Report of Independent Auditors and Financial Statements with
Required Supplementary Information

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

June 30, 2025

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Moss, Levy & Hartzheim LLP
Certified Public Accountants

Report of Independent Auditors

To The Board of Directors
Santa Ynez River Valley Groundwater Basin Eastern 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 Eastern 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 28, 2026, on our consideration of the Santa Ynez River Valley Groundwater Basin Eastern 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
July 23, 2026

Santa Ynez River Valley Groundwater Basin

Eastern Management Area
Groundwater Sustainability Agency

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2025

$315,649 Total Assets	**$565,584** Total Liabilities	**$(249,935)** Net Position

Prepared by Agency Management

Introduction

As management of the Santa Ynez River Valley Groundwater Basin Eastern Management Area Groundwater Sustainability Agency (the "Agency" or "EMA GSA"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2025. This represents the Agency's first year of operations as a separate public entity following execution of the Joint Exercise of Powers Agreement (JPA) on July 16, 2024.

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 ending June 30, 2025, represents the Agency's first year of operations under the JPA. Key financial highlights for the year include:

- Total assets at year-end were $315,649, consisting of cash and cash equivalents of $162,589, grants receivable of $152,110 due from the California Department of Water Resources under the Proposition 68 Sustainable Groundwater Management Act Grant Program, and prepaid expenses of $950.

- Total liabilities were $565,584, including $142,731 in accounts payable, and $422,853 in noncurrent loans payable to member agencies (SYRWCD, Santa Barbara County Water Agency, SYRWCD Improvement District No. 1, and City of Solvang).

- The Agency reported a negative unrestricted net position of $(249,935) at June 30, 2025, a decrease of $201,077 from the beginning-of-year net position of $(48,858). Grant reimbursement revenue recognized during the year partially offset operating expenses and the Agency's reliance on member agency loans for start-up costs.

- Total operating expenses were $602,419. The Agency did not recognize any operating revenues during the fiscal year, resulting in an operating loss of $(602,419), which was partially offset by nonoperating revenues.

- Nonoperating revenues totaled $401,342, comprising grant revenues of $401,226 from the Proposition 68 Sustainable Groundwater Management Grant Program, and interest income of $116.

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:

Statement of Net Position Summary	FY 2024/2025
Assets	
Cash and cash equivalents	$162,589
Grants receivable	$152,110
Prepaid expenses	$950
Total assets	**$315,649**
Liabilities	
Accounts payable	$142,731
Loans payable to member agencies (noncurrent)	$422,853
Total liabilities	**$565,584**
Net Position	
Unrestricted	($249,935)
Total net position	**($249,935)**

As this is the Agency's first year of operations under the JPA, prior-year comparative data is not available. At the end of FY 2024/2025, the Agency reported total assets of $315,649 and total liabilities of $565,584, resulting in a net position deficit of $(249,935). The deficit reflects the timing differences between expenditures incurred and grant-related expenses reimbursed quarterly in arrears. Management expects the deficit to be reduced as outstanding grant reimbursements are received in subsequent periods and fees from extraction and acreage are established.

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:

Statement of Revenues, Expenses, and Changes in Net Position	FY 2024/2025
Operating Expenses	
General and administrative	$113,551
Professional services	$402,767
Legal expenses	$86,101
Total operating expenses	**$602,419**
Operating loss	**($602,419)**
Nonoperating Revenues	
Grant revenues	$401,226
Interest income	$116
Total nonoperating revenues	**$401,342**
Change in net position	**($201,077)**
Net position, beginning of year	($48,858)
Net position, end of year	**($249,935)**

The Agency's primary expenses during fiscal year 2024-2025 were professional services ($402,767) for annual report preparation, legal expenses ($86,101) for Board meeting support, contract review/development, and general and administrative costs ($113,551) for executive director and bookkeeping services, and insurance. These expenses were associated with Groundwater Sustainability Plan implementation, regulatory compliance, and Agency administration. These operating costs were partially offset by nonoperating revenues of $401,342, principally grant reimbursement revenue of $401,226 recognized under the Proposition 68 Sustainable Groundwater Management Grant Program. The resulting change in net position was a decrease of $201,077, from a beginning-of-year net position of $(48,858) to $(249,935) at June 30, 2025.

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 $422,853 in loans payable to its member agencies under the JPA and the Interim Cost Share Agreement, allocated $112,439 to the Santa Ynez River Water Conservation District, $112,439 to Santa Barbara County Water Agency, $85,536 to Santa Ynez River

Water Conservation District, Improvement District No. 1, and $112,439 to City of Solvang. Repayment is scheduled over fiscal years 2027 through 2030.

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:

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Basic Financial Statements

Santa Ynez River Valley Groundwater Basin
Eastern Management Area Groundwater Sustainability Agency
Statement of Net Position
June 30, 2025

ASSETS		
Cash and cash equivalents	$	162,589
Grants receivable		152,110
Prepaid expenses		950
Total assets		315,649
LIABILITIES		
Accounts payable		142,731
Noncurrent liabilities		
Loans payable to member agencies		422,853
Total liabilities		565,584
NET POSITION		
Unrestricted		(249,935)
Total net position	$	(249,935)

See accompanying notes to basic financial statements.

OPERATING EXPENSES	
General and administrative expense	$ 113,551
Professional services	402,767
Legal expenses	86,101
Total operating expenses	602,419
OPERATING LOSS	(602,419)
NONOPERATING REVENUES	
Grant revenues	401,226
Interest income	116
Total nonoperating revenues	401,342
Change in net position	(201,077)
NET POSITION, beginning of year	(48,858)
NET POSITION, end of year	$ (249,935)

See accompanying notes to basic financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to vendors	$ (510,772)
Net cash used in operating activities	(510,772)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from loans from member agencies	422,853
Grant revenue received	249,116
Net cash provided by noncapital financing activities	671,969
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	116
Net cash provided by investing activities	116
NET INCREASE IN CASH AND CASH EQUIVALENTS	161,313
CASH AND CASH EQUIVALENTS, beginning of year	1,276
CASH AND CASH EQUIVALENTS, end of year	$ 162,589
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (602,419)
Change in assets and liabilities	
Accounts payable	91,647
Net cash used in operating activities	$ (510,772)

See accompanying notes to basic financial statements.

Note 1 – Reporting Entity

The Santa Ynez River Valley Groundwater Basin Eastern Management Area Groundwater Sustainability Agency (the "Agency") is a Joint Powers Authority formed effective July 16, 2024, pursuant to the Joint Exercise of Powers Act and the Sustainable Groundwater Management Act of 2014. The Agency is responsible for the sustainable management of groundwater resources within the Eastern Management Area of the Santa Ynez River Valley Groundwater Basin, a medium-priority coastal basin located in Santa Barbara County, California. The Eastern Management Area is one of three management areas within the Basin and encompasses approximately 150 square miles.

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 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.

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 the Sustainable Groundwater Management Grant Program, which supports implementation of the Sustainable Groundwater Management Act.

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 in arrears. Grants receivable are recognized when all eligibility requirements have been met as the grant constitutes a voluntary nonexchange transaction.

Grants receivable balance was $152,110 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 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**

Member agency contributions received on a reimbursable basis under the Joint Exercise of Powers Agreement are classified as loans payable and reported at principal amount outstanding. Interest accrues at the Local Agency Investment Fund yield rate after December 2026 unless the contributing member elects to waive interest or extend the date upon which interest begins to accrue.

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 28, 2026, the date the financial statements were available to be issued.

The Agency's groundwater extraction fee took effect on July 1, 2025 following Board adoption. The fee is a volumetric charge based on reported groundwater extraction. The fee is expected to generate approximately $590,000 in fiscal year 2025-2026 and will be primarily collected through the Santa Barbara County tax roll. The fee establishes an independent revenue source for the Agency and is expected to support its financial self-sufficiency.

Note 3 – Cash

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

Cash in bank and on hand	$	162,589
Total cash, Statement of Net Position	$	162,589

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.

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	$	112,439
Santa Barbara County Water Agency		112,439
Santa Ynez River Water Conservation District, Improvement District No. 1		85,536
City of Solvang		112,439
Total loans payable to member agencies	$	422,853

The loans were made by member agencies pursuant to the Joint Exercise of Powers Agreement (JPA) and the November 15, 2023 Interim Cost Share Agreement. Under the JPA, member agency contributions were originally reimbursable no later than December 2026. In May 2025, the member agencies approved the Agency's request to extend the repayment period to fiscal years 2027 through 2030. Repayment is scheduled with annual principal payments of $100,000 in fiscal years 2027 through 2029 and a final payment in fiscal year 2030 representing remaining principal plus accrued interest, with repayments made in proportion to contributions paid by each member agency. Contributions accrue interest after December 2026 at the annual rate published as the yield of the Local Agency Investment Fund administered by the California State Treasurer, unless the contributing member elects to waive interest or extend the date upon which interest begins to accrue.

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 Association of California Water Agencies Joint Powers Insurance Authority and the Golden State Risk Management Authority. 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 has received loans from member agencies totaling $422,853 to fund operations.

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 DWR grant implementation, and the Action Plan for Management of All Well Production Along the Santa Ynez River Above the Lompoc Narrows. Cost-sharing agreements exist for inter-management area activities.

Santa Ynez River Water Conservation District (SYRWCD) – SYRWCD is one of the four JPA member agencies, each of which has contribution obligations under the JPA and the Interim Cost Share Agreement. SYRWCD also serves as the grantee for the $5.5 million DWR Sustainable Groundwater Management Act Implementation Grant on behalf of the three basin Groundwater Sustainability Agencies with funds passed through to the Agency under a Subgrant Agreement.

Administrative Services – Confluence Engineering Solutions provides administrative services to the Agency, including the Executive Director and Board Secretary functions.

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 January 18, 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 Sustainable Groundwater Management Act 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.

Note 9 – Joint Powers Agreement

The Agency was formed pursuant to the Joint Exercise of Powers Agreement (JPA) among four member agencies: City of Solvang, Santa Barbara County Water Agency, Santa Ynez River Water Conservation District, and Santa Ynez River Water Conservation District, Improvement District No. 1.

The Agency is governed by a five-member Board of Directors, consisting of one Director appointed by each member agency and one Agricultural Director representing agricultural interests within the Eastern Management Area. Each Director has one vote. Decisions of the Board generally require an affirmative vote of at least three Directors. A supermajority of four out of five votes is required for specified actions including adoption of the annual budget, amendments to the Groundwater Sustainability Plan, establishment of fees and charges, issuance of indebtedness, and hiring of the Executive Director.

Member agency contributions are made pursuant to the JPA and the Interim Cost Share Agreement. All four member agencies have financial obligations under these agreements.

Note 10 – Intergovernmental Revenue and Grant Funding

The Agency is a beneficiary of a $5.5 million Sustainable Groundwater Management Act Implementation Grant awarded by the California Department of Water Resources. 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.

Note 11 – Negative Net Position

The Agency reported a negative net position of $(249,935) at June 30, 2025. The deficit reflects timing differences between expenditures incurred under the Department of Water Resources Sustainable Groundwater Management Act Implementation Grant and the related reimbursements received through the Santa Ynez River Water Conservation District. The Agency funds operations through member agency loans as needed. Management expects the deficit to be reduced as outstanding grant reimbursements are received in subsequent periods and fees from extraction are established.

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.

Moss, Levy & Hartzheim LLP
Certified Public Accountants

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 Eastern 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 Eastern 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 July 23, 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
July 23, 2026