

PAJARO VALLEY FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021
and
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

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**Pajaro Valley Fire Protection District
Basic Financial Statements
June 30, 2022 and 2021**

TABLE OF CONTENTS

	<u>Page</u>
<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	5
<i>Basic Financial Statements:</i>	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities.....	12
Governmental Funds Financial Statements:	
Balance Sheet.....	13
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities Governmental Activities.....	16
Notes to Basic Financial Statements	17
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – Revenues – Budget and Actual – General Fund	36
Budgetary Comparison Schedule – Expenditures – Budget and Actual – General Fund.....	37
Budgetary Comparison Schedule – Revenues and Expenditures – Budget and Actual – Capital Project Fund.....	38
Schedules of Proportionate Share of Net Pension Liability/(Asset) and Related Ratios	39
Schedules of Contributions	40
<i>Memorandum on Internal Control</i>	41
Schedule of Material Weaknesses	43
Status of Prior Year Material Weaknesses	45

**Pajaro Valley Fire Protection District
Basic Financial Statements
June 30, 2022 and 2021**

TABLE OF CONTENTS

	<u>Page</u>
<i>Required Communications</i>	47
Significant Audit Matters.....	47
Qualitative Aspects of Accounting Practices.....	47
Difficulties Encountered in Performing the Audit.....	50
Corrected and Uncorrected Misstatements.....	50
Disagreements with Management.....	50
Management Representations	50
Management Consultations with Other Independent Accountants	50
Other Audit Findings or Issues	51
Other Matters	51

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, 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 the governmental activities and major fund of the District as of June 30, 2022 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, individually or in the aggregate, they could reasonably be expected to 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.

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, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and Statistical Section listed in the Table of Contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2021 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 10, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maze + Associates

Pleasant Hill, California
January 12, 2023

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2022

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 and equipment. During the fiscal years ended June 30, 2022 and 2020, the District transferred \$132,222 and \$-0- respectively, into the Capital Projects Fund. During the fiscal years ended June 30, 2022 and 2021, the District expended \$-0- and \$695,000, respectively, out of the Capital Projects Fund.

Condensed Government-Wide Financial Data

	2022	2021
Current assets	\$ 2,259,311	\$ 2,058,840
Stations and equipment, net of accumulated depreciation	1,510,744	1,570,337
Deferred outflows of resources	78,257	693,964
Total assets and deferred outflows of resources	<u>\$ 3,848,312</u>	<u>\$ 4,323,141</u>
Current liabilities	\$ 91,242	\$ 145,661
Non current liabilities	(275,206)	1,284,012
Total liabilities and deferred inflow of resources	<u>(183,964)</u>	<u>1,429,673</u>
Net position		
Net investment in capital assets	1,510,744	1,570,337
Unrestricted	2,521,532	1,323,131
Total net position	<u>4,032,276</u>	<u>2,893,468</u>
Total liabilities and net position	<u>\$ 3,848,312</u>	<u>\$ 4,323,141</u>
	2022	2021
Expenditures, net of program revenue	\$ 1,079,133	\$ 1,858,322
General Revenue		
Property tax	2,059,723	1,945,599
Fire suppression benefits assessment	140,656	140,573
Use of money and property (interest income)	7,633	11,828
Aid from other government agencies	9,929	10,017
Change in net position	<u>\$ 1,138,808</u>	<u>\$ 249,695</u>

Financial Analysis of the District as a Whole

The District's net position increased for the fiscal year ended June 30, 2022 by \$1,138,808 or 39% to a total of \$2,893,468. In 2021 net position increased by \$249,695 or 9% to a total of \$4,032,276. Of the \$4,032,276 in the net position as of June 30, 2022, \$1,510,744 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, 2022 by \$259,750 or 13% to the total of \$2,256,181. In 2021 governmental fund balances decreased by \$526,630 or 36% to a total of \$2,256,181. 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, 2022 and 2021, is the difference in accounting for fixed asset additions/depreciation and pension asset/liability.

Budgetary Highlights

During the fiscal year ended June 30, 2022, the following highlights occurred:

1. Continued staffing three-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.
3. The District entered into a lease agreement to purchase a new Type I Fire Engine.

Capital Assets

As of June 30, 2022, the District had invested \$3,848,312 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>2022</u>	<u>2021</u>
Facility Improvements	\$ -0-	\$ -0-
Total major capital asset additions		
mobile equipment replacement	\$ 102,445	\$ 646,707

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2022

Long – Term Debt

As of June 30, 2022, the District continues to make payments towards our lease agreement to purchase a new fire engine. In 2021, the District entered into a lease agreement to purchase a new fire engine. As of June 30, 2022, the District has no other long-term debt.

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

As of June 30, 2022, and 2021, the District had (\$-750,550) and (\$720,556), respectively in net pension (liability)/asset. As of June 30, 2022, and 2021, the District had \$78,257 and \$693,964, 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, 2022, as recommend by the Santa Cruz County Auditor/Controller.

The District anticipates about 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.

Capital Outlay: The District has budgeted \$100,000 for building and improvements and \$243,391 for mobile equipment replacement. Funding is from \$343,391 fund balance as of June 30, 2022, projected \$4000 of interest income, and a transfer \$12,000 into the Mobile Equipment Replacement account.

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

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PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Cash in County Treasury		
Santa Cruz County	\$ 1,612,603	\$ 1,412,132
Restricted Cash	<u>646,708</u>	<u>646,708</u>
Total Current Assets	<u>2,259,311</u>	<u>2,058,840</u>
Station and Equipment		
Structures and Improvements	2,385,818	2,385,818
Equipment	<u>1,477,054</u>	<u>1,426,068</u>
Total Station and Equipment	<u>3,862,872</u>	<u>3,811,886</u>
Accumulated Depreciation	<u>(2,352,128)</u>	<u>(2,241,549)</u>
Station and Equipment, Net of Accumulated Depreciation	<u>1,510,744</u>	<u>1,570,337</u>
Total Assets	<u>3,770,055</u>	<u>3,629,177</u>
Deferred Outflows of Resources		
Deferred Pension - Actuarial	<u>78,257</u>	<u>693,964</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 3,848,312</u></u>	<u><u>\$ 4,323,141</u></u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 3,130	\$ 62,409
Current portion of Lease Payable	<u>88,112</u>	<u>83,252</u>
Total Current Liabilities	<u>91,242</u>	<u>145,661</u>
Non Current Liabilities		
Non Current portion of Lease Payable	475,344	563,456
Net Pension (Asset) Liability	<u>(750,550)</u>	<u>720,556</u>
Total Non Current Liabilities	<u>(275,206)</u>	<u>1,284,012</u>
Total Liabilities	<u>(183,964)</u>	<u>1,429,673</u>
Net Position		
Net investment in capital assets	1,510,744	1,570,337
Unrestricted		
General Fund	<u>2,521,532</u>	<u>1,323,131</u>
Total Net Position	<u>4,032,276</u>	<u>2,893,468</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u><u>\$ 3,848,312</u></u>	<u><u>\$ 4,323,141</u></u>

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

		Program Revenues			Totals	
		Charges for Services (Plan Check)	Strike Team & Emergency Reimbursements	Operating Grants and Contributions	2022	2021
Expenditures						
Fire Protection						
Salaries and Benefits	\$ 79,705	\$ -	\$ -	\$ -	\$ 79,705	\$ 695,050
Pension Expense (GASB 68)	(855,399)	-	-	-	(855,399)	(496,912)
Services and Supplies	1,903,847	104,909	57,757	-	1,741,181	1,518,296
Contributions to Other Agencies	2,534	-	-	-	2,534	2,342
Depreciation	111,112	-	-	-	111,112	139,546
Total Governmental Activities	<u>\$ 1,241,799</u>	<u>\$ 104,909</u>	<u>\$ 57,757</u>	<u>\$ -</u>	<u>1,079,133</u>	<u>1,858,322</u>
General Revenues						
Property Tax					2,059,723	1,945,599
Fire Suppression Benefit Assessment					140,656	140,573
Use of Money and Property					7,633	11,828
Agencies						
State Homeowners Property						
Tax Relief					9,929	10,017
Total General Revenues					<u>2,217,941</u>	<u>2,108,017</u>
Change in Net Position					1,138,808	249,695
Net Position, Beginning					<u>2,893,468</u>	<u>2,643,773</u>
Net Position, Ending					<u>\$ 4,032,276</u>	<u>\$ 2,893,468</u>

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT

Balance Sheet - Governmental Funds

June 30, 2022 and 2021

	Governmental Fund Types		Total	
	General	Capital Projects	2022	2021
ASSETS				
Cash and Investments	\$ 702,547	\$ 910,056	\$ 1,612,603	\$ 1,412,132
Restricted Cash	646,708	-	646,708	646,708
Total Assets	<u>\$ 1,349,255</u>	<u>\$ 910,056</u>	<u>\$ 2,259,311</u>	<u>\$ 2,058,840</u>
LIABILITIES				
Accounts Payable	\$ 3,130	\$ -	\$ 3,130	\$ 62,409
Total Liabilities	<u>3,130</u>	<u>-</u>	<u>3,130</u>	<u>62,409</u>
FUND BALANCES				
Assigned Fund Balance				
Equipment and Facility Replacement	-	910,056	910,056	905,909
Committed				
Fire Truck Lease	646,708	-	646,708	646,708.00
Unassigned				
Unreserved, Undesignated	699,417	-	699,417	443,814
Total Fund Balance	<u>1,346,125</u>	<u>910,056</u>	<u>2,256,181</u>	<u>1,996,431</u>
Total Liabilities and Fund Balances	<u>\$ 1,349,255</u>	<u>\$ 910,056</u>	<u>\$ 2,259,311</u>	<u>\$ 2,058,840</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, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Fund Balances - Total Governmental Funds	\$ 2,256,181	\$ 1,996,431
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	3,862,872	3,811,886
Less: Accumulated Depreciation	(2,352,128)	(2,241,549)
Deferred outflow of resources reported in the Statement of Net Position are not reported in governmental funds.		
Deferred Pension - Actuarial	78,257	693,964
Other liabilities, pension liabilities reported in the Statement of Net Position are reported in governmental funds.		
Net Pension Liability	750,550	(720,556)
Deferred inflow of resources reported in the Statement of Net Position are not reported in governmental funds.		
Deferred Pension - Actuarial	-	-
Long-term liabilities, including lease payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Long-Term Lease Payable	<u>(563,456)</u>	<u>(646,708)</u>
Net Position of Governmental Activities	<u>\$ 4,032,276</u>	<u>\$ 2,893,468</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, 2022
(With Comparative Totals for 2021)

	General	Capital Projects	Total	
			2022	2021
REVENUES:				
Property taxes	\$ 2,059,723	\$ -	\$ 2,059,723	\$1,945,599
Other taxes	140,656	-	140,656	140,573
Use of money and property	3,486	4,147	7,633	11,828
Aid from other government agencies	9,929	-	9,929	10,017
Charges for current services	104,909	-	104,909	36,294
Other revenue	57,757	-	57,757	341,537
Total Revenues	<u>2,376,460</u>	<u>4,147</u>	<u>2,380,607</u>	<u>2,485,848</u>
EXPENDITURES:				
Salaries and employee benefits	79,705	-	79,705	695,050
Services and supplies	1,926,882	-	1,926,882	1,907,542
Fixed assets	111,736	-	111,736	992
Other charges	2,534	-	2,534	2,342
Total Expenditures	<u>2,120,857</u>	<u>-</u>	<u>2,120,857</u>	<u>2,605,926</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	255,603	4,147	259,750	(120,078)
OTHER FINANCING SOURCES (Uses)				
Proceeds from Capital Lease	<u>-</u>	<u>-</u>	<u>-</u>	<u>646,708</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>646,708</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	255,603	4,147	259,750	526,630
Fund Balance, Beginning	<u>1,090,522</u>	<u>905,909</u>	<u>1,996,431</u>	<u>1,469,801</u>
Fund Balance, Ending	<u>\$ 1,346,125</u>	<u>\$ 910,056</u>	<u>\$ 2,256,181</u>	<u>\$ 1,996,431</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, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 259,750	\$ 526,630
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	155,649	12,407
Less: current year retirements	(104,130)	-
Less: current year depreciation expense	(111,112)	(139,546)
Lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Activities.	-	(646,708)
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)	855,399	496,912
Lease income/(expense)	<u>83,252</u>	<u></u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,138,808</u></u>	<u><u>\$ 249,695</u></u>

See accompanying notes to basic financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

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, 2022:

	<u>Term Expires December</u>
Dave Martone, Chairperson	2022
Kendel White, Vice Chairperson	2022
Robert Erbe, Director	2024
Dean Moules, Director	2022
Aerin Murphy, Director	2024

Sean Murray was the Battalion Chief at June 30, 2022.

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, 2021 through June 30, 2024. 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, 2022

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 Capital Fund and Capital Project Fund expenditures for the year ended June 2022 were under budget.

Appropriations limit

In accordance with the California Constitution, the District has adopted an appropriations limit for the fiscal year 2021/2022.

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 expenses or 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, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Adoption of New Guidance

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement were implemented during fiscal year 2022. The implementation had no 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, expenses 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, 2022

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.
- Unassigned - 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, 2022

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. See Note 3 to these financial statements for information regarding the Pools investments, interest rate risk, concentration of credit risk and custodial credit risk. 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 Comprehensive Annual Financial Report.

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. Inventory, Materials and Supplies

The inventory on hand at any time is small. Accordingly, purchases are charged directly to fixed assets or to maintenance costs, as applicable.

H. 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.

I. 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 the 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, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report deferred outflows of resources. Deferred outflows of resources, represent a consumption of net position 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 two items which qualify for reporting as deferred outflows of resources; both are related to GASB 68 Pension accounting and are reported on the Government-Wide Financial Statement.

In addition to liabilities, the statement of financial position will sometimes report deferred inflows of resources. Deferred inflows of resources, represent an acquisition of net position 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 two items which qualify for reporting as deferred inflows of resources; both are related to GASB 68 Pension accounting and are reported on the Government-Wide Financial Statement.

K. Fund Balance Designated

Fund balance designated indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

L. 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".

M. 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.

N. Lease Accounting

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 3 – POOLED CASH AND INVESTMENTS

A. Cash

The District's funds are held in the County of Santa Cruz pooled cash and investment pool. The following is information from the most recently available (June 30, 2021) audited financial statements of the County of Santa Cruz.

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. 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, 2021 was distributed on June 30, 2021.

The following is a summary of cash and investments at June 30, 2021:

Government-Wide Statement of Net Positions				
	Primary Governments			Component Unit
	Governmental Activities	Business-Type Activities	Total	Santa Cruz County Sanitation District
Cash and Investments	\$ 256,936,508	\$ 16,675,915	\$ 273,612,423	\$ 16,612,452
Restricted Cash and Investments	16,179,605	8,213,386	24,392,991	-
Total Cash and Investments	<u>\$ 273,116,113</u>	<u>\$ 24,889,301</u>	<u>\$ 298,005,414</u>	<u>\$ 16,612,452</u>
Fiduciary Funds				
	Investment Trust Funds	Private Purpose Trust Funds	Custodial Funds	County Total
Cash and Investments	\$ 608,313,989	\$ 15,403,344	\$ 44,955,878	\$ 958,898,086
Restricted Cash and Investments	-	4,410		24,397,401
Total Cash and Investments	<u>\$ 608,313,989</u>	<u>\$ 15,407,754</u>	<u>\$ 44,955,878</u>	<u>\$ 983,295,487</u>
Primary Government and Fiduciary Funds:				
	Cash and Investments	Restricted Cash and Investments	Total	
Cash on hand and imprest cash	\$ 13,909,961	\$ -	\$ 13,909,961	
Cash deposits in treasury pool	22,400,747	-	22,400,747	
Investments in treasury pool	905,974,926	-	905,974,926	
Restricted investments in other pools	-	16,184,015	16,184,015	
Restricted cash deposits in treasury pool	-	8,213,386	8,213,386	
County Disposal Sites CSA 9C	-	8,213,386	8,213,386	
Total	<u>942,285,634</u>	<u>24,397,401</u>	<u>966,683,035</u>	
Component Unit:				
Investments in treasury pool	16,612,452	-	16,612,452	
Total	<u>16,612,452</u>	<u>-</u>	<u>16,612,452</u>	
Total Cash and Investments	<u>\$ 958,898,086</u>	<u>\$ 24,397,401</u>	<u>\$ 983,295,487</u>	

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

At June 30, 2021, the County's cash on hand, deposits, and investments consisted of:

	Treasury Pool	Other Banks/ Investment Pools	Total
Primary Government and Fiduciary Funds:			
Cash and imprest cash	\$ 86,517	\$ 13,823,444	\$ 13,909,961
Deposits	22,400,747		22,400,747
Investments	914,188,312	16,184,015	930,372,327
Total Primary Government and Fiduciary Funds	<u>936,675,576</u>	<u>30,007,459</u>	<u>966,683,035</u>
Component Unit:			
Investments	16,612,452		16,612,452
Total Component Unit	<u>16,612,452</u>	-	<u>16,612,452</u>
Total Reporting Entity	<u>\$ 953,288,028</u>	<u>\$ 30,007,459</u>	<u>\$ 983,295,487</u>

The carrying amounts of the County's cash deposits were \$22,400,747 at June 30, 2021, of which the bank balances were fully insured or collateralized with securities held by the pledging financial institutions in the County's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the County's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County's name.

The market value of pledged securities must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000, by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

B. Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments were stated at cost, as the fair market value adjustment at the year-end was immaterial.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code of the County's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	100%	None
U.S. Government Agency Obligations	5 years	100%	25%
Bankers' Acceptances	180 days	40%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Bank Deposit	5 years	10%	10%
Repurchase Agreements	1 Year	100%	10%
Medium Term Notes	5 years	30%	10%
Mutual Funds/Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$75 Million	None
Joint Powers Authority Investment Funds	N/A	25%	10%
Supranationals	5 years	30%	10%

C. Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

At June 30, 2021, the County had the following investment maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	More than 4
Local Agency Bonds	\$ 34,310,999	\$ 12,196,320	\$ 9,633,535	\$ 3,118,948	\$ 9,362,196	\$ -
U.S. Treasury Securities	354,584,208	197,592,430	37,489,112	119,502,666	-	-
Federal Agency Securities	213,125,455	56,393,120	56,255,010	65,860,375	19,851,700	14,765,250
Medium-Term Notes - Other	50,860,161	35,282,061	15,578,100	-	-	-
Money Market Mutual Funds	20,100,004	20,100,004	-	-	-	-
Local Agency Investments Fund (LAIF)	75,060,887	75,060,887	-	-	-	-
Certificates of Deposit	95,008,900	95,008,900	-	-	-	-
Investment Agreements	12,500,000	12,500,000	-	-	-	-
Supranationals	96,860,370	20,031,000	10,349,300	48,701,650	-	17,778,420
Total Investments	<u>\$ 952,410,984</u>	<u>\$ 524,164,722</u>	<u>\$ 129,305,057</u>	<u>\$ 237,183,639</u>	<u>\$ 29,213,896</u>	<u>\$ 32,543,670</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

D. Concentration of Credit Risk

At June 30, 2021, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds, or medium-term notes of a single organization, nor did it have 10% or more of its investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government sponsored enterprises are exempt from these limitations.

The following schedule is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2021:

Investment Type	Standard & Poor's	Moody's	% of Portfolio
Local Agency Bonds	A	Aa3	3.50%
U.S. Treasury Securities	N/A	N/A	36.59%
Federal Agency Securities	AA+	Aaa	21.92%
Medium-Term Notes - Other	A/AAA	A+	5.17%
Money Market Mutual Funds	Unrated	Unrated	2.07%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	9.04%
Certificates of Deposit	A1	P1	9.79%
Checking Account	Unrated	Unrated	1.92%
Supranational	AAA	Aaa	10.00%
Total			<u>100.00%</u>

E. Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

F. Local Agency Investment Fund (LAIF)

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2021, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: Debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: Generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

At June 30, 2021, the County had \$75,060,887 invested in LAIF. LAIF provided a fair value factor of 1.00008297 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair market value of LAIF, as the fair market value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

G. Fair Value Hierarchy

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1: Investments reflect prices quoted in active markets

Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active, and

Level 3: Investments reflect prices based on unobservable sources.

The Pool has the following recurring fair value measurements as of June 30, 2021:

Investment by Fair Value Level		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities:				
Local Agency Bonds	\$ 34,310,999	\$ 34,310,999	\$ -	\$ -
U.S. Treasury Securities	354,584,208	354,584,208	-	-
Federal Agency Securities	213,125,455	213,125,455	-	-
Medium-Term Notes - Other	50,860,161	50,860,161	-	-
Certificates of Deposit	95,008,900	95,008,900	-	-
Investment Agreements	12,500,000	12,500,000	-	-
Supranationals	96,860,370	96,860,370	-	-
Total Investments Measured at Fair Value	857,250,093	<u>\$ 857,250,093</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:				
Money Market Mutual Funds	20,100,004			
Local Agency Investment Fund (LAIF)	75,060,887			
Total Pooled and Directed Investments	<u>\$ 952,410,984</u>			

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 4 – CHANGES IN STATION AND EQUIPMENT

	Balance June 30, 2020	Additions/ Adjustments	Deletions	Balance June 30, 2021
Station and Improvements	\$ 2,385,818	\$ -	\$ -	\$ 2,385,818
Equipment	1,413,661	12,407	-	1,426,068
Total	3,799,479	12,407		3,811,886
Accumulated depreciated	(2,102,003)	(139,546)	-	(2,241,549)
Total, net of accumulated depreciation	\$ 1,697,476	\$ (127,139)	\$ -	\$ 1,570,337
	Balance June 30, 2021	Additions/ Adjustments	Deletions	Balance June 30, 2022
Station and Improvements	\$ 2,385,818	\$ -	\$ -	\$ 2,385,818
Equipment	1,426,068	155,649	(104,663)	1,477,054
Total	3,811,886	155,649	(104,663)	3,862,872
Accumulated depreciated	(2,241,549)	(111,112)	533	(2,352,128)
Total, net of accumulated depreciation	\$ 1,570,337	\$ 44,537	\$ (104,130)	\$ 1,510,744

NOTE 5 – 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").

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 5 – RISK MANAGEMENT (Continued)

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%.

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, 2022, FAIRA maintained a fully-insured program.

Insurance coverage as of June 30, 2022 is as follows:

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

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 6 – DRY PERIOD FUNDING

As of June 30, 2020, the District had received authorization for a temporary transfer of funds with the County of Santa Cruz for an amount up to \$300,000. This loan is in anticipation of tax revenues for the operation and maintenance of the District until the tax revenues are collected. Any advances under this loan are to be repaid by April 30, 2020. During the fiscal year ended June 30, 2022, the District did not borrow any funds under the tax anticipation agreement.

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable consist of the following items as of June 30, 2022 and 2021:

	2022	2021
Operations		
Other	\$ 3,130	\$ 62,409
	<u>\$ 3,130</u>	<u>\$ 62,409</u>

NOTE 8 – LEASE

On March 17, 2021, the District entered into a capital lease agreement in the amount of \$646,708 with Community First National Bank to acquire one pierce enforcer pumper. The District agreed to pay the lease starting on May 17, 2022, with annual payments of \$102,446, which includes interest for seven years. Balance of the lease as of June 30, 2022, was \$563,456.

The District's lease activity for the year ended June 30, 2022, are as follows:

	Balance at June 30, 2021	Retirement	Balance at June 30, 2022	Due Within One Year	Due in More Than One Year
Direct Borrowing:					
Equipment					
Lease	\$646,708	\$ 83,252	\$ 563,456	\$ 88,112	\$ 475,344

Annual debt service requirements are shown below for all long-term debt:

Year ending June 30	Principal	Interest	Total
2023	\$ 88,112	\$ 14,334	\$ 102,446
2024	90,353	12,093	102,446
2025	92,652	9,794	102,446
2026	95,009	7,437	102,446
2027	97,426	5,020	102,446
2028 - 2028	99,904	2,542	102,446
Total	<u>\$ 563,456</u>	<u>\$ 51,220</u>	<u>\$ 614,676</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 9 – 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.

NOTE 10 – 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.

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 service, age, and final compensation.

The Safety Plan's provisions and benefits in effect at June 30, 2022, 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%

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.

D. Net Pension Liability

As of June 30, 2022, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of \$(750,550).

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

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, 2021, using an annual actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 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, 2022 was as follows:

	Total Pension Liability (a)	Increase (Decrease)	
		Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/20 (MD)	\$ 5,531,453	\$ 4,810,897	\$ 720,556
Balance at: 6/30/21 (MD)	5,601,151	6,351,701	(750,550)
Net Changes during 2020-21	\$ (69,698)	\$ (1,540,804)	\$ 1,471,106

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

For the year ended June 30, 2022, the District recognized pension expense of \$855,399. At June 30, 2022, the District reported deferred outflows of resources in the amount of \$78,257 which represents pension contribution made subsequent to measurement date.

F. Actuarial Assumptions

For the measurement period ended June 30, 2021 (the measurement date), total pension liability was determined by rolling forward following the June 30, 2020 total pension liability determined in the June 30, 2021 actuarial accounting valuation. The June 30, 2021 total pension liability was based on the following actuarial methods and assumptions:

Actuarial cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
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 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

¹ The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review demographic data from 1997 to 2015) that can be found on the CalPERS website.
of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability was 7.15% 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 as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the expected real rate of return by asset class.

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1 - 10 ²	Real Return Years 11+ ³
Public Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)

¹ In the System's Annual Comprehensive Financial Report, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

² An expected inflation of 2.00% used for this period

³ An expected inflation of 2.92% used for this period

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2022

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

H. 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% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Plan's Net Pension Liability/(Asset)	\$ 3,414	\$ (750,550)	\$ (1,369,837)

I. 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. In additions, differences may result from early CAFR closing and final reconciled reserves.

<u>Measurement period; June 30, 2021</u>	<u>Safety</u>
Total pension liability	\$ 5,601,151
Fiduciary net position	\$ 6,351,701
Net pension liability	\$ (750,550)

NOTE 11 – SUBSEQUENT EVENTS

The District's management has evaluated additional events and transactions subsequent to June 30, 2021, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through January 12, 2023, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after January 12, 2023.

Required Supplemental Information

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues - Budget and Actual - General Fund
 For the Year Ended June 30, 2022

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes				
Current secured	\$ 1,966,324	\$ 1,966,324	\$ 1,967,928	\$ (1,604)
Current unsecured	36,000	36,000	36,278	(278)
Prior year - unsecured	2,300	2,300	4,159	(1,859)
Penalties for delinquent taxed	-	-	266	(266)
Current supplemental	14,000	14,000	49,956	(35,956)
Prior year - supplemental	1,000	1,000	1,136	(136)
Total property taxed	<u>2,019,624</u>	<u>2,019,624</u>	<u>2,059,723</u>	<u>(40,099)</u>
Other taxes				
Fire suppression benefit assessment	141,400	141,400	140,656	744
Total other taxes	<u>141,400</u>	<u>141,400</u>	<u>140,656</u>	<u>744</u>
Use of money and property				
Interest	6,000	6,000	3,486	2,514
Total use of money and property	<u>6,000</u>	<u>6,000</u>	<u>3,486</u>	<u>2,514</u>
Aid from other government agencies				
Homeowner property tax relief	10,000	10,000	9,929	71
Total aid from other government agencies	<u>10,000</u>	<u>10,000</u>	<u>9,929</u>	<u>71</u>
Charges for current services				
Plan checking fees	25,000	25,000	104,909	(79,909)
Fire protection services	500	500	0	500
Total charges for current services	<u>25,500</u>	<u>25,500</u>	<u>104,909</u>	<u>(79,409)</u>
Other revenue				
Other revenue	9,720	9,720	57,757	(48,037)
Unclaimed money - escheated	9,720	9,720	57,757	(48,037)
Total other revenue				
Total revenue	<u>\$ 2,212,244</u>	<u>\$ 2,212,244</u>	<u>\$ 2,376,460</u>	<u>\$ (164,216)</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2022

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Salaries and employee benefits				
OASDI - Social Security	\$ 120	\$ 120	\$ 98	\$ 22
PERS	80,000	80,000	78,607	1,393
Workers' compensation insurance	1,000	1,000	1,000	-
Total salaries and employee benefits	<u>81,120</u>	<u>81,120</u>	<u>79,705</u>	<u>1,415</u>
Services and supplies				
Clothing and personal supplies	4,600	4,600	-	4,600
Radio	7,000	7,000	-	7,000
Telephone	5,000	5,000	3,595	1,405
Food	1,000	1,000	488	512
Other household expense - services	2,500	2,500	2,857	(357)
Other insurance	15,000	15,000	13,740	1,260
Maintenance - mobile equipment	45,500	45,500	43,742	1,758
Maintenance - other equipment	7,700	7,700	1,920	5,780
Maintenance - structure and grounds	3,400	3,400	2,831	569
Medical, dental and lab supplies	2,400	2,400	2,373	27
Memberships	2,500	2,500	2,000	500
PC software	6,000	6,000	5,905	95
Postage	500	500	40	460
Supplies	1,700	1,700	1,785	(85)
Accounting and auditing fees	33,500	33,500	29,134	4,366
Attorney	2,500	2,500	1,715	785
Directors' fee	1,500	1,500	1,280	220
Professional services	1,834,000	1,834,000	1,681,105	152,895
Publication printing costs	2,000	2,000	466	1,534
Legal notices	500	500	514	(14)
Small tools and instruments	500	500	106,291	(105,791)
Election expense	500	500	-	500
Special district expense	140,500	140,500	-	140,500
Education and training	1,500	1,500	-	1,500
Gas, oil and fuel	8,000	8,000	12,448	(4,448)
Lodging	1,500	1,500	-	1,500
Utilities	12,000	12,000	12,653	(653)
Total services and supplies	<u>2,143,300</u>	<u>2,143,300</u>	<u>1,926,882</u>	<u>216,418</u>
Fixed assets				
Buildings and improvements	14,000	14,000	9,290	4,710
Equipment	-	-	-	-
Mobile equipment	580,000	-	102,446	(102,446)
Total fixed assets	<u>594,000</u>	<u>14,000</u>	<u>111,736</u>	<u>(97,736)</u>
Other charges				
Interest - other	300	300	-	300
Contribution to other agencies (LAFCO)	2,600	2,600	2,534	66
Total other charges	<u>2,900</u>	<u>2,900</u>	<u>2,534</u>	<u>366</u>
Total expenditures	<u>\$ 2,821,320</u>	<u>\$ 2,241,320</u>	<u>\$ 2,120,857</u>	<u>\$ 120,463</u>
Other financing sources (uses)				
Transfer to capital projects fund	<u>\$ 132,222</u>	<u>\$ 132,222</u>	<u>\$ -</u>	<u>\$ 132,222</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Capital Project Fund
 For the Year Ended June 30, 2022

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Use of money and property				
Interest	\$ 6,000	\$ 6,000	\$ 4,147	\$ 1,853
Total revenues	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 4,147</u>	<u>\$ 1,853</u>
Expenditures				
Fixed assets				
Buildings and improvements	100,000	100,000	-	100,000
Mobile Equipment	<u>227,391</u>	<u>227,391</u>	<u>-</u>	<u>227,391</u>
Total expenditures	<u>\$ 327,391</u>	<u>\$ 327,391</u>	<u>\$ -</u>	<u>\$ 327,391</u>
Other financing sources (uses)				
Transfer to general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability (Asset) and Related Ratios
June 30, 2022
Last 10 Years *

Fiscal year	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement period	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Entity's proportion of net pension liability (asset)	-0.01388%	0.00662%	0.00566%	0.00509%	0.00495%	0.00426%	0.025896%	0.203%
Entity's proportionate share of net pension liability (asset)	\$ (750,550)	\$ 720,556	\$ 580,307	\$ 490,478	\$ 491,006	\$ 368,852	\$ 59,480	\$ (126,121)
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	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the Plan's total pension liability	88.29%	75.10%	75.26%	75.26%	73.31%	74.06%	102.66%	78.40%
Proportionate share of the aggregate employer contributions	\$ 339,342	\$ 181,293	\$ 192,970	\$ 201,574	\$ 158,988	\$ -	\$ -	\$ -

Notes to Schedule:

* Fiscal year 2014-15 was the first year of implementation. Additional years presented as they become available.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Contributions
June 30, 2022
Last 10 Years*

Fiscal Year	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 78,257	\$ 693,964	\$ 56,803	\$ 25,267	\$ 26,182	\$ 18,513	\$ -	\$ -
Contributions in Relation to the								
Actuarially Determined Contribution	(78,257)	(693,964)	(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	N/A	N/A	N/A

*Fiscal year 2014-15 was the first year of implementation.
Additional years presented as they become available.

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