

SANTIAGO AQUEDUCT COMMISSION
QUARTERLY MEETING
THURSDAY, DECEMBER 12, 2024

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

ATTENDANCE

Commissioner John Withers (IRWD)	_____
Commissioner Mike Gaskins (ETWD)	_____
Commissioner Sherry Wanninger (MNWD)	_____
Commissioner Jeffery Thomas (MWDOC)	_____
Commissioner Sandra Jacobs (SMWD)	_____
Commissioner Ed Manich (TCWD)	_____

ALSO PRESENT

Paul Cook	_____	Kevin Burton	_____
Malcolm Cortez	_____	Neveen Adly	_____
Eileen Lin	_____	Diane Squyres	_____
Christine Franchville	_____		_____
	_____		_____
	_____		_____

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, DECEMBER 14, 2023

Recommendation: That the minutes of the December 14, 2023 meeting be approved as presented.
5. 2024-25 FINANCIAL REPORT

A. Ratify Disbursement Resolution No. 721 dated December 2023.
B. Ratify Disbursement Resolution No. 722 dated April 2024.
C. Ratify Disbursement Resolution No. 723 dated June 2024.
D. Ratify Disbursement Resolution No. 724 dated October 2024.
E. Ratify Disbursement Resolution No. 725 dated November 2024.
F. Receive and file Financial Statement dated November 30, 2024.

Recommendation: That the Commission ratify Disbursement Resolutions Nos. 721 through 725 and receive and file the Financial Statement dated November 30, 2024, for the Santiago Aqueduct Commission.
6. FISCAL YEAR 2023-24 FINANCIAL REPORT – CRAIG / LIN / ADLY

Recommendation: That the Commission approve the financial report for the fiscal year ended June 30, 2024.

OTHER BUSINESS

7. GENERAL MANAGER REPORT – COOK
8. ENGINEER REPORT – BURTON
9. MWDOC REPORT
10. ATTORNEY REPORT
11. 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.

12. 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.

**MINUTES OF THE QUARTERLY REGULAR MEETING
OF THE SANTIAGO AQUEDUCT COMMISSION**

December 14, 2023

The quarterly meeting of the Santiago Aqueduct Commission (“SAC”) was duly noticed and was held at 8:00 a.m. on December 14, 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 8:07 a.m. ALLISON E. BURNS recorded the Minutes of the meeting.

COMMISSIONERS PRESENT

FRED ADJARIAN, 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, General Manager, IRWD, NEVEEN ADLY, Treasurer, IRWD; KEVIN BURTON, Engineer, IRWD; ALLISON E. BURNS, General Counsel/Secretary; DIANE SQUYRES, Administrative Secretary, IRWD; CHRISTINE FRANCHVILLE, IRWD; EILEEN LIN, Assistant Treasurer, IRWD; JESSICA CRAIG, IRWD; CLAUDIA ESPINOZA, IRWD; MALCOLM CORTEZ, Assistant Engineer, IRWD; WILLIE JAMES, IRWD; MICHAEL PEREA, TCWD; DENNIS CAFFERTY, ETWD

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 – COOK swore in ADJARIAN as Alternate Commissioner for El Toro Water District.

ACTION ITEMS

4. APPOINTMENT OF TREASURER – COOK

COOK: CHERYL CLARY has retired from IRWD. Staff recommends appointment of NEVEEN ADLY submitted as Treasurer of Santiago Aqueduct Commission. JACOBS moved approval of staff’s recommendation, seconded by WITHERS and unanimously approved.

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

Recommendation: That the Minutes of the March 16, 2022, meeting be approved as presented.

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

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 Resolution Nos. 718 through 720 and receive and file the Financial Statement dated November 30, 2023, for the Satiago Aqueduct Commission.

CRAIG – March, June, October, and November disbursements for ratification.

WITHERS moved the item as presented, second by ADJARIAN and passed unanimously.

7. FISCAL YEAR 2023-2024 FINANCIAL REPORT – CRAIG / LIN / ADLY

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

CRAIG presented the 2023-24 Financial Report, including:

Three Exhibits:

- Exhibit A - FY 2023-24 Financial Report
- Exhibit B - Auditor Communication
- Exhibit C - Report on Internal Control over Financial Reporting

Davis Farr, LLP performed the audit. The Auditor issued a clean opinion on the financial statements.

ADJARIAN – Do surcharge rates referenced under revenues on page A-8 mean the MWDOC rate?

CRAIG – Yes.

WANNIGER – Will we get a capital forecast next year?

Burton – At this point, no capital expenditures are anticipated.

WITHERS moved the item as presented, second by ADJARIAN and passed unanimously.

8. APPOINTMENT OIF ACWA-JPIA ALTERNATE DIRECTOR – COOK

Recommendation: That the Commission appoint an Alternate Director to represent the Santiago Aqueduct Commission on the Board of Directors of the ACWA-JPIA.

Nominations: ADJARIAN – Accepted.

JACOBS moved as nominated, second by WANNIGER and passed unanimously.

OTHER BUSINESS

9. GENERAL MANAGER'S REPORT – COOK

COOK - Nothing to report.

10. ENGINEER'S REPORT – BURTON

BURTON – Capital replacement for pipeline – from inspection last year, no immediate repairs needed. Pipeline replacement was scheduled for three months ago but has been pushed back a year to the end of 2024 / beginning of 2025, and will be replaced at no cost to SAC.

Habitat Restoration – Last year when the pipeline was replaced, there was an increase of landscaping cost. These pictures show the hydro mitigation doing well at the end of year one of the five-year mitigation.

BURNS arrived at 8:20 a.m.

ADJARIAN – On mitigation landscaping, do we coordinate with Fish and Game?

BURTON – Yes.

11. MWDOC'S REPORT

BUSSLINGER – The State Water Project's Table A allocation just came out and it's the most dramatic drop since 1967 – 100% MET to 10%. Hopefully in January there will be updated numbers.

ADJARIAN – Will pipeline shutdown repairs affect operations?

BUSSLINGER – No impact to operations or water quality.

12. ATTORNEY'S REPORT

BURNS – Nothing to report.

13. COMMISSIONERS' COMMUNICATIONS

None.

14. ADJOURN

CHADD adjourned the meeting at 8:27 a.m.

Respectfully submitted,

Allison E. Burns, Secretary

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 721

December 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 AND MAINTENANCE

1	AT&T		
	Charges for June - August 2023 and October 2023	\$	660.52
2	Southern California Edison		
	Charges for October 2023		235.11
3	Stradling Yocca Carlson & Rauth		
	Charges for Legal Fees		305.00
4	Davis Farr LLP		
	Audit		4,000.00
5	Irvine Ranch Water District		
	Baker Pipeline Operation (July 2023 - September 2023)		4,106.55
	Baker Pipeline Maintenance (July 2023 - September 2023)		7,038.75
	Labor and G&A for Landscape Reach 1U		7,425.49
6	Kill-N-Bugs		
	Landscape		5,870.00
7	Micheal Baker		
	Cathodic Protection		9,939.54
8	ACWA/JPIA		
	Charges for Insurance/Annual Dues		4,898.02
9	LandCare		
	Landscape Reach 1U		<u>8,332.00</u>
10	TOTAL DISBURSEMENT RESOLUTION NO. 721	\$	<u><u>52,810.98</u></u>

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 722

April 2024

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

1	AT&T		
	Charges for November 2023 - March 2024	\$	832.57
2	Southern California Edison		
	Charges for November 2023 - March 2024		627.78
3	Stradling Yocca Carlson & Rauth		
	Charges for Legal Fees		80.00
4	DavisFarr LLP		
	Audit		1,750.00
5	Irvine Ranch Water District		
	Baker Pipeline Operation (July 2023 - March 2024)		10,135.92
	Baker Pipeline Maintenance (July 2023 - March 2024)		19,602.01
6	Kill-N-Bugs		
	Landscape		6,470.00
7	TOTAL DISBURSEMENT RESOLUTION NO. 722	\$	<u>39,498.28</u>

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 723

June 2024

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

1	AT&T		
	Charges for April 2024 - June 2024	\$	497.61
2	Southern California Edison		
	Charges for April 2024 - June 2024		66.93
3	Stradling Yocca Carlson & Rauth		
	Charges for Legal Fees		126.00
4	Alliant		
	Bond		1,250.00
5	Irvine Ranch Water District		
	Baker Pipeline Operation (April 2024 - June 2024)		5,189.50
	Baker Pipeline Maintenance (April 2024 - June 2024)		4,050.00
	Labor and G&A for Landscape Reach 1U		19,667.92
6	LandCare		
	Landscape Reach 1U		<u>44,189.00</u>
7	TOTAL DISBURSEMENT RESOLUTION NO. 723	\$	<u><u>75,036.96</u></u>

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 724

October 2024

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

1	AT&T Charges for July 2024 - September 2024	\$ 497.61
2	Southern California Edison Charges for July 2024 - September 2024	879.90
3	Stradling Yocca Carlson & Rauth Charges for Legal Fees	180.00
4	Alliant Bond	1,000.00
5	ACWA/JPIA Charges for Insurance /Annual Dues	4,577.18
6	Kill-N-Bugs Landscape	6,020.00
7	DavisFarr LLP Audit	5,980.00
8	Micheal Baker Cathodic Protection	<u>11,901.51</u>
9	TOTAL DISBURSEMENT RESOLUTION NO. 724	<u><u>\$ 31,036.20</u></u>

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SANTIAGO AQUEDUCT COMMISSION
DISBURSEMENT RESOLUTION NO. 725

November 2024

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

1	ACWA/JPIA		
	Insurance	\$	2,131.13
2	Irvine Ranch Water District		
	Baker Pipeline Operation (June 2024 - September 2024)		10,755.76
	Baker Pipeline Maintenance (June 2024 - September 2024)		4,200.00
	Labor and G&A for Landscape Reach 1U		8,409.70
3	LandCare		
	Landscape Reach 1U		<u>12,498.00</u>
4	TOTAL DISBURSEMENT RESOLUTION NO. 725	\$	<u><u>37,994.59</u></u>


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Santiago Aqueduct Commission
Statement of Net Position
November 30, 2024

	<u>Unaudited</u> <u>11/30/2024</u>
ASSETS	
Current assets:	
Cash and investments	\$ 117,915
Receivables:	
Accounts receivable	14,350
Interest receivable	490
Total receivables	<u>14,840</u>
Total current assets	<u>132,755</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,170,053</u>
Total noncurrent assets, net	<u>1,170,053</u>
TOTAL ASSETS	<u><u>1,302,808</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>15,432</u>
TOTAL LIABILITIES	<u><u>15,432</u></u>
NET POSITION	
Investment in capital assets	1,170,053
Unrestricted for water services	117,323
TOTAL NET POSITION	<u><u>\$ 1,287,376</u></u>

Santiago Aqueduct Commission
Statement of Revenues, Expenses and Changes in Net Position
For the Period Ended November 30, 2024

	Unaudited Period Ended <u>11/30/2024</u>
OPERATING REVENUES	
Water surcharge	\$ 4,739
Member charges	<u>111,948</u>
Total operating revenues	<u>116,687</u>
OPERATING EXPENSES	
Contract labor	3,989
Equipment usage	
Utilities	685
Landscape	33,471
Cathodic protection monitoring and maintenance	16,841
Telemetry alarm	498
General and administrative:	
Audit	5,980
Insurance	7,708
Legal	180
Administration management	8,400
Other	546
Depreciation	<u>8,274</u>
Total operating expenses	<u>86,572</u>
Operating income (loss)	<u>30,115</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	490
Increase (decrease) in fair value of investments	<u>236</u>
Total nonoperating revenues	<u>726</u>
Increase (decrease) in net position	30,841
NET POSITION AT BEGINNING OF YEAR	<u>1,256,535</u>
NET POSITION AT END OF NOVEMBER	<u><u>\$ 1,287,376</u></u>

December 12, 2024
Prepared by: J. Craig
Submitted by: E. Lin / N. Adly
Approved by: Paul A. Cook 

SANTIAGO AQUEDUCT COMMISSION

FY 2023-24 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, 2024. 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, 2024, and conform with generally accepted accounting principles.

BACKGROUND:

The FY 2023-24 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”.

Attached 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. However, as part of the audit risk assessment, Davis Farr has identified related-party transactions for accounting and management services between the Commission and Irvine Ranch Water District (IRWD) as a significant risk. The audit procedures included reviewing all reimbursements made by the Commission to IRWD during the fiscal year and ensuring appropriate cutoff in the fiscal year.

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*, attached 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, 2024.

LIST OF EXHIBITS:

Exhibit "A" – FY 2023-24 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, 2024

Santiago Aqueduct Commission

Financial Statements

Fiscal Year Ended June 30, 2024

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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, 2024, 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, 2024, 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 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 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 October 4, 2024 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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
October 4, 2024

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, 2024. 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 \$1,256,535 (net position), representing \$1,178,326 investment in capital assets and \$78,209 in unrestricted for water services. This was a decrease of \$37,469 or 2.9 percent from the prior fiscal year net position of \$1,294,004.
- Total assets were \$1,263,245, a decrease of \$78,141 or 5.8 percent from the prior fiscal year. The decrease was due primarily to a \$47,839 decrease in cash and investment and a \$33,095 decrease in net capital assets, partially offset by a \$2,793 increase in total receivables.
- Total liabilities were \$6,710, a decrease of \$40,672 or 85.8 percent from the prior fiscal year. The decrease was due primarily to a \$36,588 decrease in landscape costs for the Baker Pipeline Reach 1U, a \$3,938 decrease in administration and cathodic protection system maintenance.
- Total revenues increased \$68,534 or 67.8 percent from \$101,122 in the prior fiscal year to \$169,656 in the current fiscal year. The increase was due primarily to a \$66,899 of the member charges of maintenance and landscape costs for the Baker Pipeline Reach 1U and a \$1,896 increase in water surcharge, partially offset by a \$395 decrease in interest income.
- Total operating expenses were \$207,125, an increase of \$14,554 or 7.6 percent from the prior fiscal year. The increase was due primarily to a \$40,261 increase in landscape costs including the Baker Pipeline Reach 1U and a \$3,363 increase in depreciation expense, partially offset by a \$25,169 decrease in cathodic protection monitoring and maintenance costs and a \$2,633 decrease in contract labor.

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, 2024 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, 2024. 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

	2024	2023	Increase/(Decrease)	
			Amount	Percentage
Assets				
Current assets	\$ 84,919	\$ 129,965	\$ (45,046)	-34.7%
Noncurrent assets	1,178,326	1,211,421	(33,095)	-2.7%
Total assets	1,263,245	1,341,386	(78,141)	-5.8%
Liabilities				
Current liabilities	6,710	47,382	(40,672)	-85.8%
Total liabilities	6,710	47,382	(40,672)	-85.8%
Net position				
Investment in capital assets	1,178,326	1,211,421	(33,095)	-2.7%
Unrestricted for water services	78,209	82,583	(4,374)	-5.3%
Total net position	\$ 1,256,535	\$ 1,294,004	\$ (37,469)	-2.9%

As shown in Table 1, SAC's total assets decreased \$78,141 or 5.8 percent during the current fiscal year. Total current assets were \$84,919, a decrease of \$45,046 or 34.7 percent from the prior fiscal year. Cash and investments decreased \$47,839 or 38.5 percent from \$124,215 in the prior fiscal year to \$76,376 in the current fiscal year. The decrease was due primarily to \$52,142 in cash used by operating activities. Accounts receivable increased \$2,943 or 57.3 percent from \$5,139 in the prior fiscal year to \$8,082 in the current fiscal year. The increase in account receivables was due to an increase in water deliveries of 2,224.1 acre-feet (AF) from 5,190.6 AF at a \$0.99 operating surcharge rate in the prior fiscal year to 7,414.7 AF at a \$1.09 operating surcharge rate in the current fiscal year.

Noncurrent assets were \$1,178,326, a decrease of \$33,095 or 2.7 percent from the prior fiscal year. The decrease was due to \$33,095 current fiscal year depreciation of capital assets.

SAC's total liabilities were \$6,710, a decrease of \$40,672 or 85.8 percent from \$47,382 in the prior fiscal year. The decrease was due primarily to a \$36,588 decrease in landscape costs for the Baker Pipeline Reach 1U and a \$3,938 decrease in administration and cathodic protection system maintenance.

Net position at end of the current fiscal year was \$1,256,535 representing the excess of total assets over total liabilities. Net position decreased \$37,469 or 2.9 percent from \$1,294,004 in the prior fiscal year to

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

\$1,256,535 in the current fiscal year. Net position consists of investment in capital assets of \$1,178,326 or 93.8 percent and an unrestricted net position for water services of \$78,209 or 6.2 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

	2024	2023	Increase/(Decrease)	
			Amount	Percentage
Operating revenues				
Water surcharge	\$ 29,179	\$ 27,283	\$ 1,896	6.9%
Member charges	136,324	69,425	66,899	96.4%
Total operating revenues	165,503	96,708	68,795	71.1%
Non-operating revenues	4,153	4,414	(261)	-5.9%
Total revenues	169,656	101,122	68,534	67.8%
Operating expenses				
Contract labor	4,062	6,695	(2,633)	-39.3%
Equipment usage	113	622	(509)	-81.8%
Utilities	1,679	2,514	(835)	-33.2%
Landscape	93,743	53,482	40,261	75.3%
Cathodic protection monitoring and maintenance	24,047	49,216	(25,169)	-51.1%
Telemetry alarm	2,156	1,759	397	22.6%
General and administrative	48,230	48,551	(321)	-0.7%
Depreciation expense	33,095	29,732	3,363	11.3%
Total operating expenses	207,125	192,571	14,554	7.6%
Change in net Position	(37,469)	(91,449)	53,980	-59.0%
Beginning net Position	1,294,004	1,385,453	(91,449)	-6.6%
Ending net position	\$ 1,256,535	\$ 1,294,004	\$ (37,469)	-2.9%

Revenues:

As shown in Table 2, SAC's total revenues were \$169,656, increase of \$68,534 or 67.8 percent from the prior fiscal year. SAC's operating revenues increased \$68,795 or 71.1 percent. The increase was due primarily to a \$53,709 increase from the member charges for the landscape costs of the Baker Pipeline Reach 1U. The member agencies current fiscal year's maintenance charges increased \$13,190 due primarily to higher maintenance expenses. The surcharge rate increased from \$0.99 per acre foot in the prior fiscal year to \$1.09 per acre foot in the current fiscal year. Water deliveries decreased 788.7 acre feet from 27,558.1 acre feet in the prior fiscal year to 26,769.4 acre feet in the current fiscal year.

SAC's non-operating revenues decreased \$261 or 5.9 percent from the prior fiscal year. The decrease was due primarily to a \$395 decrease in interest income offset by a \$134 increase in changes in fair value investments.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

Expenses:

As shown in Table 2, SAC’s operating expenses increased \$14,554 or 7.6 percent from \$192,571 in the prior fiscal year to \$207,125 in the current fiscal year. Landscape maintenance increased \$40,261 and contributed 45.3 percent of the total operating expenses. The increase was primarily due to a \$53,709 increase in landscape costs for the Baker Pipeline Reach 1U. Depreciation expenses increased \$3,364 and contributed 16.0 percent of the total operating expenses. Cathodic protection related expenses decreased \$25,169 and contributed 11.6 percent of the total operating expenses. Contract labor and general and administrative expenses decreased \$2,954 and contributed 25.2 percent of the total operating expenses. Total other expenses decreased \$947 and contributed 1.9 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

	2024	2023	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	1,203,641	-	0.0%
Less : accumulated depreciation	(196,255)	(163,160)	(33,095)	20.3%
Total	\$ 1,178,326	\$ 1,211,421	\$ (33,095)	-2.7%

Capital assets, net of depreciation decreased \$33,095 or 2.7 percent in the current fiscal year. Accumulated depreciation increased by \$33,095 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, 2024
(with comparative data as of June 30, 2023)

	2024	2023
ASSETS		
Current assets:		
Cash and investments (note 2)	\$ 76,376	\$ 124,215
Receivables:		
Accounts receivable	8,082	5,139
Interest receivable	461	611
Total receivables	8,543	5,750
Total current assets	84,919	129,965
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	1,178,326	1,211,421
Total noncurrent assets	1,178,326	1,211,421
TOTAL ASSETS	1,263,245	1,341,386
LIABILITIES		
Current liabilities:		
Accounts payable	6,710	47,382
TOTAL LIABILITIES	6,710	47,382
NET POSITION		
Investment in capital assets	1,178,326	1,211,421
Unrestricted for water services	78,209	82,583
TOTAL NET POSITION	\$ 1,256,535	\$ 1,294,004

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, 2024
(with comparative data for the Fiscal Year Ended June 30, 2023)

	2024	2023
OPERATING REVENUES		
Water surcharge	\$ 29,179	\$ 27,283
Member charges	136,324	69,425
Total operating revenues	165,503	96,708
OPERATING EXPENSES		
Contract labor	4,062	6,695
Equipment usage	113	622
Utilities	1,679	2,514
Landscape	93,743	53,482
Cathodic protection monitoring and maintenance	24,047	49,216
Telemetry alarm	2,156	1,759
General and administrative:		
Audit	5,750	5,000
Insurance	7,858	7,568
Legal	511	3,378
Administration management	32,400	30,800
Other	1,711	1,805
Depreciation	33,095	29,732
Total operating expenses	207,125	192,571
Operating income (loss)	(41,622)	(95,863)
NONOPERATING REVENUES		
Interest income	2,972	3,367
Increase (decrease) in fair value of investments	1,181	1,047
Total nonoperating revenues	4,153	4,414
Increase (decrease) in net position	(37,469)	(91,449)
NET POSITION AT BEGINNING OF YEAR	1,294,004	1,385,453
NET POSITION AT END OF YEAR	\$ 1,256,535	\$ 1,294,004

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024
(with comparative data for the Fiscal Year Ended June 30, 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member agencies and others	\$ 162,560	\$ 93,973
Cash paid to suppliers of goods and services	<u>(214,702)</u>	<u>(145,687)</u>
Net cash provided by (used for) operating activities	<u>(52,142)</u>	<u>(51,714)</u>
 CASH FLOWS FROM CAPITAL ACTIVITIES		
Construction of capital assets	<u>-</u>	<u>(146,715)</u>
Net cash provided by (used for) capital activities	<u>-</u>	<u>(146,715)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>3,122</u>	<u>3,025</u>
Net cash provided by (used for) investing activities	<u>3,122</u>	<u>3,025</u>
 Net increase (decrease) in cash and cash equivalents	<u>(49,020)</u>	<u>(195,404)</u>
Cash and cash equivalents at beginning of year	<u>125,547</u>	<u>320,951</u>
Cash and cash equivalents at end of year	<u>\$ 76,527</u>	<u>\$ 125,547</u>
 Reconciliation of cash and cash equivalents to amounts reported on the Statements of Net Position:		
Cash and investments	\$ 76,376	\$ 124,215
Less fair value adjustment	<u>151</u>	<u>1,332</u>
Cash and cash equivalents at end of year	<u>\$ 76,527</u>	<u>\$ 125,547</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (41,622)	\$ (95,863)
Depreciation	33,095	29,732
(Increase) decrease in accounts receivable	(2,943)	(2,735)
Increase (decrease) in accounts payable	<u>(40,672)</u>	<u>17,152</u>
Net cash provided by (used for) operating activities	<u>\$ (52,142)</u>	<u>\$ (51,714)</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Fair value of investments adjustment	<u>\$ 1,181</u>	<u>\$ 1,047</u>

See accompanying notes to the basic financial statements.

Santiago Aqueduct Commission

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2024

(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, 2024

(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, 2024

(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, 2024 consist of the following:

Deposits with financial institution	\$ 35,648
Local Agency Investment Fund	<u>40,728</u>
Total cash and investments	<u>\$ 76,376</u>

Santiago Aqueduct Commission

Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2024

(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, 2024

(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, 2024 is as follows:

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024
Capital assets, being depreciated:				
Meters	\$ 50,788	\$ -	\$ -	\$ 50,788
Bypass valve	63,609	-	-	63,609
Vault covers	56,543	-	-	56,543
Pipeline	1,203,641	-	-	1,203,641
Sub-total	<u>1,374,581</u>	<u>-</u>	<u>-</u>	<u>1,374,581</u>
Less accumulated depreciation:				
Meters	(50,788)	-	-	(50,788)
Bypass valve	(44,527)	(1,590)	-	(46,117)
Vault covers	(38,914)	(1,414)	-	(40,328)
Pipeline	(28,931)	(30,091)	-	(59,022)
Sub-total	<u>(163,160)</u>	<u>(33,095)</u>	<u>-</u>	<u>(196,255)</u>
Total capital assets, net	<u>\$ 1,211,421</u>	<u>\$ (33,095)</u>	<u>\$ -</u>	<u>\$ 1,178,326</u>

(4) Related Party

SAC and the Irvine Ranch Water District (IRWD) entered into an agreement for maintenance and operation of the Baker Pipeline on January 1, 2001. In addition, IRWD provides accounting and administration services to SAC. It is agreed that IRWD is an independent contractor to SAC. As of June 30, 2024, the outstanding payable to IRWD was \$6,710.

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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, 2024 and have issued our report thereon dated October 4, 2024. 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 April 2, 2024, 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

We identified related-party transactions for accounting and management services between the Commission and Irvine Ranch Water District (IRWD) as a significant risk as part of the audit risk assessment. Our procedures included reviewing all reimbursements made by the Commission to IRWD during the fiscal year and ensuring appropriate cutoff in the fiscal year.

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 2024. 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 October 4, 2024.

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.

Other Information Included in the Annual Comprehensive Financial Report

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the Commission's annual report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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 Fan UP

Irvine, California
October 4, 2024

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, 2024, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 4, 2024.

Report On 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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
October 4, 2024