

PAJARO VALLEY FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

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**Pajaro Valley Fire Protection District
Basic Financial Statements
June 30, 2025 and 2024**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pajaro Valley Fire Protection District
Watsonville, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Pajaro Valley Fire Protection District (District), as of and for the year ended June 30, 2025, 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 the governmental activities and major fund of the District as of June 30, 2025 and the respective changes in financial position and the respective budgetary comparisons listed as part of the basic financial statements in the Table of Contents 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement 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's 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 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, 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

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

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2024 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated January 17, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Maze + Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California
December 1, 2025

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PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2025

The District provides fire protection services to the land and areas covered by the former Freedom Fire Protection District and the Salsipuedes Fire Protection District.

Description of the Basic Financial Statements

The financial statements consist of the following parts: Management's discussion and analysis; the basic financial statements; government-wide and government fund financial statements; notes to the financial statements and required supplementary information.

The basic government-wide and governmental fund financial statements present the financial results on the different methods of accounting. Included in the financial statements are reconciliations that explain the difference between the two methods.

Government-wide financial statements are prepared on the accrual basis of accounting and economic resource focus. The required financial statements are: Statement of Net Position and Statement of Activities. The Statement of Net Position reports all assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the long-term financial position of the District is improving or deteriorating. The Statement of Activities presents information on how the net position of the District changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is paid or received.

Governmental Funds financial statements are prepared on the modified accrual basis of accounting and current financial resource focus. The required financial statements are: Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Balance Sheet shows only assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports revenues for which cash has been received during the year or soon after the end of the year.

The Government-Wide and Governmental Funds financial statements show the results of the following funds:

General Fund – Most of the District's basic services are accounted for in this fund.

Capital Projects Fund- The District uses the Capital Projects fund to accumulate funds for and accounting for the purchase/constructing of structures, improvements, apparatus and equipment. During the fiscal years ended June 30, 2025 and 2024, the District transferred \$99,635 respectively, into the Capital Projects Fund. The District accumulated \$51,898.68 in interest from the funds in the Capital Projects Funds. During the fiscal years ended June 30, 2025 and 2024, the District expended \$-0-, respectively, out of the Capital Projects Fund.

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2025

Condensed Government-Wide Financial Data

| | 2025 | 2024 |
|--|---------------------|---------------------|
| Current assets | \$ 2,166,561 | \$ 1,488,614 |
| Stations and equipment, net of accumulated depreciation | 2,268,082 | 2,391,901 |
| Deferred outflows of resources | 118,508 | 0 |
| Total assets and deferred outflows of resources | <u>\$ 4,553,151</u> | <u>\$ 3,880,515</u> |
| Current liabilities | \$ 6,510 | \$ 2,895 |
| Non current liabilities | 254,816 | 308,257 |
| Total liabilities and deferred inflow of resources | <u>261,326</u> | <u>311,152</u> |
| Net position | | |
| Net investment in capital assets | 2,268,082 | 2,391,901 |
| Unrestricted | 2,023,743 | 1,177,462 |
| Total net position | <u>4,291,825</u> | <u>3,569,363</u> |
| Total liabilities and net position | <u>\$ 4,553,151</u> | <u>\$ 3,880,515</u> |
| | 2025 | 2024 |
| Expenditures, net of program revenue | \$ 1,866,482 | \$ 2,107,256 |
| General Revenue | | |
| Property tax | 2,360,985 | 2,226,176 |
| Fire suppression benefits assessment | 142,059 | 141,576 |
| Use of money and property (interest income) | 75,814 | 55,382 |
| Gain on disposal of asset | 0 | 76,726 |
| Aid from other government agencies | 10,086 | 10,195 |
| Change in net position | <u>\$ 722,462</u> | <u>\$ 402,799</u> |

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2025

Financial Analysis of the District as a Whole

The District's net position increased for the fiscal year ended June 30, 2025 by \$722,462 or 20% to a total of \$4,291,825. In 2024 net position decreased by \$243,909 or 6% to a total of \$3,569,363. Of the \$4,291,825 in the net position as of June 30, 2025, \$2,268,082 are invested in capital assets (net of accumulated depreciation).

Financial Analysis of the District's Funds

Governmental fund balances increased for the fiscal year ended June 30, 2025 by \$674,332 or 45% to the total of \$2,160,051. In 2024 governmental fund balances decreased by \$430,337 or 22% to a total of \$1,485,719. The main reasons for the difference between the change in the District net position and the change in fund balances for the years ended June 30, 2025 and 2024, is the difference in accounting for capital asset additions/depreciation and pension asset/liability.

Budgetary Highlights

During the fiscal year ended June 30, 2025, the following highlights occurred:

1. Staffing was reduced to a two-person engine company 24 hours a day.
2. Continued sharing the cost of the Fire Captain position in the fire Marshal's office with the Santa Cruz County Fire Department. The agreement is a 50/50 match, which resulted in a 50% reduction to the District.

Capital Assets

As of June 30, 2025, the District had invested \$4,280,161 in a broad range of capital assets including structures and improvements, and equipment. The District leases the land that the fire station is located on. Major capital asset additions include:

| | <u>2025</u> | <u>2024</u> |
|-------------------------------------|-------------|-------------|
| Facility Improvements | \$ 26,984 | \$ -0- |
| Total major capital asset additions | | |
| mobile equipment replacement | \$ -0- | \$ 84,179 |

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2025

Long – Term Debt

As of June 30, 2025, the District has no long term debt.

GASB 68 Net Pension Asset and Related Deferred Inflows and Outflows of Resources

As of June 30, 2025 and 2024, the District had \$254,816 and \$308,257, respectively in net pension liability. As of June 30, 2025 and 2024, the District had \$118,508 and \$-0-, respectively in deferred outflows of resources and \$ -0- and \$-0-, respectively in deferred inflows of resources.

Economic Factors and Next Year's Budget

The District's main source of revenue is property taxes. The District expects property tax revenue to increase 4% for the fiscal year ending June 30, 2025, as recommend by the Santa Cruz County Auditor/Controller.

The District anticipates a 5% increase in the Cooperative Services Agreement with CAL FIRE. The reason for the increase is due to an increase in the benefit rate, administrative fee and salary increases.

CAL FIRE's bargaining unit is also negotiating a shortened workweek for Firefighters which would result in the need to hire additional personnel to meet current staffing levels by 2027. The District started the process to possibly conduct another Proposition 218 Benefit Assessment election in 2025 or 2026 to account for this increase in salary, benefits and staffing. Concurrently, the District is also looking at the feasibility of reorganizing with Santa Cruz County Fire Department CSA #48. The District will add one additional position to staff the engine.

Contacting the District's Financial Management

These financial statements are designed to provide a general overview of the District's finances. If you have questions about these financial statements or need additional financial information, contact the District office at 562 Casserly road, Watsonville, California 95076, telephone number (831) 722-6188.

Basic Financial Statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
June 30, 2025
(With Comparative Totals for 2024)

| | <u>2025</u> | <u>2024</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Cash in County Treasury (Note 2E) | | |
| Santa Cruz County | \$ 2,166,561 | \$ 1,488,614 |
| Total Current Assets | <u>2,166,561</u> | <u>1,488,614</u> |
| Station and Equipment (Note 3) | | |
| Structures and Improvements | 2,385,868 | 2,378,099 |
| Equipment | <u>1,894,293</u> | <u>1,882,397</u> |
| Total Station and Equipment | 4,280,161 | 4,260,496 |
| Accumulated Depreciation | <u>(2,012,079)</u> | <u>(1,868,595)</u> |
| Station and Equipment, Net of Accumulated Depreciation | <u>2,268,082</u> | <u>2,391,901</u> |
| Total Assets | <u>4,434,643</u> | <u>3,880,515</u> |
| Deferred Outflows of Resources | | |
| Deferred Pension - Actuarial (Note 6) | <u>118,508</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u><u>\$ 4,553,151</u></u> | <u><u>\$ 3,880,515</u></u> |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable (Note 5) | <u>\$ 6,510</u> | <u>\$ 2,895</u> |
| Total Current Liabilities | <u>6,510</u> | <u>2,895</u> |
| Non Current Liabilities | | |
| Net Pension Liability (Note 6) | <u>254,816</u> | <u>308,257</u> |
| Total Non Current Liabilities | <u>254,816</u> | <u>308,257</u> |
| Total Liabilities | <u>261,326</u> | <u>311,152</u> |
| Net Position | | |
| Net investment in capital assets | 2,268,082 | 2,391,901 |
| Unrestricted | | |
| General Fund | <u>2,023,743</u> | <u>1,177,462</u> |
| Total Net Position | <u>4,291,825</u> | <u>3,569,363</u> |
| Total Liabilities, Deferred Inflow of Resources and Net Position | <u><u>\$ 4,553,151</u></u> | <u><u>\$ 3,880,515</u></u> |

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025
(With Comparative Totals for 2024)

| | | Program Revenues | | | | |
|--|---------------------|---|--|--|---------------------|---------------------|
| | | Charges for Services (Plan Check) | Strike Team & Emergency Reimbursements | Operating Grants and Contributions | Totals | |
| | Expenditures | | | | 2025 | 2024 |
| Expenditures | | | | | | |
| Fire Protection | | | | | | |
| Salaries and Benefits | \$ 119,167 | \$ - | \$ - | \$ - | \$ 119,167 | \$ 1,566 |
| Pension Expense (GASB 68) | (171,949) | - | - | - | (171,949) | 58,252 |
| Services and Supplies | 1,950,996 | 43,790 | 152,848 | - | 1,754,358 | 1,884,082 |
| Contributions to Other Agencies | 2,446 | - | - | - | 2,446 | 3,040 |
| Depreciation (Note 3) | 162,460 | - | - | - | 162,460 | 160,316 |
| | | | | | | |
| Total Governmental Activities | <u>\$ 2,063,120</u> | <u>\$ 43,790</u> | <u>\$ 152,848</u> | <u>\$ -</u> | <u>1,866,482</u> | <u>2,107,256</u> |
| General Revenues | | | | | | |
| Property Tax | | | | | 2,360,985 | 2,226,176 |
| Fire Suppression Benefit Assessment | | | | | 142,059 | 141,576 |
| Use of Money and Property | | | | | 75,814 | 55,382 |
| Gain on disposal of asset | | | | | - | 76,726 |
| Agencies | | | | | | |
| State Homeowners Property | | | | | | |
| Tax Relief | | | | | 10,086 | 10,195 |
| | | | | | | |
| Total General Revenues | | | | | <u>2,588,944</u> | <u>2,510,055</u> |
| Change in Net Position | | | | | 722,462 | 402,799 |
| Net Position, Beginning - As Previously Stated | | | | | <u>3,569,363</u> | <u>3,813,272</u> |
| Prior Period Adjustment - (Note 9) | | | | | - | (646,708) |
| Fund Balance, Beginning - As Restated | | | | | <u>3,569,363</u> | <u>3,166,564</u> |
| Net Position, Ending | | | | | <u>\$ 4,291,825</u> | <u>\$ 3,569,363</u> |

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT

Balance Sheet - Governmental Funds

June 30, 2025 and 2024

| | Governmental Fund Types | | Total | |
|-------------------------------------|-------------------------|---------------------|---------------------|---------------------|
| | General | Capital Projects | 2025 | 2024 |
| ASSETS | | | | |
| Cash and Investments | \$ 885,654 | \$ 1,280,907 | \$ 2,166,561 | \$ 1,488,614 |
| Total Assets | <u>\$ 885,654</u> | <u>\$ 1,280,907</u> | <u>\$ 2,166,561</u> | <u>\$ 1,488,614</u> |
| LIABILITIES | | | | |
| Accounts Payable | \$ 6,510 | \$ - | \$ 6,510 | \$ 2,895 |
| Total Liabilities | <u>6,510</u> | <u>-</u> | <u>6,510</u> | <u>2,895</u> |
| FUND BALANCES | | | | |
| Assigned Fund Balance | | | | |
| Equipment and Facility Replacement | - | 1,280,907 | 1,280,907 | 1,129,373 |
| Unassigned | | | | |
| Unreserved, Undesignated | <u>879,144</u> | <u>-</u> | <u>879,144</u> | <u>356,346</u> |
| Total Fund Balance | <u>879,144</u> | <u>1,280,907</u> | <u>2,160,051</u> | <u>1,485,719</u> |
| Total Liabilities and Fund Balances | <u>\$ 885,654</u> | <u>\$ 1,280,907</u> | <u>\$ 2,166,561</u> | <u>\$ 1,488,614</u> |

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Fund Balance Sheet to the
Government-Wide Statement of Net Position - Governmental Activities
June 30, 2025
(With Comparative Totals for 2024)

| | <u>2025</u> | <u>2024</u> |
|---|----------------------------|----------------------------|
| Fund Balances - Total Governmental Funds | \$ 2,160,051 | \$ 1,485,719 |
| Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following: | | |
| Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. | | |
| Total Historical Cost of Capital Assets | 4,280,161 | 4,260,496 |
| Less: Accumulated Depreciation | (2,012,079) | (1,868,595) |
| Deferred outflow of resources reported in the Statement of Net Position are not reported in governmental funds. | | |
| Deferred Pension - Actuarial | 118,508 | - |
| Other liabilities, pension liabilities reported in the Statement of Net Position are reported in governmental funds. | | |
| Net Pension Liability | <u>(254,816)</u> | <u>(308,257)</u> |
| Net Position of Governmental Activities | <u><u>\$ 4,291,825</u></u> | <u><u>\$ 3,569,363</u></u> |

See accompanying notes to basic financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025
(With Comparative Totals for 2024)

| | General | Capital Projects | Total | |
|---|--------------------------|----------------------------|----------------------------|----------------------------|
| | | | 2025 | 2024 |
| REVENUES: | | | | |
| Property taxes | \$ 2,360,985 | \$ - | \$ 2,360,985 | \$2,226,176 |
| Other taxes | 142,059 | - | 142,059 | 141,576 |
| Use of money and property | 23,915 | 51,899 | 75,814 | 55,382 |
| Aid from other government agencies | 10,086 | - | 10,086 | 10,195 |
| Charges for current services | 43,790 | - | 43,790 | 40,785 |
| Other revenue | 152,848 | - | 152,848 | 9,989 |
| Total Revenues | <u>2,733,683</u> | <u>51,899</u> | <u>2,785,582</u> | <u>2,484,103</u> |
| EXPENDITURES: | | | | |
| Salaries and employee benefits | 119,167 | - | 119,167 | 1,566 |
| Services and supplies | 1,962,653 | - | 1,962,653 | 2,318,278 |
| Fixed assets | 26,984 | - | 26,984 | 21,574 |
| Other charges | 2,446 | - | 2,446 | 3,040 |
| Total Expenditures | <u>2,111,250</u> | <u>-</u> | <u>2,111,250</u> | <u>2,344,458</u> |
| Excess (deficiency) of revenues over expenditures before other financing sources (uses) | 622,433 | 51,899 | 674,332 | 139,645 |
| OTHER FINANCING SOURCES (Uses) | | | | |
| Transfer in | - | 99,635 | 99,635 | 150,655 |
| Transfer out | (99,635) | - | (99,635) | (150,655) |
| Gain (Loss) on disposal of asset | - | - | - | 76,726 |
| Total other financing sources (uses) | <u>(99,635)</u> | <u>99,635</u> | <u>-</u> | <u>76,726</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | 522,798 | 151,534 | 674,332 | 216,371 |
| Fund Balance, Beginning - As Previously Stated | <u>356,346</u> | <u>1,129,373</u> | <u>1,485,719</u> | <u>1,916,056</u> |
| Prior Period Adjustment - (Note 9) | - | - | - | (646,708) |
| Fund Balance, Beginning - As Restated | <u>356,346</u> | <u>1,129,373</u> | <u>1,485,719</u> | <u>1,269,348</u> |
| Fund Balance, Ending | <u><u>\$ 879,144</u></u> | <u><u>\$ 1,280,907</u></u> | <u><u>\$ 2,160,051</u></u> | <u><u>\$ 1,485,719</u></u> |

See accompanying notes to basic financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-wide Statement of Activities
Governmental Activities
June 30, 2025
(With Comparative Totals for 2024)

| | <u>2025</u> | <u>2024</u> |
|---|--------------------------|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 674,332 | \$ 216,371 |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | |
| Current year capital outlays | 19,665 | 84,179 |
| Less: current year retirements | 18,976 | 320,817 |
| Less: current year depreciation expense | (162,460) | (160,316) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Net pension income/(expense) | <u>171,949</u> | <u>(58,252)</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ 722,462</u></u> | <u><u>\$ 402,799</u></u> |

See accompanying notes to basic financial statements

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PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 1 – GENERAL INFORMATION

A. Organization

The Pajaro Valley Fire Protection Agency was a Joint Powers Agency (“JPA”) formed in September 1993 consisting of two members: Freedom Fire Protection District and Salsipuedes Fire Protection District. Effective July 1, 1995, the JPA was dissolved and Pajaro Valley Fire Protection District was formed to consolidate the Freedom Fire Protection District and the Salsipuedes Fire Protection District, under the authority of Section 56000 et seq of the California Government Code. The District operates under the provisions of the Fire Protection District Law of 1987, beginning with Health and Safety Code Section 13800, and provides fire protection services to the land areas covered by the former Freedom Fire Protection District and the Salsipuedes Fire Protection District.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether it exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters). The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

B. District Officials

The District is governed by a board of five elected directors. The following were in office at June 30, 2025:

| | <u>Term Expires December</u> |
|----------------------------|------------------------------|
| Dave Martone, Director | 2028 |
| Robert Erbe, Director | 2028 |
| Ashley Moules, Director | 2026 |
| John Sampson, Director | 2026 |
| Jake Dellamonica, Director | 2028 |

Mike Urbani was the Battalion Chief at June 30, 2025.

The District entered into an agreement with the State of California (“State”) whereby the District will pay the State for fire protection services in an amount to be budgeted on an annual basis. The agreement is from July 1, 2025 through June 30, 2026. Under the terms of the agreement, either party may terminate the agreement with or without cause by giving a one year written notice.

Under the terms of the agreement, the District maintains the burden of the cost of operating and maintaining equipment and property under its ownership. In addition, the District is to maintain commercial insurance providing at least \$1,000,000 of general liability coverage at a combined single limit per occurrence.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 1 – GENERAL INFORMATION (Continued)

In addition to the above contract with CAL FIRE, and in order to assure response to fire calls in borderline areas of the District, the District has entered into the following agreements:

Fire protection services

With the City of Watsonville.

Accounting records

The official accounting records of the District are maintained in the office of the County of Santa Cruz Auditor/Controller. Supporting documents are maintained by the District.

Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

Budgetary procedure

The District prepares a fiscal year budget in accordance with applicable laws and regulations. The District's total General Fund and Capital Projects Fund expenditures for the year ended June 30, 2025 were under budget.

Appropriations limit

In accordance with the California Constitution, the District has adopted an appropriations limit for the fiscal year 2024/2025.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basic of Accounting and Measurement Focus

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accounting policies of the District conform to GAAP in the United States for local governmental units.

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures, as appropriate. The District uses a chart of accounts based on the uniform accounting system prescribed by the State Controller.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Adoption of New Guidance

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement is effective for reporting periods beginning after December 15, 2023, or the fiscal year 2024-25. The implementation of this statement did not have a material effect on the financial statements.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement is effective for reporting periods beginning after June 15, 2024, or the fiscal year 2024-25. The implementation of this statement did not have a material effect on the financial statements

C. Financial Statement Presentation

Government-Wide Financial Statements

The District's Government-Wide Financial Statements include a statement of net position and a statement of activities and changes in net position. These statements present summaries of governmental activities for the District.

The basic Government-Wide Financial Statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, liabilities, deferred inflows/outflows of resources, including capital assets, and long-term liabilities are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenditures are recognized in the period the liability is incurred.

Governmental Funds Financial Statements

The District's Government Funds Financial Statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements of net position presented in the Government-Wide Financial Statements.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred. Reconciliation of the Governmental Funds financial statements to the Government-Wide Financial Statements is provided to explain the differences created by the different measurement focus and basis of accounting.

The District's governmental fund balance is classified in the following categories:

- Nonspendable – Includes amounts that are not in a spendable form or are required to be maintained intact.
- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.
- Committed – Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- Assigned – Includes amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

The District's governmental-wide net position is classified in the following categories:

- Net investment in capital assets – Includes amount of the net position that is invested in capital assets net of accumulated depreciation and any related debt.
- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by a formal action of the government's highest level of decision-making authority, external resource providers, constitutionally, or through enabling legislation.
- Unrestricted – Includes amounts that are technically available for any purpose and includes all amounts not contained in other classifications.

D. Property Tax Revenue

The County of Santa Cruz assesses properties, bills, and collects property taxes for the District. Assessed values are determined annually by the County Assessor as of March 1, and become a lien on real property as of that date. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County bills and collects property taxes whereby all local agencies including special districts, receive from the County their respective share of the amount of ad valorem taxes collected.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash in County Treasury

The District's cash is held in the Santa Cruz County ("County") Treasury Pool, which is not rated by national credit rating agencies. The County Treasurer pools cash with other County and Special District funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the County's investment pool. The County routinely reviews its investment policy. The estimated fair value of investments in the pool is based on quoted market prices. The fair value of the District's position in the pool is the same as the value of the pool shares. The value of the pool shares may be withdrawn at any time based on an amortized cost basis, which is different than the fair value of the District's position in the pool. Information regarding the investments within the pool, including related risks, can be found in the County of Santa Cruz's Annual Comprehensive Financial Report.

As of June 30, 2025 and 2024, the District had balances held by the County of \$2,166,561 and \$1,488,614, respectively. Interest earned on the investment pool is distributed to the participating funds monthly using a formula based on the average daily cash balance of each fund. Interest earned through June 30, 2025 was distributed on June 30, 2025.

F. Accounts Receivable

All accounts receivable, if any, are shown net of any allowance for uncollectible accounts. All receivables which have been remitted within 60 days subsequent to fiscal year end are considered measurable and available and recognized as income in the Government-Fund Financial Statements.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and government fund financial statements, as applicable.

H. Capital Assets

Capital assets, which include land, buildings, improvements, and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District has set up capitalization thresholds for reporting capital assets as follows:

| | <u>Cost</u> | <u>Useful Lives</u> |
|------------|-------------|---------------------|
| Structures | \$3,000 | 30 – 40 years |
| Equipment | \$1,000 | 3 – 15 years |

Depreciation is recorded on the straight-line method over the useful lives of the assets.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net assets will sometimes report deferred outflows of resources. Deferred outflows of resources, represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has one item which qualifies for reporting as deferred outflows of resource; related to GASB 68 pension accounting and is reported on the Government-Wide Financial Statement.

In addition to liabilities, the statement of net assets will sometimes report deferred inflows of resources. Deferred inflows of resources, represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The District currently has one item which qualifies for reporting as deferred inflows of resource; related to GASB 68 pension accounting and is reported on the Government-Wide Financial Statement.

J. District Special Expense

Because fire hose couplings and nozzles are peculiar to fire districts, the manual of the State Controller provides that purchases of such items be charged to the expense account “District Special Expense.”

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Lease

A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

As of June 30, 2025, the District does not have any leases that are required to be recorded.

M. Subscription-Based Information Technology Arrangements (SBITA)

A Subscription-Based Information Technology Arrangement (SBITAS) is defined as a contract that conveys control of the right to use another party’s information technology software, alone or in combination with tangible capital assets as specified in a contract for a period in an exchange or exchange-like transaction.

As of June 30, 2025, the District does not have any SBITAs that are required to be recorded.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Prior Year Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2024, from which the summarized information was derived.

O. Subsequent Events

The District's management has evaluated additional events and transactions subsequent to June 30, 2025, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through December 1, 2025, the date the financial statements became available to be issued.

NOTE 3 – CHANGES IN STATION AND EQUIPMENT

| | Balance June 30, 2023 | Additions/ Adjustments | Deletions and Adjustments | Balance June 30, 2024 |
|--|--------------------------|---------------------------|------------------------------|--------------------------|
| Station and Improvements | \$ 2,378,099 | \$ - | \$ - | \$ 2,378,099 |
| Equipment | 1,803,623 | 84,179 | (5,405) | 1,882,397 |
| Total | 4,181,722 | 84,179 | (5,405) | 4,260,496 |
| Accumulated depreciated | (2,034,501) | (160,316) | 326,222 | (1,868,595) |
| Total, net of accumulated depreciation | \$ 2,147,221 | \$ (76,137) | \$ 320,817 | \$ 2,391,901 |
| | Balance June 30, 2024 | Additions/ Adjustments | Deletions | Balance June 30, 2025 |
| Station and Improvements | \$ 2,378,099 | \$ 7,769 | \$ - | \$ 2,385,868 |
| Equipment | 1,882,397 | 11,896 | - | 1,894,293 |
| Total | 4,260,496 | 19,665 | - | 4,280,161 |
| Accumulated depreciated | (1,868,595) | (143,484) | | (2,012,079) |
| Total, net of accumulated depreciation | \$ 2,391,901 | \$ (123,819) | \$ - | \$ 2,268,082 |

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

A. *Workers' Compensation Coverage*

The District is a member of the Santa Cruz County Fire Agencies Insurance Group (“Group”). In a board meeting on June 19, 2002, the Group approved the return of its self-insurance certificates to the State and to accept a proposal from California Public Entity Insurance Authority (CPEIA) a joint powers authority for both primary and excess workers compensation coverage. In a resolution dated September 20, 2007, the Santa Cruz County Fire Agencies Insurance Group's Board of Directors opted to terminate the CPEIA joint power agreement and merge into the CSAC Excess Insurance Authority (CSAC-EIA) Joint Power Agreement. This change was predicated on the decision of CSAC-EIA to restructure their by-laws and JPA agreements discontinuing the operation of CPEIA and allowing its members to become full participants in the CSAC-EIA programs. Being a CPEIA member granted automatic approval of inclusion into both the Primary and Excess EIA workers' compensation programs beginning with the July 1, 2007 policy renewals. The relationship between the Group and CSAC-EIA (“JPA”) is such that CSAC-EIA is not a component unit of the Group for reporting purposes. On June 30, 2020 CSAC-EIA became Public Risk Innovation, Solutions, and Management (“PRISM”).

PRISM is a joint powers agency (JPA) formed pursuant to Section 6500 et seq. of the California Government Code. Members are assessed a contribution for each program in which they participate. Members may be subject to additional supplemental assessments if it is determined that the contributions are insufficient. Members may withdraw from the PRISM only at the end of a policy period and only if a sixty day written advance notice is given. However, PRISM may cancel a membership at any time upon a two-thirds vote of the Board of Directors and with sixty days written notice. Upon withdrawal or cancellation, a member shall remain liable for additional assessments for the program periods they have participated. PRISM is governed by a board of directors. The Board controls the operations of PRISM, including adopting an annual budget.

B. *Primary Workers' Compensation*

The Primary Workers' Compensation program is a full service program including claims administration. The program blends pooling of workers' compensation claims with a purchased stop loss insurance policy.

C. *Excess Workers' Compensation*

PRISM retains responsibility for payment of claims in excess of \$125,000 for each member who also participates in the primary workers' compensation program. Claim liabilities are recognized based on the actuarial estimate of expected ultimate claim cost discounted at 6%.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 4 – RISK MANAGEMENT (Continued)

D. Liability Insurance

The District has joined the Fire Agencies Insurance Risk Authority, a joint powers authority (JPA) with other California special districts as members. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for reporting purposes. The Authority, as administrator, maintains general liability insurance for its members. The purpose of the joint protection program is to reduce the amount and frequency of their losses, pool their self-insured losses, and jointly purchase general liability insurance. For the fiscal year ended June 30, 2025, FAIRA maintained a fully-insured program.

Insurance coverage as of June 30, 2025 is as follows:

| | <u>Deductible</u> | <u>Limit</u> |
|--|-------------------|---------------|
| Property | | |
| Property (building and contents) | \$5,000 | \$100,000,000 |
| Automobile physical damage | \$1,000 - \$5,000 | \$1,500,000 |
| Liability | | |
| Comprehensive general and automobile bodily injury, property damage, person injury, single limit | \$1,000 | \$1,500,000 |
| General liability - each | None | \$1,500,000 |
| General liability - aggregate | None | \$10,000,000 |

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable consist of the following items as of June 30:

| | <u>2025</u> | <u>2024</u> |
|------------|-----------------|-----------------|
| Operations | | |
| Other | \$ 6,510 | \$ 2,895 |
| | <u>\$ 6,510</u> | <u>\$ 2,895</u> |

NOTE 6 – DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Plan is a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provision under the Plans are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basis Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied by the Public Employees' Retirement Law.

The Safety Plan's provisions and benefits in effect at June 30, 2025 are summarized as follows:

| | |
|---|--------------------------|
| Hire Date | Prior to January 1, 2013 |
| Benefits formula | 2% @ 50 |
| Benefits vesting schedule | 5 years' service |
| Benefit payments | Monthly for life |
| Retirement age | 50 |
| Monthly benefits, as a % of eligible compensation | 2.00% |
| Required employee contributions rates | 9.00% |
| Required employer contribution rates | 0.00% |
| Required UAL contribution | \$118,508 |

As of June 30, 2025, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of \$254,816.

C. Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the year ended June 30, 2025, the District's total contributions to the Plan were \$118,508.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

D. Net Pension Liability

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2024, using an annual actuarial valuation as of June 30, 2023 rolled forward to June 30, 2024 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2025 and 2024 was as follows:

| | Total Pension Liability (a) | Increase (Decrease) | |
|----------------------------|--------------------------------|------------------------------------|--|
| | | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (c) = (a) - (b) |
| Balance at: 6/30/23 (MD) | \$ 5,783,142 | \$ 5,474,885 | \$ 308,257 |
| Balance at: 6/30/24 (MD) | 5,895,568 | 5,640,752 | 254,816 |
| Net Changes during 2023-24 | \$ (112,426) | \$ (165,867) | \$ 53,441 |

E. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2025, the District recognized a negative pension expense of \$171,949. At June 30, 2025, the District reported deferred outflows of resources in the amount of \$118,508 which represents pension contribution made subsequent to measurement date.

F. Actuarial Assumptions

For the measurement period ended June 30, 2024 (the measurement date), total pension liability was determined by rolling forward following the June 30, 2023 total pension liability. The June 30, 2023 total pension liability was based on the following actuarial methods and assumptions:

| | |
|-----------------------------------|--|
| Actuarial cost Method | Entry Age Actuarial Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 6.90% |
| Inflation | 2.30% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table ¹ | Derived using CalPERS' Membership Data for all Funds |
| Post Retirement Benefit Increase | The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter |

¹ The mortality table used was developed based on CalPERS-specific data. The table includes generated mortality improvements using Society of Actuaries Scale 80% of Scale MP 2020. For more details on this table, please refer to the 2021 experience study report from November 2021 that can be found on the CalPERS website.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability was 6.90% for the Plan. The projection of cash flows used to determine the discount rate for the Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 basis points.

The expected real rate of return by asset class are as follow.

| Asset Class ¹ | Assumed Asset Allocation | Real return ^{1,2} |
|---------------------------------|--------------------------|----------------------------|
| Global Equity- Cap-weighted | 30.00% | 4.54% |
| Global Equity- Non-Cap-weighted | 12.00% | 3.84% |
| Private Equity | 13.00% | 7.28% |
| Treasury | 5.00% | 0.27% |
| Mortgage-backed Securities | 5.00% | 0.50% |
| Investment Grade Corporates | 10.00% | 1.56% |
| High Yield | 5.00% | 2.27% |
| Emerging Market Debt | 5.00% | 2.48% |
| Private Debt | 5.00% | 3.57% |
| Real Assets | 15.00% | 3.21% |
| Leverage | -5.00% | -0.59% |

¹ An expected inflation of 2.30% used for this period.

² Figures are based on the 2021 Asset Liability Management study.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

H. Changes of Assumptions

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

I. Sensitivity of the Net Pension Liability to the Changes in the Discount Rate

The following presents the net pension liability of the District for each Plan, calculated using the discount rate for each Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Discount Rate -1% (5.90%) | Current Discount Rate (6.90%) | Discount Rate +1% (7.90%) |
|---|------------------------------|----------------------------------|------------------------------|
| Plan's Net Pension Liability/(Asset) | \$ 1,060,145 | \$ 254,816 | \$ (403,830) |

J. Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the District's CalPERS GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the District's CalPERS funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the District's funding actuarial valuation.

| <u>Measurement period; June 30, 2024</u> | <u>Safety</u> |
|--|---------------|
| Total pension liability | \$5,895,568 |
| Fiduciary net position | \$5,640,752 |
| Net pension liability | 254,816 |

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2025

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Ground lease

The District leases the real property on which the District's fire station is located. During the year ended June 30, 2003, the District constructed a new fire station and entered into a ground lease. The ground lease is for 50 years, rent is payable in one \$50 payment, due upon commencement of the lease.

Pajaro Valley Fire Protection District Reorganization

On April 24, 2025, the Pajaro Valley Fire Protection District Board of Directors adopted a resolution to dissolve the District and concurrently annex its service area into CSA 48. The District formally submitted an application to Santa Cruz County LAFCO to initiate this reorganization in May 2025. Since then, the District explored conducting another 218 Benefit Assessment as another funding mechanism that could allow it to remain a standalone agency. The Pajaro Valley FPD Board voted to discontinue its efforts to implement a 218 Benefit Assessment on October 21 and decided to focus on the proposed reorganization with CSA 48.

Required Supplemental Information

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues - Budget and Actual - General Fund
 For the Year Ended June 30, 2025

| | Final Budget | Amended Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|---------------------|----------------------------|---------------------|--|
| Revenues | | | | |
| Property taxes | | | | |
| Current secured | \$ 2,228,712 | \$ 2,228,712 | \$ 2,272,751 | \$ 44,039 |
| Current unsecured | 36,000 | 36,000 | 45,753 | 9,753 |
| Prior year - unsecured | 2,300 | 2,300 | 4,028 | 1,728 |
| Penalties for delinquent taxed | - | - | 586 | 586 |
| Current supplemental | 20,000 | 20,000 | 34,506 | 14,506 |
| Prior year - supplemental | 1,000 | 1,000 | 3,361 | 2,361 |
| Total property taxed | <u>2,288,012</u> | <u>2,288,012</u> | <u>2,360,985</u> | <u>72,973</u> |
| Other taxes | | | | |
| Fire suppression benefit assessment | 143,855 | 143,855 | 142,059 | (1,796) |
| Total other taxes | <u>143,855</u> | <u>143,855</u> | <u>142,059</u> | <u>(1,796)</u> |
| Use of money and property | | | | |
| Interest | 6,000 | 6,000 | 23,915 | 17,915 |
| Total use of money and property | <u>6,000</u> | <u>6,000</u> | <u>23,915</u> | <u>17,915</u> |
| Aid from other government agencies | | | | |
| Homeowner property tax relief | 10,200 | 10,200 | 10,086 | (114) |
| Total aid from other government agencies | <u>10,200</u> | <u>10,200</u> | <u>10,086</u> | <u>(114)</u> |
| Charges for current services | | | | |
| Plan checking fees | 25,000 | 25,000 | 43,790 | 18,790 |
| Fire protection services | 500 | 500 | - | 500 |
| Total charges for current services | <u>25,500</u> | <u>25,500</u> | <u>43,790</u> | <u>19,290</u> |
| Other revenue | | | | |
| Other revenue | 10,000 | 10,000 | 152,848 | 142,848 |
| Total other revenue | <u>10,000</u> | <u>10,000</u> | <u>152,848</u> | <u>142,848</u> |
| Total revenue | <u>\$ 2,483,567</u> | <u>\$ 2,483,567</u> | <u>\$ 2,733,683</u> | <u>\$ 251,116</u> |

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2025

| | Final Budget | Amended Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|---------------------|----------------------------|---------------------|--|
| Expenditures | | | | |
| Salaries and employee benefits | | | | |
| OASDI - Social Security | \$ 150 | \$ 150 | \$ 239 | \$ (89) |
| PERS | 119,350 | 119,350 | 118,928 | 422 |
| Workers' compensation insurance | 1,400 | 1,400 | - | 1,400 |
| Total salaries and employee benefits | <u>120,900</u> | <u>120,900</u> | <u>119,167</u> | <u>1,733</u> |
| Services and supplies | | | | |
| Clothing and personal supplies | 10,000 | 10,000 | 915 | 9,085 |
| Radio | 20,000 | 20,000 | 21,736 | (1,736) |
| Telephone | 5,500 | 5,500 | 5,961 | (461) |
| Food | 1,000 | 1,000 | - | 1,000 |
| Other household expense - services | 3,500 | 3,500 | 4,282 | (782) |
| Other insurance | 23,750 | 23,750 | 22,138 | 1,612 |
| Maintenance - mobile equipment | 52,500 | 52,500 | 32,577 | 19,923 |
| Maintenance - other equipment | 7,700 | 7,700 | 4,881 | 2,819 |
| Maintenance - structure and grounds | 4,000 | 4,000 | 4,532 | (532) |
| Medical, dental and lab supplies | 3,500 | 3,500 | 2,491 | 1,009 |
| Memberships | 2,500 | 2,500 | 3,000 | (500) |
| PC software | 1,500 | 1,500 | 1,054 | 446 |
| Postage | 500 | 500 | 75 | 425 |
| Supplies | 1,700 | 1,700 | 1,304 | 396 |
| Accounting and auditing fees | 36,400 | 36,400 | 34,933 | 1,467 |
| Attorney | 3,000 | 3,000 | 619 | 2,381 |
| Directors' fee | 5,000 | 5,000 | 3,120 | 1,880 |
| Professional services | 2,156,000 | 2,156,000 | 1,755,144 | 400,856 |
| Publication printing costs | 2,000 | 2,000 | - | 2,000 |
| Legal notices | 1,000 | 1,000 | 477 | 523 |
| Small tools and instruments | 18,000 | 18,000 | 17,388 | 612 |
| Election expense | 35,000 | 35,000 | 125 | 34,875 |
| Special district expense | 11,000 | 11,000 | 14,661 | (3,661) |
| Education and training | 1,500 | 1,500 | 150 | 1,350 |
| Gas, oil and fuel | 16,000 | 16,000 | 12,916 | 3,084 |
| Lodging | 1,500 | 1,500 | - | 1,500 |
| Utilities | 17,000 | 17,000 | 18,174 | (1,174) |
| Total services and supplies | <u>2,441,050</u> | <u>2,441,050</u> | <u>1,962,653</u> | <u>478,397</u> |
| Fixed assets | | | | |
| Buildings and improvements | 50,000 | 50,000 | 26,984 | 23,016 |
| Mobile equipment | 1,500 | 1,500 | - | 1,500 |
| Total fixed assets | <u>51,500</u> | <u>51,500</u> | <u>26,984</u> | <u>24,516</u> |
| Other charges | | | | |
| Interest - other | 300 | 300 | - | 300 |
| Contribution to other agencies (LAFCO) | 3,000 | 3,000 | 2,446 | 554 |
| Total other charges | <u>3,300</u> | <u>3,300</u> | <u>2,446</u> | <u>854</u> |
| Total expenditures | <u>\$ 2,616,750</u> | <u>\$ 2,616,750</u> | <u>\$ 2,111,250</u> | <u>\$ 505,500</u> |
| Other financing sources (uses) | | | | |
| Transfer out to capital projects fund | <u>\$ (99,635)</u> | <u>\$ (99,635)</u> | <u>\$ (99,635)</u> | <u>\$ -</u> |

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Capital Project Fund
 For the Year Ended June 30, 2025

| | Final Budget | Amended Final Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------|-------------------|----------------------------|------------------|--|
| Revenues | | | | |
| Use of money and property | | | | |
| Interest | \$ 8,000 | \$ 8,000 | \$ 51,899 | \$ 43,899 |
| | | | | |
| Total revenues | <u>\$ 8,000</u> | <u>\$ 8,000</u> | <u>\$ 51,899</u> | <u>\$ 43,899</u> |
| Expenditures | | | | |
| Fixed assets | | | | |
| Buildings and improvements | \$ 100,000 | \$ 100,000 | \$ - | \$ 100,000 |
| Mobile Equipment | 414,598 | 414,598 | - | 414,598 |
| | | | | |
| Total expenditures | <u>\$ 514,598</u> | <u>\$ 514,598</u> | <u>\$ -</u> | <u>\$ 514,598</u> |
| | | | | |
| Other financing sources (uses) | | | | |
| Transfer in to general fund | <u>\$ 150,655</u> | <u>\$ 150,655</u> | <u>\$ 99,635</u> | <u>\$ 51,020</u> |

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability (Asset) and Related Ratios
June 30, 2025
Last 10 Years

| | | | | | |
|--|------------|------------|------------|--------------|------------|
| Fiscal year | 2024-25 | 2023-24 | 2022-23 | 2021-22 | 2020-21 |
| Measurement period | 2023-24 | 2022-23 | 2021-22 | 2020-21 | 2019-20 |
| Entity's proportion of net pension liability (asset) | 0.00210% | 0.00247% | 0.00231% | -0.01388% | 0.00662% |
| Entity's proportionate share of net pension liability (asset) | \$ 254,816 | \$ 308,257 | \$ 266,969 | \$ (750,550) | \$ 720,556 |
| Entity's covered-employee payroll (Measurement Year) | - | - | - | - | - |
| Entity's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | N/A | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the Plan's total pension liability | 78.08% | 76.21% | 76.68% | 88.29% | 75.10% |
| Proportionate share of the aggregate employer contributions | \$ 208,331 | \$ 218,174 | \$ 361,307 | \$ 339,342 | \$ 181,293 |
| Fiscal year | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
| Measurement period | 2018-19 | 2017-18 | 2016-17 | 2015-16 | 2014-15 |
| Entity's proportion of net pension liability (asset) | 0.00566% | 0.00509% | 0.00495% | 0.00426% | 0.025896% |
| Entity's proportionate share of net pension liability (asset) | \$ 580,307 | \$ 490,478 | \$ 491,006 | \$ 368,852 | \$ 59,480 |
| Entity's covered-employee payroll (Measurement Year) | - | - | - | - | - |
| Entity's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | N/A | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the Plan's total pension liability | 75.26% | 75.26% | 73.31% | 74.06% | 102.66% |
| Proportionate share of the aggregate employer contributions | \$ 192,970 | \$ 201,574 | \$ 158,988 | \$ - | \$ - |

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Contributions
June 30, 2025
Last 10 Years

| Fiscal Year | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|-----------|------|-----------|-----------|-----------|
| Actuarially Determined Contribution | \$118,508 | \$ - | \$ 16,964 | \$693,964 | \$ 56,803 |
| Contributions in Relation to the | | | | | |
| Actuarially Determined Contribution | (118,508) | - | (16,964) | (693,964) | (56,803) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a Percentage of Covered Employee Payroll | N/A | N/A | N/A | N/A | N/A |

| Fiscal Year | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-----------|-----------|-----------|-----------|------|
| Actuarially Determined Contribution | \$ 56,803 | \$ 25,267 | \$ 26,182 | \$ 18,513 | \$ - |
| Contributions in Relation to the | | | | | |
| Actuarially Determined Contribution | (56,803) | (25,267) | (26,182) | (18,513) | - |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a Percentage of Covered Employee Payroll | N/A | N/A | N/A | N/A | N/A |

**PAJARO VALLEY FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

**FOR THE YEAR ENDED
JUNE 30, 2025**

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

For the Year Ended June 30, 2025

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Directors of
Pajaro Valley Fire Protection District
Watsonville, California

In planning and performing our audit of the basic financial statements of the Pajaro Valley Fire District (District), California, as of and for the year ended June 30, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses.

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.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze + Associates'.

Pleasant Hill, California
December 1, 2025

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF MATERIAL WEAKNESSES

2025-01 – Preparation of the Financial Statements

Condition – The District did not prepare internal financial statements including related notes disclosures in accordance with generally accepted accounting principles.

Criteria – The District does not have in place controls that would assure the preparation of internal financial statements and related notes disclosures in accordance with generally accepted accounting principles.

Cause – Due to the size and financial resources, the District does not have the personnel to prepare the financial statements, including the related notes in accordance with generally accepted accounting principles.

Effect – As part of the audit process the independent auditors drafted the financial statements and related disclosures, as well as performing procedures to ensure that the related disclosures were complete. Draft financial statements were submitted to the District for review and approval.

Recommendation – We recommend that the District review this material weakness annually to determine if it is effective to have a staff member prepare the financial statements.

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR SCHEDULE OF MATERIAL WEAKNESSES

2025-01, 2024-01, 2023-01, 2022-01, 2021-01 & 2020-01 – Preparation of the Financial Statements

Condition – The District did not prepare internal financials statements including related notes disclosures in accordance with generally accepted accounting principles.

Criteria – The District does not have in place controls that would assure the preparation of internal financial statements and related notes disclosures in accordance with generally accepted accounting principles.

Cause – Due to the size and financial resources, the District does not have the personnel to prepare the financial statements, including the related notes in accordance with generally accepted accounting principles.

Effect – As part of the audit process the independent auditors drafted the financial statements and related disclosures, as well as performing procedures to ensure that the related disclosures were complete. Draft financial statements were submitted to the District for review and approval.

Recommendation – We recommend that the District review this material weakness annually to determine if it is effective to have a staff member prepare the financial statements.

Status – This material weakness is ongoing from prior years. The District has decided that it is not cost effective to hire additional staff to mitigate this issue.

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2025**

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2025

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REQUIRED COMMUNICATIONS

To the Board of Directors
Pajaro Valley Fire Protection District
Watsonville, California

We have audited the basic financial statements of the Pajaro Valley Fire Protection District for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 14, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Accounting Policies - Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB 101 – Compensated Absences

GASB 102 – Certain Risk Disclosures

Unusual Transactions, Controversial or Emerging Areas – We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates - Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 4 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net Pension Assets and Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net pension assets and liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the District. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures - The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole, except for adjustments related to capital asset activity, and the capital lease payoff.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Directors.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated December 1, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplemental information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

This information is intended solely for the use of Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
December 1, 2025

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