

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

LIST OF APPOINTED OFFICIALS

JUNE 30, 2023

CURRENT BOARD OF DIRECTORS

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
President	Donald Olsen	November 2025
Vice-President	Sanford Coplin	November 2025
Treasurer	Donald Chesterman	November 2023
Secretary	Paul Anderson	November 2023
Assistant Secretary	Clinton Miller	November 2025

MANAGEMENT

General Manager

Judy Vazquez-Varela

Pajaro/Sunny Mesa Community Service District
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PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pajaro/Sunny Mesa Community Services District
Royal Oaks, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of each major enterprise fund, and the aggregate remaining fund information of Pajaro/Sunny Mesa Community Services District (District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District'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 each enterprise major fund, and the aggregate remaining fund information of Pajaro/Sunny Mesa Community Services District, as of June 30, 2023, 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 District 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 these 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 District'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 auditors' 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 District'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 District'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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information such as the budgetary comparison information on pages 31-34 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2024, on our consideration of the District'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 the District's 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 District's internal control over financial reporting and compliance.

 Brandon Katavos - Ape, CP

Salinas, California
May 6, 2024

BASIC FINANCIAL STATEMENTS

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2023

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
CURRENT ASSETS					
Cash and cash equivalents - Note 2	\$ 1,119,411	\$ -	\$ -	\$ 149,175	\$ 1,268,586
Restricted cash - street maintenance - Note 2	-	322,340	-	-	322,340
Receivables, net - Note 3	217,429	10,420	3,950	-	231,799
Grants receivable	70,520	-	-	-	70,520
Bond repayment assessments receivable, current - Note 4	210,275	-	-	-	210,275
Due from other funds	107,931	24,105	50,531	105,117	287,684
TOTAL CURRENT ASSETS	1,725,566	356,865	54,481	254,292	2,391,204
OTHER ASSETS					
Restricted cash - bond reserve fund - Note 2	886,542	-	-	-	886,542
Bond repayment assessments receivable, net of current portion - Note 4	3,100,954	-	-	-	3,100,954
TOTAL OTHER ASSETS	3,987,496	-	-	-	3,987,496
CAPITAL ASSETS - net - Note 5	6,989,769	-	-	4,371,580	11,361,349
TOTAL ASSETS	12,702,831	356,865	54,481	4,625,872	17,740,049
DEFERRED OUTFLOW OF RESOURCES					
Deferred loss from debt refunding	126,586	-	-	-	126,586
	\$ 12,829,417	\$ 356,865	\$ 54,481	\$ 4,625,872	\$ 17,866,635
CURRENT LIABILITIES					
Cash overdraft - Note 2	\$ -	\$ 14,179	\$ 4,355	\$ -	\$ 18,534
Accounts payable	56,732	1,280	2,696	2,780	63,488
Accrued expenses	216,112	-	-	-	216,112
Deposits	82,529	-	-	-	82,529
Notes payable, current portion - Note 6	48,433	-	-	-	48,433
Revenue refunding bond, current portion - Note 6	75,000	-	-	-	75,000
Special assessment bond, current portion - Note 6	208,000	-	-	-	208,000
Revenue bond, current portion - Note 6	45,000	-	-	-	45,000
Due to other funds	230,483	57,201	-	-	287,684
TOTAL CURRENT LIABILITIES	962,289	72,660	7,051	2,780	1,044,780
OTHER LIABILITIES					
Notes payable - net of current portion - Note 6	124,384	-	-	-	124,384
Revenue refunding bond - net of discount and current portion - Note 6	1,633,567	-	-	-	1,633,567
Special assessment refunding bonds - net of discount and current portion - Note 6	3,102,293	-	-	-	3,102,293
Revenue bond - net of premium and current portion - Note 6	1,615,696	-	-	-	1,615,696
TOTAL OTHER LIABILITIES	6,475,940	-	-	-	6,475,940
TOTAL LIABILITIES	7,438,229	72,660	7,051	2,780	7,520,720
NET POSITION					
Invested in capital assets - net of related debt	2,684,634	-	-	4,371,580	7,056,214
Restricted - Note 7	886,542	220,834	-	-	1,107,376
Unrestricted	1,820,012	63,371	47,430	251,512	2,182,325
TOTAL NET POSITION	5,391,188	284,205	47,430	4,623,092	10,345,915
	\$ 12,829,417	\$ 356,865	\$ 54,481	\$ 4,625,872	\$ 17,866,635

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2023

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
OPERATING REVENUES					
User service charges	\$ 2,334,684	\$ -	\$ -	\$ -	\$ 2,334,684
Street lights service charges	-	-	41,090	-	41,090
Street maintenance service charges	-	63,889	-	-	63,889
Connection fees	77,217	-	-	-	77,217
Grant revenue	84,398	-	-	-	84,398
Miscellaneous	306	-	-	-	306
Pajaro Park revenue	-	-	-	60,000	60,000
TOTAL OPERATING REVENUES	2,496,605	63,889	41,090	60,000	2,661,584
OPERATING EXPENSES					
Salaries and employee benefits	1,187,271	27,365	9,329	48,352	1,272,317
General, administrative and operating expenses	875,516	18,603	31,442	30,383	955,944
Depreciation and amortization	528,945	-	-	237,317	766,262
TOTAL OPERATING EXPENSES	2,591,732	45,968	40,771	316,052	2,994,523
OPERATING INCOME (LOSS)	(95,127)	17,921	319	(256,052)	(332,939)
NON-OPERATING REVENUES (EXPENSES)					
Assessments	141,335	-	-	-	141,335
Reimbursements	80,478	-	-	-	80,478
Income from investment	36,784	-	-	-	36,784
Property taxes	-	-	-	34,274	34,274
Other income	240	-	-	6,000	6,240
Bond issuance costs - Note 7	(4,259)	-	-	-	(4,259)
Grant reimbursement expenses	(191,891)	-	-	-	(191,891)
Interest expense	(269,257)	-	-	-	(269,257)
NON-OPERATING REVENUES (EXPENSES)	(206,570)	-	-	40,274	(166,296)
INCREASE (DECREASE) IN NET POSITION	(301,697)	17,921	319	(215,778)	(499,235)
NET POSITION, BEGINNING OF YEAR	5,692,885	266,284	47,111	4,838,870	10,845,150
NET POSITION, END OF YEAR	\$ 5,391,188	\$ 284,205	\$ 47,430	\$ 4,623,092	\$ 10,345,915

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and others	\$ 2,520,811	\$ 61,629	\$ 40,460	\$ 60,000	\$ 2,682,900
Payments to suppliers and vendors	(881,472)	(17,499)	(31,433)	(48,741)	(979,145)
Payments to employees	(1,227,889)	(27,365)	(9,329)	(28,450)	(1,293,033)
Net cash provided by (used in) operating activities	411,450	16,765	(302)	(17,191)	410,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(889,013)	-	-	-	(889,013)
Principal payments on debt maturities	(343,776)	-	-	-	(343,776)
Interest payments	(269,258)	-	-	-	(269,258)
Proceeds from bonds - net of issuance costs	(4,259)	-	-	-	(4,259)
Collection of assessments	340,911	-	-	34,275	375,186
Collection of grant income - net of expense	(210,329)	-	-	-	(210,329)
Reimbursements and other income	80,718	-	-	6,000	86,718
Disposal of assets	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	(1,295,006)	-	-	40,275	(1,254,731)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	36,784	-	-	-	36,784
Net cash provided by investing activities	36,784	-	-	-	36,784
Net increase (decrease) in cash and cash equivalents	(846,772)	16,765	(302)	23,084	(807,225)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,852,725	291,396	(4,053)	126,091	3,266,159
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,005,953	\$ 308,161	\$ (4,355)	\$ 149,175	\$ 2,458,934
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF NET POSITION					
Cash and cash equivalents	\$ 1,119,411	\$ -	\$ -	\$ 149,175	\$ 1,268,586
Cash overdraft	-	(14,179)	(4,355)	-	(18,534)
Restricted cash - street maintenance	-	322,340	-	-	322,340
Restricted cash - bond reserve fund	886,542	-	-	-	886,542
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	\$ 2,005,953	\$ 308,161	\$ (4,355)	\$ 149,175	\$ 2,458,934

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2023

	<u>Water Enterprise</u>	<u>Street Maintenance Enterprise</u>	<u>Lighting Enterprise</u>	<u>Parks Enterprise</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)					
NET OPERATING ACTIVITIES					
Operating income (loss)	\$ (95,127)	\$ 17,921	\$ 319	\$ (256,052)	\$ (332,939)
Adjustments to reconcile increase (decrease) in net position to net cash provided by (used in)					
operating activities:					
Depreciation and amortization	528,945	-	-	237,317	766,262
Decrease (increase) in receivables	24,206	(2,260)	(630)	-	21,316
(Increase) decrease in accounts payable and accruals	(50,674)	1,104	9	1,544	(48,017)
Increase in Deposits	4,100	-	-	-	4,100
Net cash provided by (used in) operating activities	<u>\$ 411,450</u>	<u>\$ 16,765</u>	<u>\$ (302)</u>	<u>\$ (17,191)</u>	<u>\$ 410,722</u>

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Pajaro/Sunny Mesa Community Services District (District) is a Special District within Monterey County as defined by the State of California. The District is authorized to provide water, street maintenance, lighting and park services. The District owns and operates nine, individual, non-contiguous water systems. All water systems are within the District's sphere of influence, and are considered one District, with a common, uniform rate schedule.

The District's oversight is performed by a five-member board of directors (Board) who are appointed for four-year terms by the Monterey County Board of Supervisors. The Board along with the General Manager provides direction on the overall management of the District such as overseeing operating budgets, ongoing operations, capital planning and rate setting.

Financial Reporting Entity

The District's basic financial statements include the accounts of all District operations. The criteria for including other organizations as component units within the reporting entity (District) are set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Based on the criteria set forth by GASB, the District has no component units.

Basis of Presentation, Measurement Focus and Basis of Accounting

The District's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable pronouncements, statements and interpretations of the Financial Accounting Standards Board issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized as enterprise funds. The activities of these funds are accounted for with separate sets of self-balancing accounts that comprise the District's assets, deferred outflows, liabilities, deferred inflows, net assets, revenues and expenses.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation, Measurement Focus and Basis of Accounting
(Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into components. Enterprise fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Enterprise fund operating revenues, such as fees for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, grants, and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by enterprise fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

A portion of the District's revenues is derived from Cost-reimbursable federal and state grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the District has incurred expenditures in compliance with specific grant provisions.

Budgetary Controls

The District operates under a budget prepared and approved annually by the Board of Directors. The budget is prepared on a detailed line item basis. Revenues are budgeted by source, and expenses are budgeted by department or enterprise (water, street maintenance, lighting and parks) and use (salaries and employee benefits, services and supplies, other charges, fixed assets acquisitions and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Controls (Continued)

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that bond proceeds are treated as revenues, and bond principal payments and fixed assets acquisitions are treated as expenses. In addition, depreciation is generally not provided for in budgeted expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, the District considers all highly liquid debt instruments, including those that are classified as restricted assets with an original maturity of three months or less when acquired, to be cash equivalents.

Customer Receivables

The District utilizes the allowance method of accounting for uncollectible or doubtful accounts. Accounts receivable are valued at outstanding principal balance, reduced for any allowance. An allowance of \$8,630 has been recorded by management at June 30, 2023. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. Receivables over thirty (30) days past due are assessed penalties.

Special Assessment Receivable

Special assessments, levied to service debt for which the District is in some manner obligated or to reimburse a fund for advances made to finance capital improvement projects, are recognized as revenue at the time the individual assessments become due.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are carried at cost, which includes direct labor, outside services, materials and transportation, overhead and interest on funds borrowed to finance construction. Donated capital assets are recorded at estimated fair value at the date of donation. Gains or losses resulting from the sale or disposition of property and equipment are recognized in the period of disposition.

Repairs and maintenance including planned major maintenance activities, which are not considered betterments and do not extend the useful life of property, plant and equipment, are charged to expense as incurred.

Construction-in-process is not depreciated until it is placed into service.

The District recognizes depreciation using the straight-line method over the estimated useful lives as follows:

Buildings	20-50 Years
Water and sewer system	30-50 Years
Infrastructure	20-35 Years
Machinery and equipment	5-10 Years
Improvements	20 Years

Deferred Outflows and Inflows of Resources

The District reports deferred outflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until the applicable period. The District has one item that qualifies for reporting in this category. This item is a deferred loss on debt refunding. A deferred loss on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is reported in the statement of net position and is deferred and amortized over the shorter of the life of the refunded (old) or refunding (new) debt.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The District has no items that qualify for reporting in this category.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Discounts, Premiums and Issuance Costs

Bond discounts and premiums are deferred and amortized over the life of the bonds using a method which approximates the effective interest method. Bonds payable are reported net of the applicable bond discount. Debt issuance costs are recognized as an expense in the year in which the costs were incurred.

Compensated Absences

District employees accumulate vacation hours for subsequent use or payment upon termination, death or retirement. The employees accumulate up to 25 days of vacation per year. All accumulated vacation is recorded as an expense and a liability in the Water Enterprise Fund at the time the liability is accrued. Total unused vacation will be paid to the employee during January of the following year.

District employees accumulate sick leave hours for subsequent use or payment upon death or retirement. Sick leave is recorded as an expense and a liability in the Water Enterprise Fund to the extent it is earned during the year.

Employees hired prior to October 1, 2011, accumulate 12 days of sick leave per year to a maximum of 1,920 hours and one-third of unused accumulated sick leave will be paid upon death or retirement.

Employees hired after October 1, 2011, may accumulate sick leave up to a maximum of 70 hours per year. At the beginning of each new calendar year, employee's sick leave account balances are credited with the hours necessary to restore the accounts to the maximum of 70 hours. Unused sick leave will be paid upon death or retirement.

Property Taxes

The County of Monterey is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions, including the District. Secured property taxes for each year ended June 30 are payable in equal installments, November 1 and February 1 and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the County in the governmental funds. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid by August 31.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The District is a California local government unit which is exempt from both federal and state income taxes.

Net Position

Net position represents the difference between the District's assets and liabilities. Net position is classified in the following three components:

Invested in capital assets, net of related debt – This component of net position, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition of those assets.

Restricted – This component of net position consists of constraints imposed by creditors (debt covenants on bonds), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "investment in capital assets, net of related debt".

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services in the form of assessments, water sales, and cost-reimbursable federal and state grants. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is the District's policy to apply those expenses to restricted assets to the extent such are available and then to unrestricted assets.

General and Administrative Expense Allocation

General and administrative expenses are charged to each of the enterprises based upon estimated cost allocations derived from time studies approved by the Board.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Natural Disaster

In early 2023, flooding struck the Community of Pajaro and surrounding areas and caused destruction across Monterey County as well as other parts of California. As a result of this flooding, the District experienced approximately \$1.3 million worth of damage to the water systems as indicated by an insurance adjuster. The insurance deductible is \$100,000, which can be reimbursed by the Federal Emergency Management Agency (FEMA). At the conclusion of this audit, the District did not know the full extent of the financial impact of the flooding which took place.

2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	<u>Water Enterprise</u>	<u>Street Maintenance Enterprise</u>	<u>Lighting Enterprise</u>	<u>Parks Enterprise</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,119,411	\$ (14,179)	\$ (4,355)	\$ 149,175	\$ 1,250,052
Restricted cash, current	-	322,340	-	-	322,340
Restricted cash, non-current (bond fund)	<u>886,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>886,542</u>
	<u>\$ 2,005,953</u>	<u>\$ 308,161</u>	<u>\$ (4,355)</u>	<u>\$ 149,175</u>	<u>\$ 2,458,934</u>

Cash and cash equivalent and restricted cash as of June 30, 2023, consisted of the following:

	<u>Amount</u>
Cash on hand	\$ 400
Cash in the bank - checking	1,509,924
Cash in County Treasury	62,068
Cash held in trust account	<u>886,542</u>
Total cash and cash equivalents	<u>\$ 2,458,934</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (Continued)

Cash in County Treasury

Investments Authorized by the California Government Code and the District's Investment Policy

The District maintains a portion of its cash in the Monterey County Treasury as part of the common local government investment pool. The California Government Code authorizes investments in U.S. Treasury obligations, U.S. District securities, municipal securities, negotiable certificates of deposits, commercial paper, bankers' acceptances, medium-term corporate bonds ("A" or better), asset-backed securities, repurchase agreements, money market funds and local government investment pools. As of June 30, 2023, the investment policy and the investments of the Monterey County pool are in compliance with the California Government Code.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk of changes in market interest rates adversely affecting the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2023, the weighted average maturity of the Monterey County investment portfolio is 337 days.

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Monterey County investment pool does not have a rating provided by a nationally recognized statistical rating organization. Approximately 83.5% of the investment portfolio is comprised of U.S. Treasuries, Federal District securities, Negotiable CDs and other liquid funds.

All of those assets have an investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. The corporate debt, 15.3% of the investment portfolio, is rated in the higher levels of investment grade. All Federal securities have AA ratings or are guaranteed by the U.S. Treasury.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (Continued)

Cash in County Treasury (Continued)

Concentration of Credit Risk

The Monterey County or the District investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Monterey County pool does not include any investments by any one issuer (other than the State of California Local District Investment Fund and the California Asset Management Program – external governmental investment pools) that represents 10% or more of total investments.

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 California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The provisions require a financial institution to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository. Regulated 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 districts' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Cash in the bank – Checking and Cash held in trust account

The District also maintains checking accounts with a financial institution and uses these accounts as operating accounts for the District. As of June 30, 2023, the District has \$1,511,762 on deposit with one bank. The District also has on deposit \$581,353 in restricted cash held in trust by one financial institution and \$305,188 in restricted cash held at another financial institution. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the amount of \$250,000 and the State regulation stipulated above fully insures all deposits as of June 30, 2023.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

3. RECEIVABLES

Receivables consisted of the following at June 30, 2023:

	<u>Water Enterprise</u>	<u>Street Maintenance Enterprise</u>	<u>Lighting Enterprise</u>	<u>Parks Enterprise</u>	<u>Total</u>
Service charge					
receivables	\$ 225,802	\$ 688	\$ -	\$ -	\$ 226,490
Uncollectible allowance	(8,630)	-	-	-	(8,630)
Assessment receivables	-	9,732	3,090	-	12,822
Other receivables	<u>257</u>	<u>-</u>	<u>860</u>	<u>-</u>	<u>1,117</u>
	<u>\$ 217,429</u>	<u>\$ 10,420</u>	<u>\$ 3,950</u>	<u>\$ -</u>	<u>\$ 231,799</u>

4. BOND REPAYMENT ASSESSMENT RECEIVABLES

Bond repayment assessment receivables consisted of the following at June 30, 2023:

Water bond receivables	\$ 107,713
Vega bond receivables	<u>3,203,516</u>
	3,311,229
Less current portion	<u>(210,275)</u>
Bond repayment assessment receivables, net of current portion	<u>\$ 3,100,954</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, consisted of the following:

	<u>July 1, 2022</u>	<u>Additions</u>	<u>Reclasses</u>	<u>June 30, 2023</u>
<u>Capital Assets</u>				
<u>Not Depreciated:</u>				
Land	\$ 1,646,453	\$ -	\$ -	\$ 1,646,453
Construction in process	<u>87,456</u>	<u>289,019</u>	<u>324,755</u>	<u>701,230</u>
	<u>1,733,909</u>	<u>289,019</u>	<u>324,755</u>	<u>2,347,683</u>
<u>Capital Assets Being</u>				
<u>Depreciated:</u>				
Utility plant	2,519,130	-	-	2,519,130
Buildings and improvements	550,986	-	-	550,986
Machinery and equipment	839,121	-	-	839,121
Vega plant improvements	4,701,006	13,691	-	4,714,697
Normco tank	331,966	13,995	-	345,961
Pajaro tank and system	2,196,169	114,773	68,489	2,379,431
Langley/VP	247,544	4,787	-	252,331
Vierra Estate	220,042	78,803	-	298,845
Moss Landing Water	310,547	111,798	-	422,345
Springfield	393,244	-	(393,244)	-
Sunny Mesa	15,883	215,739	-	231,622
Blackie Rd Water System	-	46,408	-	46,408
Pajaro Park buildings and improvements	<u>5,513,510</u>	<u>-</u>	<u>-</u>	<u>5,513,510</u>
	<u>17,839,148</u>	<u>599,994</u>	<u>(324,755)</u>	<u>18,114,387</u>
Total Capital Assets	19,573,057	889,013	-	20,462,070
Less accumulated depreciation	<u>(8,343,382)</u>	<u>(757,339)</u>	<u>-</u>	<u>(9,100,721)</u>
	<u>\$ 11,229,675</u>	<u>\$ 131,674</u>	<u>\$ -</u>	<u>\$ 11,361,349</u>

6. LONG-TERM DEBT

2015 Water Revenue Refunding Bonds

In June 2015, the District issued \$2,275,000 in Water Revenue Refunding Bonds to provide resources to purchase U.S. Government Securities that were placed in escrow for the purpose of generating resources for full payment of the 2010 Certificates of Participation. As a result, the 2010 Certificates of Participation were considered to be defeased, and the liability was removed from the statement of net position in 2015.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

6. LONG-TERM DEBT (Continued)

2015 Water Revenue Refunding Bonds (Continued)

The Water Revenue Refunding Bonds mature in installments ranging from \$60,000 to \$140,000 from May 1, 2016 through May 1, 2040, and bear interest at rates from 2.00% to 4.40%, payable annually on May 1 each year.

The Bonds are subject to optional prepayment prior to their respective stated maturities, as a whole or in part in order of maturity, on or after May 1, 2023. The amount of such optional prepayments is equal to the principal, accrued interest to the date of prepayment plus a prepayment premium, if applicable. The premium is computed on the principal prepaid at a rate of 2% for May 1, 2023 through November 1, 2023, and 1% for prepayment dates May 1, 2024 through November 1, 2024. There are no premiums applicable to prepayments made on or after May 1, 2025.

The Bonds maturing on May 1, 2040, are subject to mandatory prepayments ranging from \$115,000 to \$140,000 beginning May 1, 2036 through May 1, 2040.

A Reserve Fund, equal to the lesser of 10% of the proceeds of the Bonds, the maximum annual debt service, or 125% of the average annual debt service on the Certificates, is required. The balance in the Reserve Fund at June 30, 2023, was \$149,020 and is included in restricted cash in the statement of net position.

The District is obligated to make installment payments solely from the "Net Revenues" defined as the gross revenues during each fiscal year, less the maintenance and operation costs during each fiscal year.

Special Assessment Vega Water Bond

The District has an outstanding special assessment bond which was issued for the primary purpose of enabling the District to acquire and construct certain water storage and distribution improvements and appurtenances. The special assessment bond was issued under, and is subject to, the provisions of the Improvement Bond Act of 1915 and are collateralized by liens against properties within the District and repaid from assessments levied against the subject properties. The District is liable for delinquent unpaid assessments in excess of the amounts recoverable upon sale or redemption of the subject properties.

At June 30, 2023, unpaid assessments receivable amounted to \$3,203,516 of which \$170,000 is current and \$3,033,516 is non-current. The assessments are billed to consumers through property tax rolls by the County of Monterey.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

6. LONG-TERM DEBT (Continued)

Special Assessment Vega Water Bond (Continued)

The Vega Special Assessment Bond was originally issued at \$4,715,000 with installment payments ranging from \$10,000 to \$420,000 paid serially from September 2, 2009 through September 2, 2038, and bear interest at rates 4% to 5%, payable semiannually on March 2 and September 2 of each year.

During fiscal year 2016, the District paid in full the outstanding payable balance of the 2007 Vega Special Assessment Bond via debt refunding. Refer to the section below for more details.

2015 Vega Mutual Water Refunding District Bonds

In July 2015, the District issued \$4,135,000 in Vega Mutual Water Refunding Bonds to provide resources to purchase U.S. Government Securities that were placed in escrow for the purpose of generating resources for full payment of the original Vega Mutual Water Assessment District, Series 2007 Bonds.

The outstanding principal of the defeased bonds is \$4,204,800 at June 30, 2016. The reacquisition price exceeded the net carrying amount of the old debt by \$110,020. This amount is presented as deferred outflow of resources and is amortized over the life of the refunded debt, which is the same as the original debt. This advance refunding was undertaken to reduce total debt service payments over the next twenty-two years by approximately \$770,000 and resulted in an economic gain (difference between the present values of debt service payments on the old and new debt) of approximately \$550,000.

The Bonds are collateralized by liens against properties within the District and repaid from assessments levied against the subject properties. The District is liable for delinquent unpaid assessments in excess of the amounts recoverable upon sale or redemption of the subject properties.

The Bonds mature in installments ranging from \$80,000 to \$275,000 from September 2, 2016 through September 2, 2037, and bear interest at rates from 3.50% to 4.25%, payable semiannually on March 2 and September 2 of each year.

The Bonds are subject to optional redemption prior to their respective stated maturities, as a whole or in part in order of maturity, on or after March 2, 2016.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

6. LONG-TERM DEBT (Continued)

2015 Vega Mutual Water Refunding District Bonds (Continued)

The redemption price is equal to the principal, accrued interest to the date of prepayment plus a prepayment premium, if applicable. The premium is computed on the principal prepaid at a rate of 3% for March 2, 2026 through September 2, 2025. There are no premiums applicable to redemptions made on or after March 2, 2026.

Special Assessment Water Improvement Bond

The District has an outstanding special assessment bond which was issued for the purpose of enabling the District to acquire and make improvements to certain water treatment systems. The special assessment bond was issued under, and is subject to, the provisions of the Improvement Bond Act of 1915 and are collateralized by liens against properties within the District and repaid from assessments levied against the subject properties. The District is liable for delinquent unpaid assessments in excess of the amounts recoverable upon sale or redemption of the subject properties.

The Improvement Special Assessment Bond was originally issued at \$692,700 with installment payments ranging from \$1,000 to \$43,000 paid serially from September 2, 1987 through September 2, 2025, and bear interest at 6.375%, payable semiannually on March 2 and September 2 of each year.

At June 30, 2023, unpaid assessments receivable amounted to \$107,713 of which \$40,275 is current and \$67,438 is non-current. The assessments are billed to consumers through property tax rolls by the County of Monterey.

2021 Water Revenue Bonds

In August 2021, the District issued \$1,660,000 in Water Revenue Bonds to provide resources to acquire, construct and pay costs associated with various improvements of the utility systems at the District, establish a reserve fund and establish a delivery cost fund. The cost of issuing the Water Revenue Bonds totaled \$109,871 and is included in the accompanying statement of revenues, expenses, and changes in net position. A premium of \$42,391 is deferred and recognized over the life of the Water Revenue Bonds and is included in long-term debt in the statement of net position.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

6. LONG-TERM DEBT (Continued)

2021 Water Revenue Bonds (Continued)

The Water Revenue Bonds mature in installments ranging from \$40,000 to \$90,000 from September 2, 2022 through September 2, 2047, and bear interest, at rates from 2.00% to 4.00%, payable semi-annually on March 2 and September 2 each year.

The Water Revenue Bonds are subject to optional prepayment prior to their respective stated maturities, as a whole or in part in order of maturity, on or after September 2, 2032. The amount of such optional prepayments is equal to the principal, accrued interest to the date of prepayment, without premium.

The Water Revenue Bonds maturing on September 2, 2037 and September 2, 2047, are subject to mandatory prepayments, without premium, ranging from \$60,000 to \$90,000 beginning September 2, 2033 and September 2, 2038, respectively.

A Reserve Fund, equal to the lesser of (1) 10% of the proceeds of the Bonds, (2) the maximum annual debt service, or (3) 125% of the average annual debt service on the bonds, is required. The balance in the Reserve Fund at June 30, 2023, was \$95,040 and is included in restricted cash in the statement of net position.

The District is obligated to make installment payments solely from the "Net Water Revenues" defined as the gross water system revenues during each fiscal year, less the maintenance and operation costs during each fiscal year.

Reorganization Loan

The District obtained a loan in 2007 with an original principal amount of \$520,000 for the purpose of refinancing an existing loan with a financial institution and the construction of various District improvements. The loan constituted a first lien on all District net revenues. The principal payments range from \$20,000 to \$40,000 paid from September 14, 2007 through May 14, 2026, with an interest rate of 5.25%, paid semiannually on September 14 and May 14 of each year.

Vehicle Loan

The District obtained \$63,024 in loans from a financial institution on March 13, 2020, for the purchase of two District vehicles. These loans mature on September 11, 2025, and require total monthly payments of \$1,189.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

6. LONG-TERM DEBT (Continued)

Changes in long-term debt amounts for 2023 were as follows:

	<u>Balance 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2023</u>	<u>Due Within One Year</u>
<u>Long-term debt:</u>					
2015 Water Revenue Refunding Bonds	\$ 1,805,000	\$ -	\$ (70,000)	\$ 1,735,000	\$ 75,000
2015 Vega Refunding Assessment Bonds	3,347,600	-	(150,000)	3,197,600	170,000
Water Improvement Assessment Bonds	159,000	-	(36,000)	123,000	38,000
2021 Water Revenue Bonds	1,660,000	-	(40,000)	1,620,000	45,000
Reorganization loan	185,000	-	(35,000)	150,000	35,000
Vehicle loan	35,594	-	(12,776)	22,818	13,433
Unamortized premium	42,392	-	(1,697)	40,695	-
Unamortized discount	<u>(39,030)</u>	<u>-</u>	<u>2,290</u>	<u>(36,740)</u>	<u>-</u>
Total long-term debt	7,195,556	<u>\$ -</u>	<u>\$ (343,183)</u>	6,852,373	<u>\$ 376,433</u>
Less current portion	<u>(343,779)</u>			<u>(376,433)</u>	
Total long-term debt, net of current portion	<u>\$ 6,851,777</u>			<u>\$ 6,475,940</u>	

Future debt service requirements for the years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current	\$ 376,433	\$ 261,073	\$ 637,506
2025	374,373	245,790	620,163
2026	380,012	230,125	610,137
2027	345,000	215,648	560,648
2028-2032	1,730,000	878,558	2,608,558
2033-2037	2,105,000	496,962	2,601,962
2038-2042	1,037,600	135,926	1,173,526
2043-2047	410,000	40,975	450,975
2048-2052	<u>93,955</u>	<u>1,238</u>	<u>95,193</u>
	<u>\$ 6,852,373</u>	<u>\$ 2,506,295</u>	<u>\$ 9,358,668</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

7. RESTRICTED NET POSITION

Restricted assets consisted of the following at June 30, 2023:

	<u>Amount</u>
Water bond fund	\$ 886,542
Street maintenance reserve fund	<u>220,834</u>
	<u>\$ 1,107,376</u>

The District has established a water trust account at a financial institution to hold and separate proceeds received from the Vega Water Mutual Refunding Bond and Water Revenue Refunding Bonds. The funds are held in trust until at which time expenditures occur for the designated projects and payments are remitted. In addition, reserve trust accounts are maintained at a financial institution to hold funds for future debt service as in accordance with the bond agreement.

The District, through county tax rolls, assesses specific home associations for street maintenance and repairs. Included in the assessments are funds for future large street projects. The accumulation of these fees, although not actually segregated from other District assets, are legally segregated by accounting purposes and restricted for their intended use by enabling state legislation and District ordinances.

8. POOLED ARRANGEMENTS

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The Authority provides coverage to the District for property losses, auto and general liability, worker's compensation, public official's liability and underground tank storage losses. Members of the Authority share the costs of professional risk management, claims administration and excess insurance. The District establishes an amount which represents the District's deductible per occurrence and the Authority provides self-insured coverage up to established pool limits for the various type of insurance coverage. Settlements have not exceeded insurance coverage in each of the past three years.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

8. POOLED ARRANGEMENTS (Continued)

Coverage limits are \$2 million per occurrence for general liability, automotive and public official's liability; replacement cost for property, subject to varying deductibles; \$100,000 for crime coverage; and statutory limits for worker's compensation.

9. RETIREMENT PLAN

The District's current defined contribution plan (Plan) administered by the Public District Retirement Services (PARS) provides retirement benefits to all full-time employees employed on or after January 1, 2010. The District is required to contribute an amount equal to fifteen percent (15%) of the permanent full-time employees' gross salaries. The contribution to the Plan was \$136,366 for the year ended June 30, 2023. Employees become 100% vested in the Plan upon completion of five years of service. If the age and years of service requirements are not met at termination of employment, the employee is entitled to one-half of all their accrued contributions. Any employee forfeitures are either returned to the District and used to offset future contributions or reallocated pro-rata among the remaining employees. The fair market value (and carrying value) of the Plan is determined by the current value of the Plan's investment portfolio in the open market.

10. CONCENTRATION OF CREDIT RISK

The Pajaro/Sunny Mesa Community Services District serves the residents of specific geographic areas of North Monterey County and extends credit to substantially all of its customers and does not require security deposits for all of its customers.

11. COMMITMENTS AND CONTINGENCIES

The District is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations. In management's opinion, the outcome of any such litigation will not materially affect the District's financial condition, and management intends to vigorously pursue their positions in these matters.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

11. COMMITMENTS AND CONTINGENCIES (Continued)

North County Water System Improvement Projects

On May 27, 2010, Certificates of Participation were executed for the purpose of improving systems in the area that have quantity and quality water issues. The project will include the construction of the water system to serve potable water and fire suppression flows to areas within the District which are presently out of compliance with county and state environmental health standards due to very high levels of arsenic and nitrate contaminations. As a result of the 2015 Water Revenue bond refunding, these Certificates of Participation were considered to be defeased in the year ended June 30, 2015. Refer to Note 6 for additional information.

12. PAJARO NEIGHBORHOOD PARK - DONATED CAPITAL ASSETS

On February 11, 2014, the District was given title to the property and improvements of the newly constructed Pajaro Neighborhood Park (Park). Funding for the construction of the Park was provided by a grant from the State Department of Parks and Recreation (Proposition 84) and the Redevelopment District of Monterey County. The total transfer project value was approximately \$6.3 million. As part of the property transfer agreement, the District is now responsible for the cost to operate and maintain the Park for a period of twenty years. Per grant conditions, the District is not allowed to charge a gate fee, or use fee for the general public. Reservation fees for special events are paid directly to a third party operator. The District does not generate revenue from the Pajaro Park.

13. GRANTS

The District has received financial assistance from various federal and state agencies in the form of grants. These programs are subject to audit by agents of the granting authority. Management does not believe that liabilities for reimbursements, if any, will have a materially adverse effect upon the financial condition of the District.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

13. GRANTS (Continued)

Grants from State Water Resources Control Board

On June 6, 2017, the District became eligible for funding of cleanup and abatement activities via a grant received from the State Water Board. The maximum amount payable under this agreement shall not exceed \$153,218, of which \$79,164 is budgeted for prior years with bottled distribution records to be completed by June 30, 2017. The additional funding of \$74,054 was given to continue the bottled water distribution. Under the grant agreement, the District may obtain funding for reasonable and necessary costs of clean up and abatement activities, including providing interim replacement drinking water to disadvantaged communities, incurred on or after September 5, 2014, with bottled distribution records to be completed by December 31, 2019. The District's funding for the same project for prior period (2013-2016) was amended and increased by \$50,000, with the final claim and disbursement date moved to May 1, 2019.

On October 1, 2019, the District received a grant from the California Water Boards for the purpose of purchasing and delivering bottled drinking water for three distinct project areas within Monterey County. The total grant of \$532,565 funds was to provide five-gallon water bottles, totaling approximately 65 gallons to bottled drinking water to approximately 218 people, which was completed by September 30, 2022. On October 1, 2022, the District received a grant extension from the California Water Boards for \$837,743, for the same purpose.

14. WATER RATE INCREASES

In April 2021, the Board of Directors of the District approved water rate decreases and increases, which became effective on July 1, 2021, and in effect for five fiscal years.

The approved (decreases)/increases are as follows for the years ending June 30:

2024:	11%
2025:	8%
2026:	5%

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

15. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 6, 2024, the date the financial statements were available to be issued.

In October 2023, the District submitted a property insurance claim for \$1,320,974 to the Authority, relating to damages caused by the flood that struck the District in March 2023. The submitted claim consisted of \$237,489 for expenses incurred, \$899,355 for proposed expenses for the replacement of the District's Motor Control Centers (MCC) water systems, and \$184,130 for proposed mitigation work related to the MCC. In February 2024, the Authority reimbursed the District for \$130,402 of the incurred expenses, and retained \$100,000 as a deductible.

Also in October 2023, the District applied for public assistance with the Federal Emergency Management Agency (FEMA) for repairs and replacement costs of the MCC, not covered by insurance, totaling \$779,684. Of these total costs, 75% or \$584,762 is covered by FEMA as a federal cost share. Of the \$584,762, \$183,729 has been obligated for reimbursement by FEMA pending finalized insurance claim payment from the Authority, and \$401,034 of the project costs is still pending environmental review.

SUPPLEMENTARY INFORMATION

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - WATER ENTERPRISE**

FOR THE YEAR ENDED JUNE 30, 2023

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
User service charges	\$ 2,513,000	\$ 2,334,684	\$ (178,316)
Reimbursements	29,500	84,398	54,898
Connection fees	33,400	77,217	43,817
Miscellaneous	1,000	306	(694)
	<u>2,576,900</u>	<u>2,496,605</u>	<u>(80,295)</u>
TOTAL OPERATING REVENUES			
OPERATING EXPENSES			
Salaries and employee benefits	1,149,050	1,187,271	(38,221)
Water system repairs and maintenance	225,000	391,687	(166,687)
Utilities - well site	170,000	154,284	15,716
Other expenses	75,600	(7,401)	83,001
Fuel	53,000	47,087	5,913
Casualty insurance	42,000	43,033	(1,033)
Accounting and bookkeeping	38,500	36,050	2,450
Licenses and permits	36,000	31,394	4,606
Office expenses	35,700	43,352	(7,652)
Soil and water tests	30,000	50,692	(20,692)
Membership fees and dues	20,000	20,963	(963)
Legal expenses	17,000	19,319	(2,319)
Telephone	17,000	19,386	(2,386)
Bond administrative costs	11,000	11,775	(775)
Postage	9,600	9,600	-
Utilities - office	4,000	4,295	(295)
Engineering expense	1,000	-	1,000
	<u>1,934,450</u>	<u>2,062,787</u>	<u>(128,337)</u>
TOTAL OPERATING EXPENSES			
OPERATING INCOME	<u>642,450</u>	<u>433,818</u>	<u>(208,632)</u>
NON-OPERATING REVENUES (EXPENSES)			
Assessments	335,000	141,335	(193,665)
Grant revenue	-	80,478	80,478
Income from investment	150	36,784	36,634
Other income	6,650	240	(6,410)
Bond principal payments and interest expense	(611,700)	(613,033)	(1,333)
Bond issuance costs - Note 6	-	(4,259)	(4,259)
Grant reimbursement expenses	-	(191,891)	(191,891)
	<u>(269,900)</u>	<u>(550,346)</u>	<u>(280,446)</u>
NON-OPERATING REVENUES (EXPENSES) - NET			
INCREASE (DECREASE) IN NET POSITION - BUDGETARY BASIS	<u>\$ 372,550</u>	<u>(116,528)</u>	<u>\$ (489,078)</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:			
Depreciation and amortization expense		(528,945)	
Debt principal payments		343,776	
TOTAL CHANGE IN NET POSITION REPORTED ON THE STATEMENT REVENUES, EXPENSES AND CHANGES IN NET POSITION OF		<u>\$ (301,697)</u>	

The accompanying notes are an integral part of this supplementary information.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - STREET MAINTENANCE ENTERPRISE**

FOR THE YEAR ENDED JUNE 30, 2023

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Street maintenance reimbursements	\$ 64,300	\$ 63,889	\$ (411)
TOTAL OPERATING REVENUES	<u>64,300</u>	<u>63,889</u>	<u>(411)</u>
OPERATING EXPENSES			
Salaries and employee benefits	31,650	27,365	4,285
General, administrative and operating expenses	<u>32,650</u>	<u>18,603</u>	<u>14,047</u>
TOTAL OPERATING EXPENSES	<u>64,300</u>	<u>45,968</u>	<u>18,332</u>
OPERATING INCOME	<u>-</u>	<u>17,921</u>	<u>17,921</u>
NON-OPERATING REVENUES (EXPENSES) - NET		<u>-</u>	
INCREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ -</u>	17,921	<u>\$ 17,921</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:		<u>-</u>	
TOTAL INCREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ 17,921</u>	

The accompanying notes are an integral part of this supplementary information.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - LIGHTING ENTERPRISE**

FOR THE YEAR ENDED JUNE 30, 2023

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Street lights service charges	\$ 41,100	\$ 41,090	\$ (10)
TOTAL OPERATING REVENUES	<u>41,100</u>	<u>41,090</u>	<u>(10)</u>
OPERATING EXPENSES			
Salaries and employee benefits	13,000	9,329	3,671
General, administrative and operating expenses	<u>28,100</u>	<u>31,442</u>	<u>(3,342)</u>
TOTAL OPERATING EXPENSES	<u>41,100</u>	<u>40,771</u>	<u>329</u>
OPERATING INCOME	<u>-</u>	<u>319</u>	<u>319</u>
NON-OPERATING REVENUES (EXPENSES) - NET		<u>-</u>	
INCREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ -</u>	<u>319</u>	<u>\$ 319</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:		<u>-</u>	
TOTAL INCREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ 319</u>	

The accompanying notes are an integral part of this supplementary information.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - PARKS ENTERPRISE**

FOR THE YEAR ENDED JUNE 30, 2023

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Pajaro Park revenue	\$ -	\$ 60,000	\$ 60,000
TOTAL OPERATING REVENUES	<u>-</u>	<u>60,000</u>	<u>60,000</u>
OPERATING EXPENSES			
Salaries and employee benefits	58,000	48,352	9,648
General, administrative and operating expenses	<u>23,650</u>	<u>30,383</u>	<u>(6,733)</u>
TOTAL OPERATING EXPENSES	<u>81,650</u>	<u>78,735</u>	<u>2,915</u>
OPERATING LOSS	<u>(81,650)</u>	<u>(18,735)</u>	<u>62,915</u>
NON-OPERATING REVENUES (EXPENSES)			
Property tax	25,000	34,274	9,274
Other income	<u>31,000</u>	<u>6,000</u>	<u>(25,000)</u>
NON-OPERATING REVENUES (EXPENSES) - NET	<u>56,000</u>	<u>40,274</u>	<u>(15,726)</u>
INCREASE (DECREASE) IN NET POSITION - BUDGETARY BASIS	<u>\$ (25,650)</u>	21,539	<u>\$ 47,189</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:			
Depreciation and amortization expense		<u>(237,317)</u>	
TOTAL DECREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ (215,778)</u>	

The accompanying notes are an integral part of this supplementary information.

**INDEPENDENT AUDITORS' 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***



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**INDEPENDENT AUDITORS' 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**

To the Board of Directors
Pajaro/Sunny Mesa Community Services District
Royal Oaks, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pajaro/Sunny Mesa Community Services District (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 6, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 determination of financial statement amounts. 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Branchel Katarava & Pope, LLP

Salinas, California

May 6, 2024