

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

LIST OF APPOINTED OFFICIALS

JUNE 30, 2022

CURRENT BOARD OF DIRECTORS

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

MANAGEMENT

General Manager Donald Rosa

Pajaro/Sunny Mesa Community Service District
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Royal Oaks, California 95076
(831) 722-1389
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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

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, 2022, 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, 2022, 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 30-33 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 **December xx, 2022**, 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.

Salinas, California
December xx, 2022

BASIC FINANCIAL STATEMENTS

DRAFT

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2022

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
CURRENT ASSETS					
Cash and cash equivalents - Note 2	\$ 1,189,459	\$ -	\$ -	\$ 126,091	\$ 1,315,550
Restricted cash - street maintenance - Note 2	-	305,576	-	-	305,576
Receivables, net - Note 3	241,635	8,160	3,320	-	253,115
Grants receivable	52,082	-	-	-	52,082
Bond repayment assessments receivable, current - Note 4	187,704	-	-	-	187,704
Due from other funds	107,931	24,105	50,531	105,117	287,684
TOTAL CURRENT ASSETS	1,778,811	337,841	53,851	231,208	2,401,711
OTHER ASSETS					
Restricted cash - bond reserve fund - Note 2	1,663,240	-	-	-	1,663,240
Bond repayment assessments receivable, net of current portion - Note 4	3,323,101	-	-	-	3,323,101
TOTAL OTHER ASSETS	4,986,341	-	-	-	4,986,341
CAPITAL ASSETS - net - Note 5	6,620,778	-	-	4,608,897	11,229,675
TOTAL ASSETS	13,385,930	337,841	53,851	4,840,105	18,617,727
DEFERRED OUTFLOW OF RESOURCES					
Deferred loss from debt refunding	134,915	-	-	-	134,915
	<u>\$ 13,520,845</u>	<u>\$ 337,841</u>	<u>\$ 53,851</u>	<u>\$ 4,840,105</u>	<u>\$ 18,752,642</u>
CURRENT LIABILITIES					
Cash overdraft - Note 2	\$ -	\$ 14,180	\$ 4,053	\$ -	\$ 18,233
Accounts payable	66,788	176	2,687	1,235	70,886
Accrued expenses	187,271	-	-	-	187,271
Deposits	78,429	-	-	-	78,429
Line of credit - Note 6	-	-	-	-	-
Notes payable, current portion - Note 7	47,779	-	-	-	47,779
Revenue refunding bond, current portion - Note 7	70,000	-	-	-	70,000
Special assessment bond, current portion - Note 7	186,000	-	-	-	186,000
Revenue bond, current portion - Note 7	40,000	-	-	-	40,000
Due to other funds	230,483	57,201	-	-	287,684
TOTAL CURRENT LIABILITIES	906,750	71,557	6,740	1,235	986,282
OTHER LIABILITIES					
Notes payable - net of current portion - Note 7	172,815	-	-	-	172,815
Revenue refunding bond - net of discount and current portion - Note 7	1,707,013	-	-	-	1,707,013
Special assessment refunding bonds - net of discount and current portion - Note 7	3,309,557	-	-	-	3,309,557
Revenue bond - net of premium and current portion - Note 7	1,662,392	-	-	-	1,662,392
TOTAL OTHER LIABILITIES	6,851,777	-	-	-	6,851,777
TOTAL LIABILITIES	7,758,527	71,557	6,740	1,235	7,838,059
NET POSITION					
Invested in capital assets - net of related debt	2,790,854	-	-	4,608,897	7,399,751
Restricted - Note 8	1,663,240	202,912	-	-	1,866,152
Unrestricted	1,308,224	63,372	47,111	229,973	1,648,680
TOTAL NET POSITION	5,762,318	266,284	47,111	4,838,870	10,914,583
	<u>\$ 13,520,845</u>	<u>\$ 337,841</u>	<u>\$ 53,851</u>	<u>\$ 4,840,105</u>	<u>\$ 18,752,642</u>

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, 2022

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
OPERATING REVENUES					
User service charges	\$ 2,234,941	\$ -	\$ -	\$ -	\$ 2,234,941
Street lights service charges	-	-	41,233	-	41,233
Street maintenance service charges	-	64,410	-	-	64,410
Connection fees	48,726	-	-	-	48,726
Grant revenue	123,627	-	-	-	123,627
Miscellaneous	58,944	-	-	-	58,944
Pajaro Park revenue	-	-	-	30,143	30,143
TOTAL OPERATING REVENUES	2,466,238	64,410	41,233	30,143	2,602,024
OPERATING EXPENSES					
Salaries and employee benefits	1,077,713	24,748	8,437	42,777	1,153,675
General, administrative and operating expenses	753,235	21,901	30,329	33,172	838,637
Depreciation and amortization	556,470	-	-	237,315	793,785
TOTAL OPERATING EXPENSES	2,387,418	46,649	38,766	313,264	2,786,097
OPERATING INCOME (LOSS)	78,820	17,761	2,467	(283,121)	(184,073)
NON-OPERATING REVENUES (EXPENSES)					
Reimbursements	144,139	-	-	-	144,139
Assessments	186,475	-	-	-	186,475
Other income	-	-	-	6,000	6,000
Property taxes	-	-	-	26,274	26,274
Income from investment	764	-	-	-	764
Bond issuance costs- Note 7	(109,871)	-	-	-	(109,871)
Interest expense	(214,675)	-	-	-	(214,675)
Grant reimbursement expenses	(128,152)	-	-	-	(128,152)
NON-OPERATING REVENUES (EXPENSES)	(121,320)	-	-	32,274	(89,046)
INCREASE (DECREASE) IN NET POSITION	(42,500)	17,761	2,467	(250,847)	(273,119)
NET POSITION, BEGINNING OF YEAR	5,804,818	248,523	44,644	5,089,717	11,187,702
NET POSITION, END OF YEAR	\$ 5,762,318	\$ 266,284	\$ 47,111	\$ 4,838,870	\$ 10,914,583

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, 2022

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and others	\$ 2,458,786	\$ 61,629	\$ 41,210	\$ 30,143	\$ 2,591,768
Payments to suppliers and vendors	(678,360)	(21,805)	(28,017)	(33,277)	(761,459)
Payments to employees	(1,114,847)	(24,748)	(8,437)	(42,777)	(1,190,809)
Net cash provided by (used in) operating activities	665,579	15,076	4,756	(45,911)	639,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Payments on line of credit	(294,118)	-	-	-	(294,118)
Acquisition and construction of capital assets	(287,526)	-	-	-	(287,526)
Principal payments on debt maturities	(375,512)	-	-	-	(375,512)
Interest payments	(214,676)	-	-	-	(214,676)
Proceeds from bonds - net of issuance costs	1,550,129	-	-	-	1,550,129
Collection of assessments	355,485	-	-	26,274	381,759
Collection of grant income - net of expense	187,404	-	-	-	187,404
Reimbursements and other income	144,139	-	-	6,000	150,139
Net cash provided by capital and related financing activities	1,065,325	-	-	32,274	1,097,599
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	764	-	-	-	764
Net cash provided by investing activities	764	-	-	-	764
Net increase (decrease) in cash and cash equivalents	1,731,668	15,076	4,756	(13,637)	1,737,863
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,121,031	276,320	(8,809)	139,728	1,528,270
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,852,699	\$ 291,396	\$ (4,053)	\$ 126,091	\$ 3,266,133
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF NET POSITION					
Cash and cash equivalents	\$ 1,189,459	\$ -	\$ -	\$ 126,091	\$ 1,315,550
Cash overdraft	-	(14,180)	(4,053)	-	(18,233)
Restricted cash - street maintenance	-	305,576	-	-	305,576
Restricted cash - bond reserve fund	1,663,240	-	-	-	1,663,240
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	\$ 2,852,699	\$ 291,396	\$ (4,053)	\$ 126,091	\$ 3,266,133

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, 2022

	<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)	\$ 78,820	\$ 17,761	\$ 2,467	\$ (283,121)	\$ (184,073)
Adjustments to reconcile increase (decrease) in net position to net cash provided by (used in)					
operating activities:					
Depreciation and amortization	598,862	-	-	237,315	836,177
(Gain) loss on disposition of fixed assets	8,848	-	-	-	8,848
Increase (Decrease) in due from other funds	-	-	-	-	-
Decrease (increase) in receivables	(7,452)	(2,781)	80	-	(10,153)
(Increase) decrease in accounts payable and accruals	(11,199)	96	2,209	(105)	(8,999)
Decrease in deposits	(2,300)	-	-	-	(2,300)
Net cash provided by (used in) operating activities	<u>\$ 665,579</u>	<u>\$ 15,076</u>	<u>\$ 4,756</u>	<u>\$ (45,911)</u>	<u>\$ 639,500</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, 2022

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

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, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position.

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.

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 Investments

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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$8,669 has been recorded by management at June 30, 2022. 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.

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

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

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.

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".

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or water sales. 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.

Subsequent Events

Subsequent events were evaluated through **December xx, 2022**, the date the financial statements were available to be issued.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

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	\$ 1,189,459	\$ (14,180)	\$ (4,053)	\$ 126,091	\$ 1,297,317
Restricted cash, current	-	305,576	-	-	305,576
Restricted cash, non-current (bond fund)	<u>1,663,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,663,240</u>
	<u>\$ 2,852,699</u>	<u>\$ 291,396</u>	<u>\$ (4,053)</u>	<u>\$ 126,091</u>	<u>\$ 3,266,133</u>

Cash and cash equivalent and restricted cash as of June 30, 2022, consisted of the following:

	<u>Amount</u>
Cash on hand	\$ 400
Cash in the bank - checking	1,432,823
Cash in County Treasury	169,670
Cash held in trust account	<u>1,663,240</u>
Total cash and cash equivalents	<u>\$ 3,266,133</u>

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

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. The District currently invests its funds in the local government investment pool administered by Monterey County. As of June 30, 2022, the investment policy and the investments of the Monterey County pool are in compliance with the California Government Code.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

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

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, 2022, the weighted average maturity of the Monterey County investment portfolio is 482 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 86.3% 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, 11.7% 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.

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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

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

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.

The District also maintains checking accounts with a financial institution and uses these accounts as operating accounts for the District. As of June 30, 2022, the District has \$1,432,824 on deposit with one bank. The District also has on deposit \$1,367,114 in restricted cash held in trust by one financial institution and \$296,152 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, 2022.

3. RECEIVABLES

Receivables consisted of the following at June 30, 2022:

	<u>Water Enterprise</u>	<u>Street Maintenance Enterprise</u>	<u>Lighting Enterprise</u>	<u>Parks Enterprise</u>	<u>Total</u>
Service charge					
receivables	\$ 250,047	\$ 688	\$ -	\$ -	\$ 250,735
Uncollectible allowance	(8,669)	-	-	-	(8,669)
Assessment receivables	-	7,472	2,460	-	9,932
Other receivables	<u>257</u>	<u>-</u>	<u>860</u>	<u>-</u>	<u>1,117</u>
	<u>\$ 241,635</u>	<u>\$ 8,160</u>	<u>\$ 3,320</u>	<u>\$ -</u>	<u>\$ 253,115</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

4. BOND REPAYMENT ASSESSMENT RECEIVABLES

Bond repayment assessment receivables consisted of the following at June 30, 2022:

Water bond receivables	\$ 143,142
Vega bond receivables	<u>3,367,663</u>
	3,510,805
Less current portion	<u>(187,704)</u>
Bond repayment assessment receivables, net of current portion	<u>\$ 3,323,101</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, consisted of the following:

	<u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2022</u>
<u>Capital Assets</u>				
<u>Not Depreciated:</u>				
Land	\$ 1,646,453	\$ -	\$ -	\$ 1,646,453
Construction in process	<u>412,211</u>	<u>68,489</u>	<u>(393,244)</u>	<u>87,456</u>
	<u>2,058,664</u>	<u>68,489</u>	<u>(393,244)</u>	<u>1,733,909</u>
<u>Capital Assets Being</u>				
<u>Depreciated:</u>				
Utility plant	2,519,130	-	-	2,519,130
Buildings and improvements	531,801	19,185	-	550,986
Machinery and equipment	839,121	-	-	839,121
Vega plant improvements	4,620,002	101,412	(20,408)	4,701,006
Normco tank	331,966	-	-	331,966
Pajaro tank and system	2,167,170	28,999	-	2,196,169
Langley/VP	247,544	-	-	247,544
Vierra Estate	175,238	44,804	-	220,042
Moss Landing Water	301,793	8,754	-	310,547
Springfield	-	393,244	-	393,244
Sunny Mesa	-	15,883	-	15,883
Pajaro Park buildings and improvements	<u>5,513,510</u>	<u>-</u>	<u>-</u>	<u>5,513,510</u>
	<u>17,247,275</u>	<u>612,281</u>	<u>(20,408)</u>	<u>17,839,148</u>
Total Capital Assets	19,305,939	680,770	(413,652)	19,573,057
Less accumulated depreciation	<u>(7,571,776)</u>	<u>(783,166)</u>	<u>11,560</u>	<u>(8,343,382)</u>
	<u>\$ 11,734,163</u>	<u>\$ (102,396)</u>	<u>\$ (402,092)</u>	<u>\$ 11,229,675</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

6. LINE OF CREDIT

In March 2019, the District entered into a collateralized line of credit agreement with Santa Cruz County Bank to assist with the working capital requirements for the Pajaro Tank Project. The maximum amount available for borrowing is \$2,316,125 and the interest rate of Wall Street Journal Prime Rate plus 1.00% totaled 5.75% as of June 30, 2022. The maturity date of the agreement is February 28, 2022 and was not renewed. The line of credit balance was \$-0- as of June 30, 2022.

7. 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.

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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

7. LONG-TERM DEBT (Continued)

2015 Water Revenue Refunding Bonds (Continued)

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, 2022, was \$147,932 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, 2022, unpaid assessments receivable amounted to \$3,367,663 of which \$150,000 is current and \$3,217,663 is non-current. The assessments are billed to consumers through property tax rolls by the County of Monterey.

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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

7. LONG-TERM DEBT (Continued)

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.

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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

7. LONG-TERM DEBT (Continued)

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, 2022, unpaid assessments receivable amounted to \$143,142 of which \$37,704 is current and \$105,438 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.

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 4.0%, 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.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

7. LONG-TERM DEBT (Continued)

2021 Water Revenue Bonds (Continued)

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, 2022, was \$93,767 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 a \$33,500 loan from a financial institution on December 2, 2014, for the purchase of a District vehicle. The loan matured on December 16, 2019, and required monthly payments of \$609. 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.

Generator Loan

The District obtained a \$77,731 loan from a financial institution on March 30, 2021, for the purchase of a generator. The loan matures on April 12, 2026, and requires 59 monthly payments of \$1,395, and the last payment is \$1,496. Interest on this loan accrues at 2.99% per annum. The loan was fully paid as of as of December 14, 2021.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

7. LONG-TERM DEBT (Continued)

Changes in long-term debt amounts for 2022 were as follows:

	<u>Balance 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2022</u>	<u>Due Within One Year</u>
<u>Long-term debt:</u>					
2015 Water Revenue Refunding Bonds	\$ 1,875,000	\$ -	\$ (70,000)	\$ 1,805,000	\$ 70,000
2015 Vega Refunding Assessment Bonds	3,502,900	-	(155,300)	3,347,600	150,000
Water Improvement Assessment Bonds	193,000	-	(34,000)	159,000	36,000
2021 Water Revenue Bonds	-	1,660,000	-	1,660,000	40,000
Reorganization loan	215,000	-	(30,000)	185,000	35,000
Vehicle loan	47,750	-	(12,156)	35,594	12,779
Generator loan	74,055	-	(74,055)	-	-
Unamortized premium	-	42,392	-	42,392	-
Unamortized discount	<u>(41,320)</u>	<u>-</u>	<u>2,290</u>	<u>(39,030)</u>	<u>-</u>
 Total long-term debt	 5,866,385	 <u>\$ 1,702,392</u>	 <u>\$ (373,222)</u>	 7,195,556	 <u>\$ 343,779</u>
 Less current portion	 <u>(305,830)</u>			 <u>(343,779)</u>	
 Total long-term debt, net of current portion	 <u>\$ 5,560,555</u>			 <u>\$ 6,851,777</u>	

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current	\$ 343,779	\$ 275,341	\$ 619,120
2024	376,433	261,073	637,506
2025	374,369	245,790	620,159
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>93,361</u>	<u>1,238</u>	<u>94,599</u>
	<u>\$ 7,195,554</u>	<u>\$ 2,781,636</u>	<u>\$ 9,977,190</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

8. RESTRICTED NET POSITION

Restricted assets consisted of the following at June 30, 2022:

	<u>Amount</u>
Water bond fund	\$ 1,663,240
Street maintenance reserve fund	<u>202,912</u>
	<u>\$ 1,866,152</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.

9. 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, 2022

9. 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.

10. 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 \$118,063 for the year ended June 30, 2022. 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.

11. 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.

12. 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, 2022

12. 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 7 for additional information.

13. 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.

14. 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, 2022

14. 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 withing 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.

In September 2016, the District entered into a grant agreement with the State Water Resources Control Board for the purpose of assisting in financing the cost of studies, planning and other preliminary activities associated with the construction of a new well, which will enable the District to meet safe drinking water standards. The State will provide grant funding to the District in an amount equal to \$500,000. In accordance with the agreement, the District is required to complete the project and submit a final planning report to the State Water Resources Control Board no later than February 15, 2020. The District had six months from completion to submit all invoices related to the project, and the project was closed on July 15, 2020.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

14. GRANTS (Continued)

Grant from California Department of Water Resources

On September 14, 2014, the District entered into a grant agreement with the San Benito County Water District for the construction of a new 600,000-gallon tank. The new tank will be constructed in the undeveloped area adjacent to the site of the existing water storage tank. The total cost of the project is estimated to be \$1.7 million. The funds for this project will be provided by the California Department of Water Resources. During fiscal year ended June 30, 2022, the project was completed and placed into service.

15. 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:

2023:	13%
2024:	11%
2025:	8%
2026:	5%

SUPPLEMENTARY INFORMATION

DRAFT

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2022

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
User service charges	\$ 2,327,100	\$ 2,234,941	\$ (92,159)
Reimbursements	29,500	123,627	94,127
Connection fees	24,900	48,726	23,826
Miscellaneous	1,000	58,944	57,944
	<u>2,382,500</u>	<u>2,466,238</u>	<u>83,738</u>
OPERATING EXPENSES			
Salaries and employee benefits	1,082,850	1,077,713	5,137
Water system repairs and maintenance	225,000	223,462	1,538
Utilities - well site	170,000	164,015	5,985
Legal expenses	20,000	20,122	(122)
Other expenses	93,500	15,131	78,369
Accounting and bookkeeping	38,500	36,425	2,075
Office expenses	35,100	34,771	329
Soil and water tests	37,500	35,188	2,312
Casualty insurance	33,000	35,111	(2,111)
Fuel	29,000	36,460	(7,460)
Licenses and permits	30,000	30,105	(105)
Membership fees and dues	20,000	19,436	564
Telephone	17,000	17,281	(281)
Postage	8,500	8,447	53
Utilities - office	4,000	4,008	(8)
Bond administrative costs	9,500	48,477	(38,977)
Engineering expense	1,000	24,796	(23,796)
	<u>1,854,450</u>	<u>1,830,948</u>	<u>23,502</u>
OPERATING INCOME	<u>528,050</u>	<u>635,290</u>	<u>107,240</u>
NON-OPERATING REVENUES (EXPENSES)			
Assessments	329,500	186,475	(143,025)
Grant revenue	-	144,139	144,139
Income from investment	150	764	614
Other income	1,400	-	(1,400)
Bond principal payments and interest expense	(623,800)	(590,187)	33,613
Bond issuance costs - Note 7	-	(109,871)	(109,871)
Grant reimbursement expenses	-	(128,152)	(128,152)
	<u>(292,750)</u>	<u>(496,832)</u>	<u>(204,082)</u>
NON-OPERATING REVENUES (EXPENSES) - NET	<u>(292,750)</u>	<u>(496,832)</u>	<u>(204,082)</u>
INCREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ 235,300</u>	138,458	<u>\$ (96,842)</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:			
Depreciation and amortization expense		(556,470)	
Debt principal payments		375,512	
TOTAL CHANGE IN NET POSITION REPORTED ON THE STATEMENT REVENUES, EXPENSES AND CHANGES IN NET POSITION OF		<u>\$ (42,500)</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, 2022

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Street maintenance reimbursements	\$ 63,800	\$ 64,410	\$ 610
TOTAL OPERATING REVENUES	<u>63,800</u>	<u>64,410</u>	<u>610</u>
OPERATING EXPENSES			
Salaries and employee benefits	31,150	24,748	6,402
General, administrative and operating expenses	<u>32,650</u>	<u>21,901</u>	<u>10,749</u>
TOTAL OPERATING EXPENSES	<u>63,800</u>	<u>46,649</u>	<u>17,151</u>
OPERATING INCOME	<u>-</u>	<u>17,761</u>	<u>17,761</u>
NON-OPERATING REVENUES (EXPENSES) - NET		<u>-</u>	
INCREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ -</u>	17,761	<u>\$ 17,761</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>\$ 17,761</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, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Street lights service charges	\$ 41,100	\$ 41,233	\$ 133
TOTAL OPERATING REVENUES	<u>41,100</u>	<u>41,233</u>	<u>133</u>
OPERATING EXPENSES			
Salaries and employee benefits	12,000	8,437	3,563
General, administrative and operating expenses	<u>29,100</u>	<u>30,329</u>	<u>(1,229)</u>
TOTAL OPERATING EXPENSES	<u>41,100</u>	<u>38,766</u>	<u>2,334</u>
OPERATING INCOME	<u>-</u>	<u>2,467</u>	<u>2,467</u>
NON-OPERATING REVENUES (EXPENSES) - NET		<u>-</u>	
INCREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ -</u>	<u>2,467</u>	<u>\$ 2,467</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>\$ 2,467</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, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Pajaro Park revenue	\$ -	\$ 30,143	\$ 30,143
TOTAL OPERATING REVENUES	<u>-</u>	<u>30,143</u>	<u>30,143</u>
OPERATING EXPENSES			
Salaries and employee benefits	59,000	42,777	16,223
General, administrative and operating expenses	24,770	33,172	(8,402)
TOTAL OPERATING EXPENSES	<u>83,770</u>	<u>75,949</u>	<u>7,821</u>
OPERATING LOSS	<u>(83,770)</u>	<u>(45,806)</u>	<u>37,964</u>
NON-OPERATING REVENUES (EXPENSES)			
Property tax	25,000	26,274	1,274
Other income (expense)	-	6,000	6,000
NON-OPERATING REVENUES (EXPENSES) - NET	<u>25,000</u>	<u>32,274</u>	<u>7,274</u>
DECREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ (58,770)</u>	<u>(13,532)</u>	<u>\$ 45,238</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES			
Depreciation and amortization expense		<u>(237,315)</u>	
TOTAL DECREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ (250,847)</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***

**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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated **December xx, 2023**.

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.

Salinas, California
December xx, 2023