Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2022

Mission Statement

"Pajaro Valley Water Management Agency is a state-chartered water management district formed to efficiently and economically manage existing and supplemental water supplies in order to prevent further increase in, and to accomplish continuing reduction of, long-term overdraft. We also work to provide and ensure sufficient water supplies for present and future anticipated needs within our boundaries, generally the greater coastal Pajaro Valley."

Pajaro Valley Water Management Agency

Board of Directors as of June 30, 2022

Name	Title	Elected/ Appointed	Area Served
Amy Newell	Chair	Elected	Division C
Stephen Rider	Vice Chair	Elected	Division B
Bob Culbertson	Treasurer	Elected	Division D
Mary Bannister	Director	Elected	Division A
Javier Zamora	Director	Appointed	County of Monterey
Tom Broz	Director	Appointed	County of Santa Cruz
Abel Sanchez	Director	Appointed	City of Watsonville

Pajaro Valley Water Management Agency
Brian Lockwood, General Manager
36 Brennan Street
Watsonville, California 95076-4303
(831) 722-9292 – www.pvwater.org

Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2022

Pajaro Valley Water Management Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2022

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Financial Section

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An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Pajaro Valley Water Management Agency
Watsonville, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major funds of the Pajaro Valley Water Management Agency (Agency), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major funds of the Agency, as of June 30, 2022, and the respective changes in financial position 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Agency's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report, continued

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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Agency's fiscal year ended June 30, 2021, financial statements, and we expressed on unmodified audit opinion on those audited financial statements in our report dated December 22, 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.

Independent Auditor's Report, continued

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the required supplementary information on pages 46 through 53 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2023, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
January 18, 2023

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Pajaro Valley Water Management Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The Agency's net position increased 6.43% or $4,861,562 to $80,482,079 from ongoing operations.
- The Agency's total revenues decreased 20.74% or $3,978,516 to $15,200,053.
- The Agency's total expenses increased 1.04%, or $108,793 to $10,338,491.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Agency's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Agency, and assessing the liquidity and financial flexibility of the Agency. All of the year's revenues and expenses are accounted for in the Statement of Activities. This statement can be used to determine the Agency's net operating reserves and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency in a way that helps answer this question. These statements use the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These two statements report the Agency's *net position* and changes in it. Think of the Agency's net position – assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the Agency's financial health or *financial position*. Over time, *increases or decreases* in the Agency's net position is one indicator of whether its *financial health* is improving or deteriorating; however, one will need to consider other non-financial factors to assess the *overall health* of the Agency.

Governmental Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Governmental Fund Financial Statements, continued

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance, continued

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains four individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General, Special Revenue, Capital Projects, and Debt Service funds.

The fund financial statements can be found on pages 13 through 16 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 17 through 45.

Government-wide Financial Analysis

A summary of the Statements of Net Position is as follows:

Condensed Statements of Net Position

	2022	2021	Change
Assets:			
Current assets	$ 20,153,930	22,197,975	(2,044,045)
Non-current assets	349,007	-	349,007
Capital assets, net	85,218,352	81,887,888	3,330,464
Total assets	105,721,289	104,085,863	1,635,426
Deferred outflows of resources	314,353	353,818	(39,465)
Liabilities:			
Current liabilities	4,270,699	4,861,401	(590,702)
Non-current liabilities	20,378,428	23,947,672	(3,569,244)
Total liabilities	24,649,127	28,809,073	(4,159,946)
Deferred inflows of resources	904,436	10,091	894,345
Net position:			
Net investment in capital assets	62,948,967	57,065,540	5,883,427
Restricted	329,364	254,139	75,225
Unrestricted	17,203,748	18,300,838	(1,097,090)
Total net position	$ 80,482,079	75,620,517	4,861,562

Government-wide Financial Analysis, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $80,482,079 as of June 30, 2022. A large portion of the Agency's net position ($62,948,967 or 78.21%) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The Agency uses these capital assets for operations; consequently, these assets are *not* available for future spending. At the end of fiscal year 2022, the Agency reflected a positive balance in its unrestricted net position of $17,203,748 that may be utilized in future years. See note 12 to the financial statements for further information.

A summary of the Statements of Activities is as follows:

Condensed Statements of Activities

	2022	2021	Change
Revenues:			
Program revenues:			
Charge for services	$ 14,739,341	14,212,182	527,159
Capital grants and contributions	165,588	4,551,434	(4,385,846)
Total program revenues	14,904,929	18,763,616	(3,858,687)
General revenues:			
Management fees	353,849	387,333	(33,484)
Investment earnings	(89,710)	7,750	(97,460)
Other revenues	30,985	19,870	11,115
Total general revenues	295,124	414,953	(119,829)
Total revenues	15,200,053	19,178,569	(3,978,516)
Expenses:			
Water basin management	9,740,096	9,738,959	1,137
Interest on long-term debt	598,395	708,325	(109,930)
Total expenses	10,338,491	10,447,284	(108,793)
Changes in net position	4,861,562	8,731,285	(3,869,723)
Net position, beginning of year	75,620,517	66,889,232	8,731,285
Net position, end of year	$ 80,482,079	75,620,517	4,861,562

The Statement of Activities shows how the Agency's net position changed during the fiscal year. In the case of the Agency, net position increased 6.43% or $4,861,562 to $80,482,079, as a result of ongoing operations.

Government-wide Financial Analysis, continued

The Agency's total revenues from all sources decreased 20.74% or $3,978,516 to $15,200,053. Program revenues decreased $3,858,687 due primarily to a decrease of $4,385,846 in capital grants and contributions; which was offset by a decrease of $527,159 in charge for services. General revenues decreased $119,829 due primarily to decreases of $97,460 in investment returns and $33,484 in management fees.

The Agency's total expenses decreased 1.04% or $108,793 to $10,338,491 due primarily to decreases of $1,137 in water basin management and $109,930 in interest on long-term debt.

Governmental Fund Financial Analysis

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2022:

Condensed Changes in Fund Balance - Governmental Fund

		General	Special Revenue	Capital Projects	Debt Service	Total Fund Balance
Fund balance, beginning of year	$	3,529,476	17,129,430	(695,036)	254,195	20,218,065
Changes in fund balance		78,428	(1,846,823)	292,054	75,214	(1,401,127)
Fund balance, end of year	$	3,607,904	15,282,607	(402,982)	329,409	18,816,938

In 2022, total fund balance decreased by 6.93% or $1,401,127 to $18,816,938. The General fund increased by 2.22% or $78,428 to $3,607,904; the Special Revenue fund decreased by 10.78% or $1,846,823 to $15,282,607; the Capital Projects fund increased by 42.02% or $292,054 to a deficit of $402,982; and the Debt Service fund increased by 29.59% or $75,214 to $329,409.

Budgetary Highlights

The budget for fiscal year 2021-2022 is based on the following economic factors and assumptions:

Projected billed consumption of 53,800 acre feet (af) of water usage, that includes 49,000 acre feet of groundwater, and 4,800 acre feet of delivered water.

Current augmentation charges are $246/af of pumped groundwater outside the delivered water zone. Within the delivered water zone, the pumped ground water charge is $338/af, and the delivered water charge is $392/af. Rural residential users with unmetered wells pay an estimated 0.5 af/year of water usage at a rate of $115 per residence.

The final actual expenditures for the year ended June 30, 2022 was more than budgeted by $9,430 for the General Fund, less than budgeted by $1,588,481 for the Special Revenue fund, less than budgeted by $1,947,762 for the Capital Projects fund, and more than budgeted by $993 for the Debt Service fund. Actual revenues for the year ended June 30, 2022, were less than the anticipated budget by $100,872 for the General Fund, less than the anticipated budget by $1,084,998 for the Special Revenue fund, and more than the anticipated budget by $249 for the Debt Service fund.

For the year ended June 30, 2022, the final amended budgeted expenditures were reduced by $64,129 for the General Fund, increased by $127,859 for Special Revenue Fund, reduced by $12,952,549 for the Capital Projects Fund, and increased by $74,963 for the Debt Service Fund. For the year ended June 30, 2022, the final amended budgeted revenues were reduced by $442,500 for the Special Revenue Fund and $46,500,000 for the Capital Projects Fund. (See Budgetary Comparison Schedule under the Required Supplementary Information section on pages 46 through 50).

Capital Asset Administration

The change in capital asset amounts for the year was as follows:

	Balance 2021	Additions	Deletions	Balance 2022
Non-depreciable assets	$ 11,630,943	6,349,290	-	17,980,233
Depreciable assets	106,184,063	411,076	(61,461)	106,533,678
Accumulated depreciation	(35,927,118)	(3,422,320)	53,879	(39,295,559)
Total capital assets, net	$ 81,887,888	3,338,046	(7,582)	85,218,352

At the end of fiscal year 2022, the Agency's investment in capital assets (net of accumulated depreciation) amounted to $85,218,352. The investment in capital assets includes Harkins Slough project, accelerated pipeline project, coastal distribution system, buildings and improvements, vehicle, office and field equipment, furniture and fixtures, capacity rights – water recycle plant, etc. See note 4 to the financial statements for further information.

Debt Administration

	Balance 2021	Additions	Principal Payment	Balance 2022
Note payable	$ 3,383,771	31,252	(273,800)	3,141,223
Bond payable	21,438,577	-	(2,518,948)	18,919,629
Total long-term debt	$ 24,822,348	31,252	(2,792,748)	22,060,852

In 2022, long-term debt decreased by $2,761,496, due to note additions of $31,252 and principal payments on outstanding debt of $2,792,748. See note 8 to the financial statements for further information.

Lease Payable

	Balance 2021	Additions	Principal Payment	Balance 2022
Lease payable	$ -	253,908	(45,375)	208,533
Total lease payable	$ -	253,908	(45,375)	208,533

In 2022, the Agency implemented Government Accounting Standards Board (GASB) Statement No. 87 – *Leases*. During the year, lease payable increased $208,533, due to lease payable additions of $253,908 and principal payments on lease payable of $45,375. See note 7 to the financial statements for further information.

Conditions Affecting Current Financial Position

On March 15, 2020, the COVID-19 national health emergency resulted in a shelter-in-place order by state and county health departments. The Agency's operations were not impacted or halted because the Agency's operations are considered essential. The Agency implemented customer and staff safety procedures based on recommendations from various health departments and industry specialist and receivables from customers have not faced significant delinquencies. The Agency continues to evaluate the impact of this health emergency on the Agency's operations.

Management is unaware of any other conditions, which could have a significant impact on the Agency's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Interim Finance & Administrative Services Manager, Nancy Trevino, at Pajaro Valley Water Management Agency, 36 Brennan Street, Watsonville California 95076 or (831) 722-9292.

Basic Financial Statements

Pajaro Valley Water Management Agency
Statement of Net Position
June 30, 2022

		2022
Current assets:		
Cash and cash equivalents (note 2)	$	15,261,419
Cash and cash equivalents – restricted (note 2)		329,364
Accounts receivable, net		4,336,788
Interest receivable		19,185
Other receivable		42,333
Prepaid expenses and other assets		100,174
Long-term asset – due within one year:		
Lease receivable (note 3)		64,667
Total current assets		20,153,930
Non-current assets:		
Capital assets – not being depreciated (note 4)		17,980,233
Depreciable capital assets, net (note 4)		67,238,119
Long-term asset – due within one year:		
Lease receivable (note 3)		349,007
Total non-current assets		85,567,359
Total assets		105,721,289
Deferred outflows of resources:		
Deferred pension outflows (note 10)		314,353
Total deferred outflows of resources	$	314,353

Continued on next page

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Net Position, continued
June 30, 2022

		2022
Current liabilities:		
Accounts payable	$	1,235,973
Accrued wages payable		31,852
Accrued interest		235,438
Unearned revenue		4,500
Long-term liabilities – due within one year:		
Compensated absences (note 6)		76,731
Note payable (note 8)		221,819
Bonds payable (note 8)		2,415,000
Lease obligation (note 8)		49,386
Total current liabilities		4,270,699
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)		230,192
Net pension liability (note 10)		565,056
Note payable (note 8)		2,919,404
Bonds payable (note 8)		16,504,629
Lease obligation (note 8)		159,147
Total non-current liabilities		20,378,428
Total liabilities		24,649,127
Deferred inflows of resources:		
Deferred pension inflows (note 10)		493,264
Deferred rent revenue		411,172
Total deferred inflows of resources		904,436
Net position: (note 11)		
Net investment in capital assets		62,948,967
Restricted		329,364
Unrestricted		17,203,748
Total net position	$	80,482,079

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2022

	Expenses	Charge for Services	Capital Grants and Contributions	Net (Expenses Revenue and Changes in Net Position
Functions/Programs				
Governmental activities:				
Water basin management	$ 9,740,096	14,739,341	165,588	5,164,833
Interest on long-term debt	598,395	-	-	(598,395)
Total governmental activities	$ 10,338,491	14,739,341	165,588	4,566,438

General revenues:	
Management fees	$ 353,849
Investment earnings	(89,710)
Other revenue	30,985
Total general revenues	295,124
Changes in net position	4,861,562
Net position, beginning of year	75,620,517
Net position, end of year	$ 80,482,079

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Balance Sheet
June 30, 2022

		General	Special Revenue	Capital Projects	Debt Service	Total Governmental Fund
Assets:						
Cash and cash equivalents	$	3,556,684	11,704,707	-	28	15,261,419
Restricted cash		-	-	-	329,364	329,364
Accounts receivable		22,176	4,314,612	-	-	4,336,788
Interest receivable		4,103	15,065	-	17	19,185
Other receivable		-	42,333	-	-	42,333
Prepaid expenses		42,010	58,164	-	-	100,174
Total assets	$	3,624,973	16,134,881	-	329,409	20,089,263
Liabilities:						
Accounts payable	$	16,761	819,297	399,915	-	1,235,973
Accrued wages payable		308	28,477	3,067	-	31,852
Unearned revenues		-	4,500	-	-	4,500
Total liabilities		17,069	852,274	402,982	-	1,272,325
Fund balance: (note 12)						
Non-spendable		42,010	58,164	-	-	100,174
Restricted		-	-	-	329,409	329,409
Committed		1,085,058	1,920,254	-	-	3,005,312
Assigned		306,923	-	-	-	306,923
Unassigned		2,173,913	13,304,189	(402,982)	-	15,075,120
Total fund balance		3,607,904	15,282,607	(402,982)	329,409	18,816,938
Total liabilities and fund balance	$	3,624,973	16,134,881	-	329,409	20,089,263

Continued on next page

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position
June 30, 2022

Reconciliation:

Fund balance of governmental fund	$	18,816,938
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Long-term assets used in governmental activities are not current financial resources and, therefore, not in the governmental fund balance sheet. However, the Statement of Net Position includes those capital position among the assets of the Agency as a whole.		
Capital assets, net		85,218,352
Lease receivable		413,674
Deferred pension outflow		314,353
Long-term liabilities applicable to the Agency are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.		
Accrued interest		(235,438)
Compensated absences		(306,923)
Note payable		(3,141,223)
Bonds payable		(18,919,629)
Lease payable		(208,533)
Net pension liability		(565,056)
Deferred pension inflow		(493,264)
Deferred rent inflow		(411,172)
Net position of governmental activities	$	80,482,079

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2022

	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Fund
Revenues:					
Charge for services:					
Augmentation charges	$ -	12,273,703	-	-	12,273,703
Water sales	-	2,051,964	-	-	2,051,964
Capital grants and contributions	-	165,588	-	-	165,588
Management fees	353,849	-	-	-	353,849
Interest return	(19,558)	(70,401)	-	249	(89,710)
Other income	1,837	29,148	-	-	30,985
Total revenues	336,128	14,450,002	-	249	14,786,379
Expenditures:					
Office administration	176,404	838,620	-	-	1,015,024
Board support	54,149	-	-	-	54,149
Education and outreach	27,147	138,912	-	-	166,059
Grant administration	-	91,953	-	-	91,953
Conservation	-	393,289	-	-	393,289
Harkins Slough facility	-	203,052	-	-	203,052
Coastal distribution system	-	921,862	-	-	921,862
Supplemental water (In-Basin)	-	530,335	-	-	530,335
BMP network improvements	-	-	4,596	-	4,596
Recycled water facility	-	2,030,700	-	-	2,030,700
Metering program	-	405,276	-	-	405,276
Basin modeling	-	95,346	-	-	95,346
Basin monitoring	-	146,803	-	-	146,803
In-Basin management plan	-	350,172	-	-	350,172
Regional water management plan	-	7,069	-	-	7,069
Out-of-Basin funding	-	18,021	-	-	18,021
In-Basin funding	-	22,602	-	-	22,602
Harkins Slough recharge facilities	-	-	59,950	-	59,950
College Lake project	-	-	6,027,494	-	6,027,494
Watsonville Slough & North Dunes	-	-	144,451	-	144,451
Recycled water storage phase III	-	-	20,287	-	20,287
F-line expansion	-	-	899	-	899
Capital outlay	-	77,785	-	-	77,785
Debt service:					
Principal	-	-	-	2,583,800	2,583,800
Interest	-	-	-	847,784	847,784
Total expenditures	257,700	6,271,797	6,257,677	3,431,584	16,218,758
Excess(deficiency) of revenues over expenditures	78,428	8,178,205	(6,257,677)	(3,431,335)	(1,432,379)
Other financing sources(uses):					
Proceeds from debt	-	31,252	-	-	31,252
Operating transfers in (note 5)	-	-	6,549,731	3,506,549	10,056,280
Operating transfers out (note 5)	-	(10,056,280)	-	-	(10,056,280)
Total other financing sources(uses)	-	(10,025,028)	6,549,731	3,506,549	31,252
Changes in fund balance	78,428	(1,846,823)	292,054	75,214	(1,401,127)
Fund balance, beginning of year	3,529,476	17,129,430	(695,036)	254,195	20,218,065
Fund balance, end of year	$ 3,607,904	15,282,607	(402,982)	329,409	18,816,938

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2022

Reconciliation:	
Net change in fund balance of governmental fund	$ (1,401,127)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures; however, in the Statement of Net Position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, the amounts are as follows:	
Disposal of capital assets	(7,582)
Capital outlay	6,760,366
Current year depreciation	(3,422,320)
Lease receivable reported in the Statement of Net Position do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds as follows:	
Lease receivable	413,674
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes current financial resources of governmental funds. However, neither transaction has any effect on the Statement of Activities. In the current period, the amounts are as follows:	
Changes in accrued interest	40,441
Change in lease obligations	(253,908)
Proceeds from debt financing	(31,252)
Principal payments on note payable	273,800
Principal payments on bond payable	2,310,000
Principal payments of lease payable	45,375
Amortization of bond premium	208,948
Net pension liability and deferred outflows (inflows) reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds as follows:	
Deferred pension outflows	(39,465)
Deferred pension inflows	(483,173)
Deferred rent inflows	(411,172)
Net pension liabilities	849,789
Compensated absences reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	9,168
Changes in net position of governmental activities	$ 4,861,562

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Pajaro Valley Water Management Agency (Agency) was formed in 1984 to provide integrated management of the ground and surface water resources within the Pajaro Basin. The Agency is responsible for the management and augmentation of the water supplies for domestic, agricultural, municipal, and industrial purposes. In 1980, the State Department of Water Resources issued Bulletin 118-80, which identified 447 separate groundwater basins, sub-basins, and areas of potential groundwater storage throughout the State. The Agency's boundaries include the communities of Division A (Corralitos and La Selva Beach), Division B (Freedom), Division C (Watsonville and Pajaro), and Division D (Las Lomas, Moss Landing, and Aromas) and encompasses the Pajaro Watershed. The Agency is governed by a Board of Directors made up of seven members elected or appointed by qualified voters.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Agency are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency are to be reported in three categories, if applicable: 1) charge for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charge for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Government-wide Financial Statements. The Agency has presented its General Fund as its major fund in these statements to meet the qualifications of GASB Statement No. 34.

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 liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance 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 measurable and available to finance expenditures of the current period.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Governmental Fund Financial Statements, continued

Accordingly, revenues are recorded when received in cash, except revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Agency are property taxes and assessments, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or

c) The entity has determined that a fund is important to financial statement users.

The Agency reports the following major governmental fund:

- **General Fund** – a government's primary operating fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund when necessary.
- **Special Revenue Fund** – accounts for revenues derived from specific sources, which are usually required by law or regulation, to be accounted for in separate funds.
- **Debt Service Fund** – accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- **Capital Projects Fund** – accounts for the financial resources to be used for the acquisition or construction of major capital facilities and infrastructure improvements.

C. Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles applicable to governmental entities.

The Agency has adopted the following GASB pronouncements in the current year:

In June 2017, the 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 increases the usefulness of governments' financial statements by requiring 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.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

In October 2021, the GASB issued Statement No. 98 – *The Annual Comprehensive Financial Report.* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

D. Financial Elements

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Risk and Uncertainty

On March 15, 2020, the COVID-19 national health emergency resulted in a shelter-in-place order by state and county health departments. The Agency's operations were not impacted or halted because the Agency's operations are considered essential. The Agency implemented customer and staff safety procedures based on recommendations from various health departments and industry specialist and receivables from customers have not faced significant delinquencies. The Agency continues to evaluate the impact of this health emergency on the Agency's operations.

3. Cash and Cash Equivalents

The Agency considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

4. Investments and Investment Policy

The Agency has adopted an investment policy to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the Agency.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

5. Accounts Receivable and Allowance for Uncollectible Accounts

The Agency periodically evaluates receivables for collectability on an individual account basis and records an allowance for any amounts determined to be uncollectible.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Elements, continued

6. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

7. Lease receivables

Lease receivables are measured at the present value of payments expected to be received during the lease term.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances, and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings and improvements – 15 to 30 years
- Infrastructure – 80 years
- Equipment – 5 to 25 years
- Vehicles – 7 to 10 years
- Furniture and fixtures – 5 years
- Water rights – Recycle Water Facility – 25 years

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

10. Compensated Absences

The Agency allows employees to accrue vacation, sick, and compensation time based on an employee's hourly rate at year end. Upon termination of an employee, the Agency is required to pay accrued vacation, sick, and compensation time to a maximum of 360 hours, 720 hours, and 80 hours, respectively.

Accumulated vacation, sick, and compensation time are recorded as an expense and a liability in the government-wide financial statements at the time the liability is incurred.

11. Lease Payables

Lease payables are measured at the present value of payment expected to be made during the lease term.

12. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Elements, continued

13. Pensions

For purposes of measuring net pension liability and deferred outflows/inflows of resources related to pension and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plans (Plans), and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation date: June 30, 2020
- Measurement date: June 30, 2021
- Measurement period: July 1, 2020 to June 30, 2021

14. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – consists of net position that does not meet the definition of *restricted* or *net investment in capital assets* components of net position.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

15. Fund Balance

The governmental fund financial statements report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- **Non-spendable** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Elements, continued

15. Fund Balance, continued

- **Committed** – amounts that can only be used for specific purposes determined by formal action of the Agency's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** – amounts that are constrained by the Agency's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Agency's special revenue funds.
- **Unassigned** – the residual classification for the Agency's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditure incurred for specific purposes exceeds the amounts restricted, committed, or assigned for those purposes.

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by approving contractual commitments, an ordinance, or a resolution. This is done through adoption of a budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The Agency believes that sound financial management principles require that sufficient funds be retained by the Agency to provide a stable financial base at all times. To retain this stable financial base, the Agency needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the Agency and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balance classifications are considered unrestricted.

The purpose of the Agency's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

16. Management Fees

Management fees are billed by Santa Cruz, San Benito, and Monterey counties. Management fees are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The counties bill and collect management fees and remit them to the Agency.

17. Augmentation Charges

Augmentation charges, based on quantity of water usage, are billed and collected in two ways. Unmetered or rural residential accounts are billed annually by the Agency on June 30. Delinquent accounts are turned over to a collection agency after other recovery efforts have been exhausted. Metered accounts are billed quarterly by the Agency. Large delinquent accounts are collected through litigation after other recovery efforts have been exhausted.

All collected augmentation charge revenues are recorded in the Special Revenue fund accounts. All capital construction costs are paid with augmentation charges, grants, loans, and debt issuances.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Elements, continued

18. Water Sales

Delivered water charge is collected for water delivered through the constructed project. This revenue is recorded in the Special Revenue fund accounts and spent in accordance with the Agency's Fund Accounting Policy.

19. Capital Contributions

Capital contributions represent cash and capital asset contributed to the Agency by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment.

20. Budgetary Policies

The Agency's Board of Directors annually adopts a non-appropriated budget for the Agency. The Board of Directors' action is required for the approval of budget revisions.

(2) Cash and Investments

Cash and investments as of June 30 are classified in the accompanying financial statements as follows:

		2022
Cash and cash equivalents	$	15,261,419
Cash and cash equivalents - restricted		329,364
Total cash and investments	$	15,590,783

Cash and investments as of June 30 consist of the following:

		2022
Cash on hand	$	225
Deposits with financial institutions		5,484,777
Local Agency Investment Fund (LAIF)		10,105,781
Total	$	15,590,783

As of June 30, the Agency's authorized deposits had the following average maturities:

	2022
Deposits held with the California Local Agency Investment Fund (LAIF)	311 days

(2) Cash and Investments, continued

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Federal Agency and Bank Obligations	None	50%	None
Local Agency Bonds	5 years	None	None
Certificates of Deposits	5 years	None	None
Negotiable Certificates of Deposits	5 years	30%	25%
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	20%	10%
Money market mutual funds	N/A	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The Agency's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000.
- Withdrawals of $10 million or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the bank balance, up to $250,000 held at each institution are federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

Interest Rate Risk

Interest rate risk is the risk that the change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the change in market interest rates. It is the Agency's policy to structure its investment portfolio with securities whose maturity date is compatible with cash flow requirements, which will permit easy and rapid conversion into cash without substantial loss of value and will enable the Agency to meet all operating requirements which can be reasonably anticipated. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The policy is designed to minimize the interest rate risk. The Agency had no investments in debt instruments that would be subject to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency's investment in LAIF is not rated.

Concentration of Credit Risk

The Agency's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of the Agency's total investments at June 30, 2022.

(3) Lease Receivable

Lease receivable at June 30 consists of the following:

		Balance 2021	Additions	Rent	Balance 2022	Current Portion	Non-Current Portion
Lease receivable:							
Gem-Pack Berries, LLC	$	-	98,394	(6,442)	91,952	6,879	85,073
S. Martinelli & Company		-	20,499	-	20,499	20,499	-
J.E. Farms, Inc.		-	301,223	-	301,223	37,289	263,934
Total lease receivable	$	-	420,116	(6,442)	413,674	64,667	349,007

(3) Lease Receivable, continued

Gem-Pack Berries, LLC

On April 2022, the Agency entered into a lease agreement with Gem-Pack Berries, LLC (Tenant). The Agency has agreed to lease real property consisting of approximately 7.5 acres of farmable area. The term of the lease is for a 10-year period, commencing on January 2022 and terminating on December 2031. The Tenant agrees to pay $9,000 for 2022, which is subsequent adjusted thereafter annually by the change in Bay Area CPI All Urban Consumers Index. During the year, the Agency recognized inflows of resource of $8,945.

Future lease payments to be received are as follows:

Fiscal Year		Rent	Interest	Total
2023	$	6,879	2,391	9,270
2024		7,336	2,212	9,548
2025		7,813	2,021	9,834
2026		8,312	1,818	10,130
2027		8,832	1,602	10,434
2028-2032		52,780	4,274	57,054
Total		91,952	14,318	106,270
Current		(6,879)		
Non-current	$	85,073		

S. Martinelli & Company

On June 2022, the Agency purchase land with an existing lease agreement with S. Martinelli & Company (Martinelli). The lease agreement is for real property consisting of approximately 8.5 acres agricultural land. The term of the lease is for a 10-year period, commencing on November 2013 and terminating on October 2023. Martinelli agrees to pay $19,006 per year for the 1st five years of the lease and $20,900 per year for the 2nd five years of the lease. Rent is due in two installments on November 1st and June 1st of each year.

Future lease payments to be received are as follows:

Fiscal Year		Rent	Interest	Total
2023	$	20,499	401	20,900
Total		20,499	401	20,900
Current		(20,499)		
Non-current	$	-		

(3) Lease Receivable, continued

J.E. Farms, Inc.

On June 2022, the Agency purchase land with an existing lease agreement with J.E. Farms, Inc. (J.E. Farms). The lease agreement is for real property consisting of approximately 17.0 acres agricultural land. The term of the lease is for an 8-year period, commencing on July 2021 and terminating on June 2029. J.E. Farms agrees to pay $44,880 per year for the 1st four years of the lease and $49,368 per year for the 2nd four years of the lease. Rent is due in two installments on July 1st and January 1st of each year.

Future lease payments to be received are as follows:

Fiscal Year		Rent	Interest	Total
2023	$	37,289	7,591	44,880
2024		38,265	6,615	44,880
2025		39,266	5,614	44,880
2026		44,811	4,557	49,368
2027		45,984	3,384	49,368
2028-2029		95,608	3,128	98,736
Total		301,223	30,889	332,112
Current		(37,289)		
Non-current	$	263,934		

(4) Capital Assets

The change in capital assets for fiscal year 2022 was as follows:

	Balance 2021	Additions	Deletions	Balance 2022
Non-depreciable assets:				
Land	$ 1,401,689	92,508	-	1,494,197
Construction in progress	10,229,254	6,256,782	-	16,486,036
Total non-depreciable assets	11,630,943	6,349,290	-	17,980,233
Depreciable assets:				
Harkins Slough project	19,840,772	-	-	19,840,772
Accelerated pipeline project	8,207,481	-	-	8,207,481
Coastal distribution system	40,943,102	42,603	-	40,985,705
Buildings and improvements	456,958	31,500	(29,223)	459,235
Vehicle	269,744	83,065	(32,238)	320,571
Office and field equipment	118,009	-	-	118,009
Furniture and fixtures	454	-	-	454
Capacity rights - water recycle plant	36,310,343	-	-	36,310,343
Right to use asset	-	253,908	-	253,908
Other assets	37,200	-	-	37,200
Total depreciable assets	106,184,063	411,076	(61,461)	106,533,678
Accumulated depreciation	(35,927,118)	(3,422,320)	53,879	(39,295,559)
Total depreciable assets, net	70,256,945	(3,011,244)	(7,582)	67,238,119
Total capital assets, net	$ 81,887,888			85,218,352

Major depreciable capital asset additions during fiscal year 2022 include the additions to the coastal distribution system, buildings and improvements, vehicle, and right to use asset.

Construction-in-Process

The Agency has been involved in various construction projects throughout the year. Projects that comprise construction-in-process balances at June 30 are as follows:

	2022
College Lake integrated resource management	$ 12,652,110
Watsonville Slough project with recharge basin	1,877,331
Harkins Slough facility upgrade	1,698,463
Other construction-in-process	258,132
Total construction-in-process	$ 16,486,036

(5) Interfund Transactions

Interfund transfers generally are made for the purpose of capital project and debt service payments; these payments are made from the capital project and debt service funds and funded through the special revenue fund.

Transfers between funds during the year were as follows:

		Transfer In	Transfer Out
Special revenue	$	-	10,056,280
Debt service		3,506,549	-
Capital projects		6,549,731	-
Total	$	10,056,280	10,056,280

(6) Compensated Absences

The change to compensated absences at June 30 was as follows:

	Balance 2021	Earned	Taken	Balance 2022	Current Portion	Long-term Portion
$	316,091	162,004	(171,172)	306,923	76,731	230,192

(7) Lease Payable

		As Restated Balance 2021	Additions	Rent	Balance 2022	Current Portion	Non-Current Portion
Lease payable:							
Avatel	$	-	22,284	(1,397)	20,887	4,265	16,622
Arnold LLC		-	231,624	(43,978)	187,646	45,121	142,525
Total lease payable	$	-	253,908	(45,375)	208,533	49,386	159,147

Avatel

On February 2022, the Agency entered into a lease agreement with Avatel Technologies (Avatel). Avatel has agreed to lease communications equipment to the Agency. The term of the lease is for a 5-year period, commencing on March 2022 and terminating on February 2027. The Agency agrees to pay $396 per month plus applicable taxes.

Principal and interest requirements to maturity are as follows:

Fiscal Year		Rent	Interest	Total
2023	$	4,265	492	4,757
2024		4,377	380	4,757
2025		4,492	265	4,757
2026		4,611	147	4,758
2027		3,142	31	3,173
Total		20,887	1,315	22,202
Current		(4,265)		
Non-current	$	16,622		

(7) Lease Payable, continued

Arnold LLC

On March 2022, the Agency entered into a lease agreement with Arnold LLC (Arnold). Arnold has agreed to lease a well, located in Santa Cruz County, to the Agency. The term of the lease is for a 5-year period, commencing on January 2022 and terminating on December 2026. The Agency agrees to pay $50,000 per year and additional charges for water pumped in excess of 150 acre-feet per year.

Principal and interest requirements to maturity are as follows:

Fiscal Year		Rent	Interest	Total
2023	$	45,121	4,879	50,000
2024		46,294	3,706	50,000
2025		47,498	2,502	50,000
2026		48,733	1,267	50,000
Total		187,646	12,354	200,000
Current		(45,121)		
Non-current	$	142,525		

(8) Long-Term Debt

Changes in long-term debt at June 30 were as follows:

		Balance 2021	Additions	Payments	Balance 2022	Current Portion	Non-Current Portion
Notes payable:							
Department of Water Resources	$	1,504,752	-	(216,589)	1,288,163	221,819	1,066,344
Clean Water State Revolving Fund		1,879,019	31,252	(57,211)	1,853,060	-	1,853,060
Total notes payable		3,383,771	31,252	(273,800)	3,141,223	221,819	2,919,404
Bonds payable:							
2015 Water Revenue Bonds		10,235,000	-	(1,850,000)	8,385,000	1,940,000	6,445,000
Premium on bonds		1,221,630	-	(157,629)	1,064,001	-	1,064,001
Total 2015 Water Revenue Bonds		11,456,630	-	(2,007,629)	9,449,001	1,940,000	7,509,001
2016 Water Revenue Bonds		9,225,000	-	(460,000)	8,765,000	475,000	8,290,000
Premium on bonds		756,947	-	(51,319)	705,628	-	705,628
Total 2016 Water Revenue Bonds		9,981,947	-	(511,319)	9,470,628	475,000	8,995,628
Total bonds payable		21,438,577	-	(2,518,948)	18,919,629	2,415,000	16,504,629
Total long-term debt		24,822,348	31,252	(2,792,748)	22,060,852	2,636,819	19,424,033
Less: current portion		(2,526,589)			(2,636,819)		
Non-current portion	$	22,295,759			19,424,033		

Department of Water Resources

On June 15, 2005, the Agency entered into a promissory note with the Department of Water Resources (DWR) in the amount of $3,511,446. The loan proceeds were used for the construction of components of the Revised Basin Management Plan. Commencing on April 1, 2008, the note was payable in semi-annual installments of principal and interest of $111,049, with interest at 2.4%, maturing on September 30, 2027.

(8) Long-Term Debt, continued

Department of Water Resources, continued

On February 24, 2012, the Agency received $390,164 from the DWR related to unpaid retention and the repayment agreement was revised. Commencing on April 1, 2012, the note is payable in semi-annual installments of principal and interest of $125,708. There were no changes to the interest rate or maturity date.

Future debt service payments are as follows:

Fiscal Year		Principal	Interest	Total
2023	$	221,819	29,597	251,416
2024		227,127	24,289	251,416
2025		232,698	18,718	251,416
2026		238,276	13,139	251,415
2027		244,029	7,386	251,415
2028		124,214	1,495	125,709
Total		1,288,163	94,624	1,382,787
Current		(221,819)		
Non-current	$	1,066,344		

Clean Water State Revolving Fund

In February 2016, the Agency was awarded grant and loan funding from the California State Water Resources Control Board (State Water Board) through a cooperative agreement (Agreement) with the loan amount totaling $1,947,270. The projects, under the grant and loan funding agreement, consist of increasing the recycled water storage and the addition of filtration and disinfection units at the recycled water treatment plant. Commencing on July 1, 2021, the note is payable in annual installments of principal and interest of $74,964, with interest at 1.0%, maturing on July 1, 2051.

Future debt service payments are as follows:

Fiscal Year		Principal	Interest	Total
2023	$	-	-	-
2024		57,675	18,531	76,206
2025		58,252	17,954	76,206
2026		58,835	17,371	76,206
2027		59,423	16,783	76,206
2028-2032		306,149	74,882	381,031
2033-2037		321,765	59,265	381,030
2038-2042		338,179	42,852	381,031
2043-2047		355,429	25,601	381,030
2048-2051		297,353	7,471	304,824
Total		1,853,060	280,710	2,133,770
Current		-		
Non-current	$	1,853,060		

(8) Long-Term Debt, continued

2015 Water Revenue Refunding

On April 30, 2015, the Agency issued the 2015 Revenue Refunding Bond in the amount of $19,970,000. The bonds were issued to refund the 1999 Certificates of Participation and the State Water Resources Control Board Note Payables No. 1 and 2. The term of the bond calls for annual payments of principal and interest on March 1 of each year. The bond's interest rate ranges from 3.0% to 5.0% and matures on March 1, 2029.

Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2023	$ 1,940,000	354,850	2,294,850
2024	1,290,000	257,850	1,547,850
2025	945,000	93,350	1,038,350
2026	990,000	146,100	1,136,100
2027	1,045,000	96,600	1,141,600
2028-2029	2,175,000	98,400	2,273,400
Total	8,385,000	1,047,150	9,432,150
Current	(1,940,000)		
Premium	1,064,001		
Non-current	$ 7,509,001		

2016 Water Revenue Refunding

On June 29, 2016, the Agency issued the 2016 Revenue Refunding Bond in the amount of $11,435,000. The terms of the bond call for semi-annual payments of interest on September 1 and March 1 of each year, and annual payments of principal on March 1 of each year. The bond's interest rate ranges from 2.0% to 5.0% and matures on March 1, 2036.

Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2023	$ 475,000	328,213	803,213
2024	500,000	304,463	804,463
2025	515,000	290,713	805,713
2026	530,000	276,550	806,550
2027	555,000	250,050	805,050
2028-2032	3,200,000	819,750	4,019,750
2033-2036	2,990,000	227,550	3,217,550
Total	8,765,000	2,497,289	11,262,289
Current	(475,000)		
Premium	705,628		
Non-current	$ 8,995,628		

(9) Deferred Compensation Savings Plan

For the benefit of its employees, the Agency participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate. Generally, eligible employees may defer a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency and are not subject to claims by the Agency's general creditors. Market value of all plan assets held in trust at June 30, 2022, was $1,583,738.

The Agency has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Since the Agency has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the Statement of Net Position.

(10) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the Agency's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

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 Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the Agency's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the Agency's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

(10) Defined Benefit Pension Plan, continued

The Agency participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at June 30, 2022, are summarized as follows:

	Miscellaneous Plan	
	Classic	**PEPRA**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 service years	
Benefit payments	monthly for life	
Retirement age	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	6.910%	6.750%
Required employer contribution rates	10.880%	7.590%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1, following notice of the change in rates. Funding contributions for the Plan 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 Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2022, contributions to the Plan were as follows:

	2022
Contributions – employer	$ 240,139

Net Pension Liability

As of June 30, 2022, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	2022
Proportionate share of net pension liability	$ 565,056

(10) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2022, the net pension liability of the Plan is measured as of June 30, 2021 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 (the valuation date), rolled forward to June 30, 2021, using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Agency's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2021, was as follows:

	Miscellaneous	
Proportion – June 30, 2020	0.01300	%
Change in proportion	(0.00256)	
Proportion – June 30, 2021	0.01045	%

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2022, the Agency recognized a pension credit of $87,012. As of June 30, 2022, the Agency reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 240,139	-
Differences between actual and expected experience	63,364	-
Net difference between projected and actual earnings on plan investments	-	(493,264)
Adjustment due to the change in proportions and difference between actual and proportionate share of contributions	10,850	-
Total deferred outfow(inflow)	$ 314,353	(493,264)

(10) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2022, the Agency reported $240,139 as deferred outflows of resources related to contributions subsequent to the measurement date. Pension contributions subsequent to the measurement date for the year ended June 30, 2022, will be recognized as a reduction of the net pension liability for the year ended June 30, 2023.

At June 30, 2022, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows/ (Inflows) of Resources
2023	$ (82,059)
2024	(92,303)
2025	(108,376)
2026	(136,312)

Actuarial Assumptions

The total pension liabilities in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
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 increase	Varies by entry age and service
Mortality Table*	Derived using CalPERS membership data
Period upon which actuarial Experience survey assumptions were based	1997 – 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

(10) Defined Benefit Pension Plan, continued

Actuarial Assumptions, continued

* The mortality table was developed based on CalPERS specific data. The table includes 15 years of mortality improvement using the Society of Actuaries 90 percent of scale MP 2016. For more details on this table, please refer to the December 2017, experience study report (based on CalPERS demographic data from 1997 to 2015) available online on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2021, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

The PERF C 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 for those pension plan's investments were 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 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. Using historical and forecasted information for all funds' asset classes, expected compound (geometric) 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 adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
	100.00 %		

(10) Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the Agency's proportionate share of the net pension liability for the Plan calculated using the discount rate, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
Agency's net pension liability	$ 1,571,196	565,056	(266,705)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 51 through 53 for the Required Supplementary Information.

(11) Net Position

Calculation of net position as of June 30, is as follows:

	2022
Net investment in capital assets:	
Capital assets, net	$ 85,218,352
Bond payable	(18,919,629)
Lease payable	(3,141,223)
Loan payable	(208,533)
Total net investment in capital assets	62,948,967
Restricted for debt service:	
Restricted - cash and cash equivalents	329,364
Total restricted for debt service	329,364
Unrestricted net position:	
Non-spendable net position:	
Prepaid expenses and other assets	100,173
Total non-spendable net position	100,173
Spendable net position:	
Unrestricted	17,103,575
Total spendable net position	17,103,575
Total unrestricted net position	17,203,748
Total net position	$ 80,482,079

(12) Fund Balance

Calculation of fund balance as of June 30, is as follows:

		2022
Non-spendable:		
Prepaid expenses	$	100,174
Total non-spendable		100,174
Restricted		
Restricted for debt service		329,409
Total restricted		329,409
Committed:		
Contracted captial projects		1,920,254
Contracted services		1,085,058
Total committed		3,005,312
Assigned:		
Compensated absences		306,923
Total assigned		306,923
Unassigned:		
Operations		15,075,120
Total unassigned		15,075,120
Total fund balance	$	18,816,938

(13) Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2022, the Agency participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2 million, combined single limit at $9 million per occurrence. The JPIA purchases additional excess coverage layers: $30 million per occurrence for general, auto, and public official liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration, and theft and computer fraud.

(13) Risk Management, continued

- Property loss is paid at the replacement cost for property on file if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $150 million per occurrence, subject to a $1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to $2 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Agency's insurance coverage during the year ended June 30, 2022. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2022, 2021, and 2020.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 99, continued

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62.* The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 101

In June 2022, the 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.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(15) Commitments and Contingencies

Construction Contracts

The Agency has a variety of agreements with various contractors and vendors relating to the installation, improvement, or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the Agency's replacement reserves, capital contributions, and debt financing.

City of Watsonville

In April 2006, the Agency entered into an agreement with the City of Watsonville (City) for costs associated with the operation and maintenance of the Watsonville recycle plant which provides recycled water to the Agency. The City owns, operates, and maintains the distribution infrastructure and blending facilities. The Agency is entitled to water from the treatment plant. As part of the agreement, the Agency agreed to pay the City quarterly operation and maintenance costs of the treatment plant. In fiscal year 2022, the Agency paid the City $2,013,823 for the cost associated with the Watsonville recycle plant.

Litigation

In the ordinary course of operations, the Agency is subject to claims and litigation from outside parties. After consultation with legal counsel, the Agency believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(16) Subsequent Events

Events occurring after June 30, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of January 18, 2023, which is the date the financial statements were available to be issued.

Required Supplementary Information

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2022

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:				
Management fees	$ 387,000	387,000	353,849	(33,151)
Investment return	50,000	50,000	(19,558)	(69,558)
Other income	-	-	1,837	1,837
Total revenues	437,000	437,000	336,128	(100,872)
Expenditures:				
Office administration	237,386	179,970	176,404	3,566
Board support	41,048	35,500	54,149	(18,649)
Special projects outreach	33,965	32,800	27,147	5,653
Total expenditures	312,399	248,270	257,700	(9,430)
Excess of revenues over expenditures	124,601	188,730	78,428	(110,302)
Fund balance - beginning of year	3,529,476	3,529,476	3,529,476	
Fund balance - end of year	$ 3,654,077	3,718,206	3,607,904	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Special Revenue Fund
For the Year Ended June 30, 2022

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:				
Augmentation charges	$ 11,880,000	11,500,000	12,273,703	773,703
Water sales	2,162,500	2,100,000	2,051,964	(48,036)
Investment return	200,000	200,000	(70,401)	(270,401)
Grant income	1,700,000	1,700,000	165,588	(1,534,412)
Other income	35,000	35,000	29,148	(5,852)
Total revenues	15,977,500	15,535,000	14,450,002	(1,084,998)
Expenditures:				
Office administration	1,044,809	993,403	838,620	154,783
Education and outreach	183,349	178,349	138,912	39,437
Grant administration	139,950	121,902	91,953	29,949
Conservation	506,774	428,360	393,289	35,071
Harkins Slough facility	262,407	274,962	203,052	71,910
Coastal distribution system	1,073,271	1,180,220	921,862	258,358
Supplemental water (In-Basin)	487,236	701,949	530,335	171,614
Recycled water facility	2,351,293	2,645,228	2,030,700	614,528
Metering program	569,135	459,046	405,276	53,770
Basin modeling	237,416	156,020	95,346	60,674
Basin monitoring	264,276	207,862	146,803	61,059
In-Basin management plan	403,104	388,949	350,172	38,777
Regional water management plan	34,639	19,232	7,069	12,163
Out-of-Basin funding	73,630	44,648	18,021	26,627
In-Basin funding	101,130	60,148	22,602	37,546
Capital outlay	-	-	77,785	(77,785)
Total expenditures	7,732,419	7,860,278	6,271,797	1,588,481
Excess of revenues over expenditures	8,245,081	7,674,722	8,178,205	503,483
Other financing sources:				
Proceeds from note	-	-	31,252	31,252
Transfers out	-	-	(10,056,280)	(10,056,280)
Total other financing sources	-	-	(10,025,028)	(10,025,028)
Net change in fund balance	8,245,081	7,674,722	(1,846,823)	(9,521,545)
Fund balance - beginning of year	17,129,430	17,129,430	17,129,430	
Fund balance - end of year	$ 25,374,511	24,804,152	15,282,607	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
For the Year Ended June 30, 2022

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:				
Other income	$ 46,500,000	-	-	-
Total revenues	46,500,000	-	-	-
Expenditures:				
BMP network improvements	30,212	4,951	4,596	355
Harkins Slough recharge facilities	2,122,865	140,822	59,950	80,872
College Lake project	15,037,482	7,771,458	6,027,494	1,743,964
Struve Slough Diversion with Recharge Basin	1,439,268	236,455	144,451	92,004
Recycled water storage phase III	2,528,161	51,753	20,287	31,466
F-line expansion	-	-	899	(899)
Total expenditures	21,157,988	8,205,439	6,257,677	1,947,762
Deficiency of revenues over expenditures	25,342,012	(8,205,439)	(6,257,677)	1,947,762
Other financing sources:				
Transfers in	-	-	6,549,731	(6,549,731)
Total other financing sources	-	-	6,549,731	(6,549,731)
Net change in fund balance	25,342,012	(8,205,439)	292,054	(4,601,969)
Fund balance - beginning of year	(695,036)	(695,036)	(695,036)	
Fund balance - end of year	$ 24,646,976	(8,900,475)	(402,982)	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Year Ended June 30, 2022

		Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Investment return	$	-	-	249	249
Total revenues		-	-	249	249
Expenditures:					
Debt service:					
Principal		2,561,416	2,561,416	2,583,800	(22,384)
Interest		793,963	868,926	847,784	21,142
Total expenditures		3,355,379	3,430,342	3,431,584	(1,242)
Deficiency of revenues over expenditures		(3,355,379)	(3,430,342)	(3,431,335)	(993)
Other financing sources:					
Transfers in		-	-	3,506,549	(3,506,549)
Total other financing sources		-	-	3,506,549	(3,506,549)
Net change in fund balance		(3,355,379)	(3,430,342)	75,214	3,505,556
Fund balance - beginning of year		254,195	254,195	254,195	
Fund balance - end of year	$	(3,101,184)	(3,176,147)	329,409	

Basis of Budgeting

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the Agency's management and staff prepare and submit a capital and operating budget to the Board of Directors and are adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General, Special Revenue, Capital Projects, and Debt Service funds.

Pajaro Valley Water Management Agency
Schedules of the Agency's Proportionate Share of the Net Pension Liability
As of June 30, 2022
Last Ten Years*

Description		2021	2020	2019	2018	2017	2016	2015	2014
		Measurement Dates June 30,							
Agency's proportion of the net pension liability		0.01045%	0.01300%	0.01261%	0.01218%	0.01238%	0.01207%	0.01173%	0.01278%
Agency's proportionate share of the net pension liability	$	565,056	1,414,845	1,292,431	1,173,363	1,227,637	1,044,568	805,081	795,051
Agency's covered-employee payroll	$	1,375,500	1,331,852	1,106,339	1,095,085	1,160,676	1,012,215	957,312	908,004
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll		41.08%	106.23%	116.82%	107.15%	105.77%	103.20%	84.10%	87.56%
Plan's 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%	78.40%	79.82%

Notes to the Schedules of the Agency's Proportionate Share of Net Pension Liability

Changes in Benefit Terms

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions and Methods

In fiscal year 2021, there were no changes to actuarial assumptions or methods.

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

In fiscal year 2020, CalPERS implemented a new actuarial valuation software system for the June 30, 2018 valuation. This new system has refined and improved calculation methodology.

In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%.

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

Notes to the Schedules of the Agency's Proportionate Share of Net Pension Liability

Changes in Benefit Terms

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period, and remained adjusted for administrative expenses.

* The Agency has presented information for those years for which information is available until a full 10- year trend is compiled.

Pajaro Valley Water Management Agency
Schedules of Pension Plan Contributions
As of June 30, 2022
Last Ten Years*

Description		Fiscal Years Ending June 30, 2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	240,139	218,379	211,886	188,755	169,459	148,790	133,907	125,928
Contributions in relation to the actuarially determined contribution		(240,139)	(218,379)	(211,886)	(188,755)	(169,459)	(143,115)	(145,038)	(125,928)
Contribution deficiency(excess)	$	-	-	-	-	-	5,675	(11,131)	-
Covered payroll	$	1,375,500	1,331,852	1,106,339	1,095,085	1,160,676	1,012,215	957,312	908,004
Contribution's as a percentage of covered-employee payroll		17.46%	16.40%	19.15%	17.24%	14.60%	14.14%	15.15%	13.87%

Notes to the Schedules of Pension Plan Contributions

* The Agency has presented information for those years for which information is available until a full 10-year trend is compiled.

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Pajaro Valley Water Management Agency
Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pajaro Valley Water Management Agency (Agency) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated January 18, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
January 18, 2023