Silverado Canyon in the prior fiscal year, offset by a $12,801 increase in operations and maintenance charges.

Net position at end of the current fiscal year was $1,385,453 representing the excess of total assets over total liabilities. Net position increased $960,096 or 225.7 percent from $425,357 in the prior fiscal year to $1,385,453 in the current fiscal year. Net position consists of investment in capital assets of $1,094,438 or 79.0 percent and an unrestricted net position for water services of $291,015 or 21.0 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

			Increase/(Decrease)	
	2022	2021	Amount	Percentage
Operating revenues				
Water surcharge	$ 25,310	$ 35,068	$ (9,758)	-27.8%
Member charges	70,950	-	70,950	100.0%
Total operating revenues	96,260	35,068	61,192	174.5%
Non-operating revenues	5,171	76,076	(70,905)	-93.2%
Total revenues	101,431	111,144	(9,713)	-8.7%
Operating expenses				
Contract labor	4,519	29,010	(24,491)	-84.4%
Equipment usage	474	370	104	28.1%
Utilties	1,868	2,447	(579)	-23.7%
Landscape	10,290	9,540	750	7.9%
Cathodic protection monitoring and maintenance	72,486	60,456	12,030	19.9%
Telemetry alarm	2,120	2,095	25	1.2%
General and administrative	46,244	38,652	7,592	19.6%
Depreciation expense	5,206	3,004	2,202	73.3%
Total operating expenses	143,207	145,574	(2,367)	-1.6%
Income (loss) before capital contributions	(41,776)	(34,430)	(7,346)	21.3%
Capital Contributions				
Contributions from member agencies	1,001,872	-	1,001,872	100.0%
Change in net position	960,096	(34,430)	994,526	-2888.5%
Beginning net Position	425,357	459,787	(34,430)	-7.5%
Ending net position	$ 1,385,453	$ 425,357	$ 960,096	225.7%

Revenues:

As shown in Table 2, SAC's total revenues were $101,431, a decrease of $9,713 or 8.7 percent from the prior fiscal year. SAC's operating revenues increased $61,192 or 174.5 percent. The increase was due primarily to a $70,950 increase in member agencies charges to fund the current fiscal year's maintenance expenses. The member agencies were not charged to fund the prior fiscal year's maintenance expense due to the Board's approval for utilizing existing cash balances. The increase was partially offset by a $9,758 decrease in water surcharges from member agencies. The surcharge rate decreased from $1.12 per acre foot in the prior fiscal year to $.97 per acre foot in the current fiscal year. Water deliveries decreased from 31,309.6 acre feet in the prior fiscal year to 26,093.2 acre feet in the current fiscal year. Deliveries decreased due to the shutdown of the Baker Pipeline in April and May 2022 for construction activities.

SAC's non-operating revenues decreased $70,905 or 93.2 percent from the prior fiscal year. The decrease was due primarily to a $68,885 reduction in insurance claim reimbursement from 2021 from SAC's insurer for fire damage of the SAC pipeline in Silverado Canyon, a $1,025 decrease in changes in fair value of investments, and a $176 decrease in insurance refund from Association of California Water Agency.

Expenses:

As shown in Table 2, SAC's operating expenses decrease $2,367 or 1.6 percent from $145,574 in the prior fiscal year to $143,207 in the current fiscal year. Cathodic protection related expenses increased $12,030 and contributed 50.6 percent of the total operating expenses. Contract labor and general and administrative expenses decreased $16,899 and contributed 35.4 percent of the total current fiscal year's operating expenses. Landscape maintenance increased $750 and contributed 7.2 percent of the total operating expenses. Total other expenses decreased $450 and contributed 3.1 percent of the total operating expenses. Depreciation expense contributed 3.6 percent of the total operating expenses. Contract labor expenses decreased primarily due to the fire damage of the SAC pipeline in the Silverado Canyon incurred in the prior fiscal year.

Capital Assets:

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

Table 3 - Capital Assets, Net of Depreciation

			Increase/(Decrease)	
	2022	2021	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	1,056,926	-	1,056,926	100.0%
Less: accumulated depreciation	(133,428)	(128,222)	(5,206)	4.1%
Construction in progress	-	146,747	(146,747)	-100.0%
Total	$ 1,094,438	$ 189,465	$ 904,973	477.6%

Capital assets, net of depreciation increased $904,973 or 477.6 percent in the current fiscal year. The construction of the Baker Pipeline capital project incurred $910,179 during the current fiscal year. The total amount of the Baker Pipeline capital project was transferred from Construction in Progress to Capital Assets during the fiscal year. Accumulated depreciation increased by $5,206 for depreciation expense in the current fiscal year. The increase was primarily due to depreciation of the Baker Pipeline capital asset. 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, 2022

(with comparative data as of June 30, 2021)

	2022	2021
ASSETS		
Current assets:		
Cash and investments (note 2)	$ 318,572	$ 306,567
Receivables:		
Accounts receivable	2,404	9,233
Interest receivable	269	93
Total receivables	2,673	9,326
Total current assets	321,245	315,893
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	1,094,438	42,718
Capital assets, not being depreciated (note 3)	-	146,747
Total noncurrent assets	1,094,438	189,465
TOTAL ASSETS	1,415,683	505,358
LIABILITIES		
Current liabilities:		
Accounts payable	30,230	80,001
TOTAL LIABILITIES	30,230	80,001
NET POSITION		
Investment in capital assets	1,094,438	189,465
Unrestricted for water services	291,015	235,892
TOTAL NET POSITION	$ 1,385,453	$ 425,357

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, 2022
(with comparative data for the Fiscal Year Ended June 30, 2021)

	2022	2021
OPERATING REVENUES		
Water surcharge	$ 25,310	$ 35,068
Member charges	70,950	-
Total operating revenues	96,260	35,068
OPERATING EXPENSES		
Contract labor	4,519	29,010
Equipment usage	474	370
Utilities	1,868	2,447
Landscape	10,290	9,540
Cathodic protection monitoring and maintenance	72,486	60,456
Telemetry alarm	2,120	2,095
General and administrative:		
Audit	5,000	5,000
Insurance	6,781	6,397
Legal	2,789	3,851
Administration management	30,600	22,200
Other	1,074	1,204
Depreciation	5,206	3,004
Total operating expenses	143,207	145,574
Operating income (loss)	(46,947)	(110,506)
NONOPERATING REVENUES		
Interest income	710	1,529
Increase (decrease) in fair value of investments	(2,394)	(1,369)
Other income	6,855	75,916
Total nonoperating revenues	5,171	76,076
Income (loss) before capital contributions	(41,776)	(34,430)
CAPITAL CONTRIBUTIONS		
Contributions from member agencies	1,001,872	-
Increase (decrease) in net position	960,096	(34,430)
NET POSITION AT BEGINNING OF YEAR	425,357	459,787
NET POSITION AT END OF YEAR	$ 1,385,453	$ 425,357

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2022

(with comparative data for the Fiscal Year Ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member agencies and others	$ 103,089	$ 32,613
Cash paid to suppliers of goods and services	(202,025)	(80,728)
Net cash provided by (used for) operating activities	(98,936)	(48,115)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Insurance reimbursement	6,855	75,916
Net cash provided by (used for) noncapital financing activities	6,855	75,916
CASH FLOWS FROM CAPITAL ACTIVITIES		
Construction of capital assets	(895,926)	(132,599)
Capital contributions	1,001,872	-
Net cash provided by (used for) capital activities	105,946	(132,599)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	534	2,387
Net cash provided by (used for) investing activities	534	2,387
Net increase (decrease) in cash and cash equivalents	14,399	(102,411)
Cash and cash equivalents at beginning of year	306,552	408,963
Cash and cash equivalents at end of year	$ 320,951	$ 306,552
Reconciliation of cash and cash equivalents to amounts reported on the Statements of Net Position:		
Cash and investments	$ 318,572	$ 306,567
Less fair value adjustment	2,379	(15)
Cash and cash equivalents at end of year	$ 320,951	$ 306,552
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	$ (46,947)	$ (110,506)
Depreciation	5,206	3,004
(Increase) decrease in accounts receivable	6,829	(2,455)
Increase (decrease) in accounts payable	(64,024)	61,842
Net cash provided by (used for) operating activities	$ (98,936)	$ (48,115)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Fair value of investments adjustment	$ (2,394)	$ (1,369)

See accompanying notes to the basic financial statements.

(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.

(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 receivables are 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.

(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, 2022 consist of the following:

Deposits with financial institution	$	133,840
Local Agency Investment Fund		184,732
Total cash and investments	$	318,572

(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.

Authorized Investment type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
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 an 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.

(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, 2022 is as follows:

	Balance at June 30, 2021	Additions	Deletions	Balance at June 30, 2022
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	-	1,056,926
Sub-total	170,940	1,056,926	-	1,227,866
Less accumulated depreciation:				
Meters	(50,788)	-	-	(50,788)
Bypass valve	(41,348)	(1,590)	-	(42,938)
Vault covers	(36,086)	(1,414)	-	(37,500)
Pipeline	-	(2,202)	-	(2,202)
Sub-total	(128,222)	(5,206)	-	(133,428)
Total depreciable capital assets, net	42,718	1,051,720	-	1,094,438
Capital assets, non-depreciable:				
Construction in progress	146,747	910,179	(1,056,926)	-
Total capital assets, net	$ 189,465	$ 1,961,899	$ (146,747)	$ 1,094,438

(3) Capital Assets (continued)

Construction in progress was a capital project for designing and constructing a section of the Baker Pipeline. A current section of the Baker Pipeline was exposed through Santiago Creek in Irvine Regional Park (Baker Pipeline capital project). The Baker Pipeline was constructed in 1961 and initially was designed with approximately six feet of cover across Santiago Creek. Since that time, the creek has widened by approximately 50 feet and scoured more than seven feet in depth, which has resulted in the exposure of approximately 35 linear feet of the upper portion of the pipeline. To address the existing pipeline exposure and to minimize the potential for future exposure of additional portions of the pipeline, the Baker Pipeline capital project lowered the depth of the Baker Pipeline by 10 feet along its current alignment for approximately 300 feet across the width of Santiago Creek. During the fiscal year, the construction of the Baker Pipeline capital project was completed. The total amount of the Baker Pipeline capital project was transferred from Construction in Progress to Pipeline and depreciated during the fiscal year.

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

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, 2022 and have issued our report thereon dated November 8, 2022. 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 March 4, 2022, 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 a new accounting pronouncement, Governmental Accounting Standards Board (GASB) 87: Leases, 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 leases identified that qualified for reporting under GASB 87.

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 2022. 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 the 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 was a material adjustment to accrue expenses in the current period. 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 November 8, 2022.

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
November 8, 2022

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DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

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, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 8, 2022.

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 may exist that have not been identified.

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
November 8, 2022