

Report of Independent Auditors and Financial Statements with
Required Supplementary Information

**Santa Ynez River Valley Groundwater Basin
Central Management Area
Groundwater Sustainability Agency**

June 30, 2025

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Report of Independent Auditors

To The Board of Directors
Santa Ynez River Valley Groundwater Basin Central Management Area
Groundwater Sustainability Agency

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency (the "Agency"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the major fund of the Agency, as of June 30, 2025, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2026, on our consideration of the Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
May 18, 2026

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Santa Ynez River Valley Groundwater Basin

Central Management Area Groundwater Sustainability Agency

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025

\$308,875 Total Assets	\$414,862 Total Liabilities	(\$105,987) Net Position
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Prepared by Agency Management

Introduction

As management of the Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency (the "Agency" or "CMA GSA"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2025. This represents the Agency's second year of operations as a separate public entity following execution of the Joint Exercise of Powers Agreement on November 28, 2023.

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements and accompanying notes, which follow this section.

Overview of the Financial Statements

The Agency's basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and Notes to the Basic Financial Statements. The Agency is reported as a single enterprise fund, using the full accrual basis of accounting, in a manner similar to a private business enterprise. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or paid.

Financial Highlights

The fiscal year ended June 30, 2025 represents the Agency's second year of operations under the JPA. Key financial highlights for the year include:

- Total assets at year-end were \$308,875, consisting of cash and cash equivalents of \$106,506 and grants receivable of \$202,369 due from the California Department of Water Resources under the Proposition 68 Sustainable Groundwater Management GSP Implementation Grant Program.
- Total liabilities were \$414,862, including \$120,986 in accounts payable and \$293,876 in noncurrent loans payable to member agencies (SYRWCD and City of Buellton).
- The Agency reported an unrestricted net position of (\$105,987). Grant reimbursement revenue recognized during the year and member agency loans offset operating expenses including GSP Implementation costs.
- Total operating expenses were \$475,006, with no operating revenues recognized during the fiscal year. The operating loss was offset by nonoperating revenues and loans received from member agencies.
- Nonoperating revenues totaled \$271,870, comprising grant revenues of \$271,676 from the Proposition 68 Sustainable Groundwater Management GSP Implementation Grant Program, and interest income of \$194.

Analysis of Net Position

The Statement of Net Position presents the Agency's assets, liabilities, and net position at the end of the fiscal year. The following table provides a condensed summary:

Condensed Statement of Net Position	June 30, 2025
Assets	
Cash and cash equivalents	\$106,506
Grants receivable	\$202,369
Total assets	\$308,875
Liabilities	
Accounts payable	\$120,986
Notes payable to member agencies (noncurrent)	\$293,876
Total liabilities	\$414,862
Net Position	
Unrestricted	(\$105,987)
Total net position	(\$105,987)

The negative net position of (\$105,987) is primarily attributable to startup-phase operating costs incurred prior to the establishment of independent revenue sources. These costs were partially offset by \$143,876 in additional loans received from member agencies during the fiscal year. The Agency has access to ongoing reimbursement funding through a \$5,534,000 Sustainable Groundwater Management Act Implementation Grant awarded by the California Department of Water Resources. Furthermore, subsequent to year-end, the Board adopted a groundwater management fee through the Proposition 218 process, expected to generate approximately \$200,000 annually beginning in fiscal year 2025-2026. The combination of grant reimbursement revenue and the newly established fee is expected to reduce or eliminate the Agency's reliance on member agency loans and support financial self-sufficiency going forward.

Analysis of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the Agency's operating results. The following table provides a condensed summary:

Condensed Statement of Changes in Net Position	FY 2024-2025
Operating Expenses	
General and administrative	\$68,405
Professional services	\$349,564
Legal expenses	\$52,705
Groundwater Management Fee program	\$4,332
Total operating expenses	\$475,006
Operating loss	(\$475,006)
Nonoperating Revenues	
Grant revenues	\$271,676
Interest income	\$194
Total nonoperating revenues	\$271,870
Change in net position	(\$203,136)
Net position, beginning of year	\$97,149
Net position, end of year	(\$105,987)

The Agency's total operating expenses for fiscal year 2024-2025 were \$475,006, consisting primarily of professional services (\$349,564), legal expenses (\$52,705), general and administrative costs (\$68,405), and Groundwater Management Fee program costs (\$4,332). Professional services included GSP consulting, rate study, and engineering services related to GSP implementation, such as preparation of the 2024 Annual Report, the Proposition 218 rate setting process, the GSP 5-year update, and Monitoring Network Data Management System updates. Legal expenses were incurred in connection with GSP implementation projects, the rate study and Proposition 218 process, Board meetings, stakeholder access agreements, and establishing agreements with consultants and other GSAs. General and administrative costs consisted of administrative services provided through the SYRWCD contract, bookkeeping, insurance, and website hosting and platform costs. Operating expenses were partially offset by nonoperating revenues of \$271,870, consisting of \$271,676 in grant reimbursement revenue recognized under the Proposition 68 Sustainable

Groundwater Management GSP Implementation Grant Program and \$194 in interest income. The Agency also received \$143,876 in additional loans from member agencies during the fiscal year. Overall, the Agency's net position decreased by \$203,136, from \$97,149 at the beginning of the year to a deficit of (\$105,987) at year-end.

Capital Assets and Long-Term Obligations

Capital Assets – The Agency did not own any capital assets as of June 30, 2025.

Long-Term Obligations – As of June 30, 2025, the Agency had \$293,876 in non-interest-bearing loans payable to its member agencies under the JPA's Cost Sharing and Reimbursement Agreement, allocated \$168,876 to the Santa Ynez River Water Conservation District and \$125,000 to the City of Buellton. Repayment is expected by fiscal year 2027-2028, contingent upon the Agency establishing sufficient independent revenue.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for its member agencies, stakeholders, and the public. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

William Buelow

Plan Manager

P.O. Box 719, Santa Ynez, CA 93460

805-693-1156, ext. 403 / CMA@SantaYnezWater.org

Basic Financial Statements

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Santa Ynez River Valley Groundwater Basin
Central Management Area Groundwater Sustainability Agency

Statement of Net Position

June 30, 2025

ASSETS

Cash and cash equivalents	\$ 106,506
Grant receivable	<u>202,369</u>
Total assets	<u>308,875</u>

LIABILITIES

Accounts payable	120,986
Noncurrent liabilities	
Notes payable to member agencies	<u>293,876</u>
Total liabilities	<u>414,862</u>

NET POSITION

Unrestricted	<u>(105,987)</u>
Total net position	<u><u>\$ (105,987)</u></u>

See accompanying notes to basic financial statements.

Santa Ynez River Valley Groundwater Basin
Central Management Area Groundwater Sustainability Agency

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2025

OPERATING EXPENSES	
General and administrative expense	\$ 68,405
Professional services	349,564
Legal expenses	52,705
Groundwater management fee	<u>4,332</u>
Total operating expenses	<u>475,006</u>
OPERATING LOSS	<u>(475,006)</u>
NONOPERATING REVENUES	
Grant revenues	271,676
Interest income	<u>194</u>
Total nonoperating revenues	<u>271,870</u>
Change in net position	<u>(203,136)</u>
NET POSITION, beginning of year	<u>97,149</u>
NET POSITION, end of year	<u><u>\$ (105,987)</u></u>

See accompanying notes to basic financial statements.

Santa Ynez River Valley Groundwater Basin
Central Management Area Groundwater Sustainability Agency

Statement of Cash Flows
Year Ended June 30, 2025

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to vendors	<u>\$ (358,206)</u>
Net cash used in operating activities	<u>(358,206)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from loans from member agencies	143,876
Grant revenue received	<u>185,274</u>
Net cash provided by noncapital financing activities	<u>329,150</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>194</u>
Net cash provided by investing activities	<u>194</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,862)
CASH AND CASH EQUIVALENTS, beginning of year	<u>135,368</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 106,506</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (475,006)
Change in assets and liabilities	
Accounts payable	<u>116,800</u>
Net cash used in operating activities	<u><u>\$ (358,206)</u></u>

See accompanying notes to basic financial statements.

Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency

Notes to Basic Financial Statements

June 30, 2025

Note 1 – Reporting Entity

The Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency ("CMA GSA" or "Agency") is a public entity formed pursuant to the Sustainable Groundwater Management Act (SGMA). The CMA GSA was formed to sustainably manage groundwater within the Central Management Area of the Santa Ynez River Valley Groundwater Basin, a medium-priority basin located in Santa Barbara County, California. The Agency's primary purpose is to develop, adopt, and implement a Groundwater Sustainability Plan (GSP) in compliance with SGMA, with a statutory deadline to achieve groundwater sustainability by 2042.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges. The accounting methods and procedures adopted by the Agency conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental enterprise funds. Accordingly, the financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as it specifically relates to enterprise funds.

Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from exchange transactions associated with the principal activity of the Agency. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to enterprise funds. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency is a limited-purpose government engaged solely in business-type activities; accordingly, activities are reported as an enterprise fund.

C. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Santa Ynez River Valley Groundwater Basin

Central Management Area Groundwater Sustainability Agency

Notes to Basic Financial Statements

June 30, 2025

D. Cash and Cash Equivalents

The Agency's cash is held in a single financial institution and at year-end was covered by Federal depository insurance. The Agency defines cash equivalents as highly liquid investments with original maturities of three months or less at the time of purchase. The Agency does not have any cash equivalents as of June 30, 2025.

E. Grants Receivable

Grants receivable represent amounts due from the California Department of Water Resources (DWR) under Proposition 68 Sustainable Groundwater Management Grant Program Agreement for Sustainable Groundwater Management Act (SGMA) Implementation in the Santa Ynez River Basin.

The grant operates on a cost-reimbursement basis, whereby the Agency incurs eligible expenditures that are submitted to DWR through the fiscal agent, the Santa Ynez River Water Conservation District, for reimbursement on a quarterly basis. Grants receivable are recognized when all eligibility requirements have been met as the grant constitutes a voluntary nonexchange transaction.

The grants receivable balance was \$202,369 as of June 30, 2025. Management considers grants receivable to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded.

F. Capital Assets

All property, plant, and equipment acquired and/or constructed over \$5,000 is capitalized at historical cost. Depreciation is recorded on a straight-line basis over the estimated useful life. The Agency did not own any capital assets as of June 30, 2025.

G. Net Position

The Agency is required to report the difference between assets and liabilities as net position. Net position is classified in the following categories:

Net investment in capital assets – This category consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2025, the Agency did not have any capital assets or capital-related debt.

Restricted – This category consists of net assets that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. As of June 30, 2025, the Agency did not have restricted net position.

Unrestricted – This category consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

H. Loans Payable to Member Agencies

The Agency receives contributions from member agencies structured as loans under the JPA's Cost Sharing and Reimbursement Agreement. Costs are allocated 50% to Santa Ynez River Water Conservation District and 50% to City of Buellton. These contributions are classified as loans payable on the Statement of Net Position.

Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency

Notes to Basic Financial Statements

June 30, 2025

I. Grant Revenue

The Agency recognizes grant revenue on a cost-reimbursement basis as eligible expenditures are incurred and the conditions of the grant agreement have been met. Grant funds received in advance of eligible expenditures, if any, are recorded as unearned revenue. Amounts expended but not yet reimbursed are recognized as receivables.

J. Subsequent Events

Subsequent events have been evaluated through May 18, 2026, the date the financial statements were available to be issued.

Effective June 25, 2025, the Board adopted a groundwater management fee through Proposition 218 process. The fee consists of two components: an extraction charge and acreage charge, and is expected to generate approximately \$200,000 annually beginning in fiscal year 2025-2026. A majority of the fee will be collected through the Santa Barbara County tax roll. This fee establishes an independent revenue source for the Agency and is expected to provide for financial self-sufficiency.

Note 3 – Cash

On June 30, 2025, the Agency had the following cash on hand:

Cash in bank and on hand	<u>\$ 106,506</u>
Total cash, Statement of Net Position	<u><u>\$ 106,506</u></u>

The Agency's cash is held in a single financial institution in demand deposit accounts. The Agency does not maintain a formal investment policy and does not hold any investments as of June 30, 2025.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be returned. Cash balances held in banks are insured up to \$250,000 per depositor by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2025, the Agency's bank balance did not exceed the FDIC insurance limit and was therefore fully insured. The Agency does not have a formal policy for custodial credit risk for deposits.

Concentration of Credit Risk – The Agency maintains deposits with a single financial institution. As of June 30, 2025, the entire cash balance was held at one bank. The Agency does not have a policy that limits the amount that may be deposited with any one institution.

Note 4 – Loans Payable to Member Agencies

As of June 30, 2025, loans payable to member agencies consisted of the following:

Santa Ynez River Water Conservation District	\$ 168,876
City of Buellton	<u>125,000</u>
Total loans payable to member agencies	<u><u>\$ 293,876</u></u>

Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency

Notes to Basic Financial Statements

June 30, 2025

The loans were made pursuant to the JPA's Cost Sharing and Reimbursement Agreement and do not accrue interest. Repayment is expected by fiscal year 2027-2028 and is contingent upon the Agency establishing an independent revenue source sufficient to fund operations and reimburse member agencies. As of June 30, 2025, there is no formal repayment schedule, and the loans are not subordinated to any other obligations of the Agency.

During the year ended June 30, 2025, the Santa Ynez River Water Conservation District (SYRWCD) contributed an additional \$43,876 to fund a portion of the Agency's share of Basin Action Plan (PMA 1) costs. As authorized by SYRWCD correspondence to the Agency's Board of Directors in February 2025, this contribution is treated as an advance against SYRWCD's share of future member loan requests and is repayable in accordance with the JPA's Cost Sharing and Reimbursement Agreement.

Note 5 – Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Agency maintains insurance coverage through the Groundwater Sustainability Risk Management Association (GSRMA). There have been no reductions in insurance coverage from coverage in the prior year and no settlements have exceeded insurance coverage.

Note 6 – Related Parties

The following related-party relationships and transactions existed during the year ended June 30, 2025:

Member Agency Loans – The Agency received loans from member agencies (Santa Ynez River Water Conservation District, City of Buellton) totaling \$293,876 to fund operations.

Santa Ynez River Water Conservation District (SYRWCD) – SYRWCD is a JPA member agency providing 50% of the Agency's member agency funding. SYRWCD also serves as the grantee for the \$5.5 million DWR Proposition 68 SGM Implementation Grant on behalf of the three basin Groundwater Sustainability Agencies, with funds passed through to the CMA GSA under a Subgrant Agreement.

Santa Ynez River Valley Groundwater Basin Groundwater Sustainability Agencies – The Central Management Area Groundwater Sustainability Agency, Western Management Area Groundwater Sustainability Agency, and Eastern Management Area Groundwater Sustainability Agency manage adjacent portions of the same groundwater basin. The three Groundwater Sustainability Agencies coordinate on basin-wide activities including the DWR annual report, the Proposition 68 Grant implementation, and the Action Plan for management of well production along the Lower Santa Ynez River. Cost-sharing agreements exist for joint basin activities, and grant components are managed jointly through SYRWCD as grantee.

Administrative Services – SYRWCD provides administrative services, including the Plan Manager (Executive Director) and Board Secretary, under an Administrative Services Contract.

Note 7 – Sustainable Groundwater Management Act

The Sustainable Groundwater Management Act (SGMA) was approved by the State of California in 2014 to provide a framework for sustainable management of groundwater resources. Under the requirements of SGMA, the Agency is required to develop, adopt, and implement a Groundwater Sustainability Plan (GSP). The Agency's GSP was submitted to the California Department of Water Resources in January 2022 and was approved by DWR on

Santa Ynez River Valley Groundwater Basin

Central Management Area Groundwater Sustainability Agency

Notes to Basic Financial Statements

June 30, 2025

January 19, 2024, with Recommended Corrective Actions to be addressed in the five-year GSP update. The Agency continues to work on compliance with SGMA, including implementation of the monitoring network, annual reporting to DWR, and engagement of outside consultants to assist in these efforts. The basin is required to achieve sustainability by 2042.

Note 8 – Commitments and Contingencies

Grant Awards – The Agency participates in the \$5.5 million DWR Proposition 68 SGM Implementation Grant. Grant funds received by the Agency are subject to audit by the grantor agency. Such audit could lead to requests for reimbursements to the grantor for expenditures disallowed under terms of the grant. Management of the Agency believes that such disallowances, if any, would not be significant.

Litigation – In the ordinary course of operations, the Agency is subject to claims and litigation from outside parties. The Agency is not currently a party to any pending or threatened litigation as of June 30, 2025. However, the classification of Santa Ynez River underflow as groundwater versus surface water remains a contested legal and technical issue that could affect the Agency's authority and the scope of its regulatory obligations.

Contractual Commitments – The Agency has entered into contracts with various professional service providers for groundwater sustainability plan implementation, engineering, legal, bookkeeping, and administrative services. These contracts are generally noncancellable.

Note 9 – Joint Powers Agreement

The Agency was formed pursuant to a Joint Exercise of Powers Agreement (JPA) dated September 25, 2023, effective November 28, 2023, among the following member agencies:

- Santa Ynez River Water Conservation District (SYRWCD) – 50% cost share; one weighted vote
- City of Buellton – 50% cost share; one weighted vote
- Santa Barbara County Water Agency – non-voting member; no financial responsibility

The JPA superseded a prior Memorandum of Agreement originally executed on January 11, 2017, and the Agency operates as the legal successor to the previously established CMA GSA.

Board decisions generally require an affirmative vote of more than 50 percent of the total vote. A supermajority of 75 percent is required for certain significant actions, including adoption of the annual budget, amendments to the Groundwater Sustainability Plan, establishment of fees or assessments, regulation of groundwater extractions, and issuance of debt.

To the extent other funding sources are not available, SYRWCD and the City of Buellton are each responsible for 50 percent of Agency expenses. The debts, liabilities, and obligations of the Agency are solely those of the Agency and not of any individual member.

Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency

Notes to Basic Financial Statements

June 30, 2025

Note 10 – Intergovernmental Revenue and Grant Funding

The Agency is a beneficiary of a \$5,534,000 Sustainable Groundwater Management Act Implementation Grant awarded by the California Department of Water Resources under Proposition 68. The Santa Ynez River Water Conservation District serves as the direct grantee on behalf of the three management area groundwater sustainability agencies located within the Santa Ynez River Valley Groundwater Basin, with funds allocated to each Groundwater Sustainability Agency through a subgrant agreement. The grant requires no local cost match and is reimbursed quarterly in arrears. Grant funds support project components including well extraction measurement and reporting, rate studies, annual reporting, Groundwater Sustainability Plan five-year updates, data analysis, infrastructure and monitoring improvements, and aquifer recharge. The State retains audit rights over grant expenditures, and default provisions require repayment with interest in the event of fraud, false statements, or failure to maintain grant-funded improvements. During the year ended June 30, 2025, the Agency recognized \$271,676 in grant revenue, classified as nonoperating revenue in the enterprise fund.

Note 11 – Net Position Deficit

As of June 30, 2025, the Agency reported a net position deficit of (\$105,987). Operating costs during this period were funded primarily through loans from member agencies. The Agency anticipates eliminating the deficit through a combination of quarterly reimbursements from the Sustainable Groundwater Management Act Implementation Grant and revenues from a groundwater management fee, which is expected to generate approximately \$200,000 annually beginning in fiscal year 2025-2026. Management believes these revenue sources are sufficient to fund ongoing operations and restore the Agency's net position without the need for additional member agency loans.

Note 12 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the date of this report that have effective dates that may impact future financial presentations.

GASB Statement No. 103, *Financial Reporting Model Improvements* – In April 2024, the GASB issued Statement No. 103, which improves key components of the financial reporting model to enhance effectiveness in providing information essential for decision-making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The Agency is evaluating the impact of this statement on its financial statements.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – In September 2024, the GASB issued Statement No. 104, which establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The Agency does not currently hold capital assets, but will evaluate the impact of this statement as applicable.

Report of Independent Auditors 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*

To The Board of Directors
Santa Ynez River Valley Groundwater Basin Central Management Area
Groundwater Sustainability Agency

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Santa Ynez River Valley Groundwater Basin Central Management Area Groundwater Sustainability Agency (the Agency), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated May 18, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not the 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.

Moss, Levy & Hartzheim LLP

Santa Maria, California
May 18, 2026

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