

SATICOY SANITARY DISTRICT

Annual Financial Report

Year Ended June 30, 2024

SATICOY SANITARY DISTRICT
Annual Financial Report
Year Ended June 30, 2024

Table of Contents

	<u>Page No.</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 8
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	13 - 25
Supplementary Information:	
Debt Covenant Compliance	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 - 28

Independent Auditor's Report

Board of Directors
Saticoy Sanitary District
Ventura, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saticoy Sanitary District ("the District") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the District, as of June 30, 2024, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 opinion.

Responsibilities of Management for the Financial Statements

The District'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 District's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 an 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Report on Summarized Comparative Information

We have previously audited the District's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *Debt Covenant Compliance* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
December 12, 2024

Saticoy Sanitary District

Management Discussion and Analysis For the Year Ended June 30, 2024

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Saticoy Sanitary District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2024 and 2023. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 24.79% or \$1,166,545 from \$4,705,188 to \$5,871,733 in fiscal year 2023-2024 and 11.57% or \$487,807 from \$4,217,381 to \$4,705,188 in fiscal year 2022-2023.
- The District's operating revenues increased 5.65% or \$58,587 in fiscal year 2023-2024 primarily due to a 3% scheduled rate increase in sewer service fees, and increased 22.84% or \$192,718 in fiscal year 2022-2023 primarily due to a 32% scheduled rate increase in sewer service fees. See Note 1 for sewer service fees and parcels serviced.
- The District's operating expenses, increased 6.44% or \$45,764 in fiscal year 2023-2024 primarily due to an 5% increase in contracted services provided by Ventura Regional Sanitation District, and increased 16.33% or \$99,803 in fiscal year 2022-2023 due to an approximate 32% increase in contracted services provided by Ventura Regional Sanitation District.
- The District's non-operating revenues in fiscal year 2023-2024 were \$1,015,906, an increase of \$676,075 from the prior year due to funds received from the received from the U.S. Department of Housing and Urban Development(HUD)/Community Development Block Grant(CDBG) program.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Saticoy Sanitary District

Management Discussion and Analysis For the Year Ended June 30, 2024

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using 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 District's net position and changes therein. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and tourism.

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 13 through 25.

Statement of Net Position

	<u>2024</u>	<u>2023</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Current assets	\$ 1,665,748	\$ 654,606	\$ 1,011,142	154.47%
Restricted assets	288,978	291,165	(2,187)	-0.75%
Non-current assets:				
Sewer service fees receivable	21,983	45,476	(23,493)	-51.66%
Capital assets, net	<u>6,125,629</u>	<u>5,302,154</u>	<u>823,475</u>	15.53%
Total	<u>8,102,338</u>	<u>6,293,401</u>	<u>1,808,937</u>	28.74%
Liabilities:				
Current Liabilities	515,914	229,783	286,131	124.52%
Non-current liabilities	<u>1,714,691</u>	<u>1,358,430</u>	<u>356,261</u>	26.23%
Total liabilities	<u>2,230,605</u>	<u>1,588,213</u>	<u>642,392</u>	40.45%
Net position:				
Net investment in capital assets	4,267,198	3,799,241	467,957	12.32%
Restricted	288,978	291,165	(2,187)	-0.75%
Unrestricted	<u>1,315,557</u>	<u>614,782</u>	<u>700,775</u>	113.99%
Total net position	<u>\$ 5,871,733</u>	<u>\$ 4,705,188</u>	<u>\$ 1,166,545</u>	24.79%

Saticoy Sanitary District

Management Discussion and Analysis For the Year Ended June 30, 2024

Statement of Net Position, 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 District, assets of the District exceeded liabilities by \$5,871,733 as of June 30, 2024 and \$4,705,188 as of June 30, 2023.

By far the largest portion of the District's net position (72.67% as of June 30, 2024 and 80.75% as of June 30, 2023) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2024 and 2023, the District showed a positive balance in its unrestricted net position of \$1,315,557 and \$614,782, respectively, which may be utilized in future years.

Statement of Revenues, Expenses and Changes in Net Position

	<u>2024</u>	<u>2023</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues:				
Operating revenues	\$ 1,094,946	\$1,036,359	\$ 58,587	5.65%
Non-operating revenues	1,015,906	339,831	676,075	198.94%
Restricted revenues	<u>79,522</u>	<u>79,991</u>	<u>(469)</u>	-0.59%
Total Revenues	<u>2,190,374</u>	<u>1,456,181</u>	<u>734,193</u>	50.42%
Expenses:				
Operating expenses	756,695	710,931	45,764	6.44%
Depreciation	198,601	189,401	9,200	4.86%
Non-operating expenses				
Interest expense	<u>68,533</u>	<u>68,042</u>	<u>491</u>	0.72%
Total expenses	<u>1,023,829</u>	<u>968,374</u>	<u>55,455</u>	5.73%
Change in net position	1,166,545	487,807	678,738	139.14%
Net position, beginning of year	<u>4,705,188</u>	<u>4,217,381</u>	<u>487,807</u>	11.57%
Net position, end of year	<u>\$ 5,871,733</u>	<u>\$4,705,188</u>	<u>\$1,166,545</u>	24.79%

The Statement of Revenues, Expenses and Changes in Net Position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$1,166,545 for the fiscal year ended June 30, 2024 and \$487,807 for the fiscal year ended June 30, 2023.

Saticoy Sanitary District

Management Discussion and Analysis For the Year Ended June 30, 2024

Statement of Revenues, Expenses and Changes in Net Position, continued

A closer examination of the sources of changes in net position reveals that:

In 2024, the District's total revenues increased by \$734,193. In addition to a 3% scheduled increase in sewer service fees, most of the increase was born from \$719,248 additional grant funds received from the U.S. Department of Housing and Urban Development(HUD)/Community Development Block Grant(CDBG) program to rehabilitate the wastewater treatment plant. Penalty revenues received on delinquent assessments in the amount of \$36,162 and favorable investment earnings in the amount of \$25,700, comprised most of the remaining increase. These revenue increases were offset by a \$67,513 reduction in funds received from the California Prop 1-TA Grant program when compared to the prior year. In addition, total expenses increased by \$55,455 or 5.73%, due primarily to a \$41,351 increase in professional services related to the warrant and administration of the grants process, as well as \$7,921 in closing costs associated with the new debt to assist in funding the rehabilitation project.

In 2023, the District's total revenues increased by \$297,476. In order to ensure adequate revenues to fund the District's current and future financial needs a 32% increase in sewer service fees was adopted for fiscal year 2023 amounting to approximately \$224,962. State Grant revenues in the amount of \$105,231 received from the California Prop 1-TA Grant program comprised the remaining increase. Increases were offset by a \$29,276 decrease in waste disposal revenues. In addition, total expenses increased by \$99,642, due primarily to the \$99,803 increase in operating expenses related to Ventura Regional Sanitation District's provided services.

Capital Asset Administration

At the end of fiscal year 2024 and 2023, the District's investment in capital assets amounted to \$6,125,629 and \$5,302,154 (net of accumulated depreciation), respectively. This investment in capital assets includes a wastewater treatment plant, a collection system, and land.

Changes in capital assets amounts for 2024 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets:				
Non-depreciable assets	\$ 244,551	\$ 1,022,076	\$ -	\$ 1,266,627
Depreciable assets	8,183,019	-	-	8,183,019
Accumulated depreciation and amortization	<u>(3,125,416)</u>	<u>(198,601)</u>	<u>-</u>	<u>(3,324,017)</u>
Total capital assets, net	<u>\$ 5,302,154</u>	<u>\$ 823,475</u>	<u>\$ -</u>	<u>\$ 6,125,629</u>

See Note 3 for additional information.

Saticoy Sanitary District

Management Discussion and Analysis For the Year Ended June 30, 2024

Debt Administration

In 2024, long-term debt increased by \$500,000 due to the addition of a new loan to partially fund the wastewater treatment plant rehabilitation costs and decreased by \$144,483, due to regular principal payments on the District's outstanding debt.

Changes in long-term debt amounts for 2024 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Long-term debt:				
Improvement bonds	\$ 871,400	\$ -	\$ (28,100)	\$ 843,300
Loans payable	<u>631,513</u>	<u>500,000</u>	<u>(116,383)</u>	<u>1,015,130</u>
Total long-term debt	<u>\$ 1,502,913</u>	<u>\$ 500,000</u>	<u>\$ (144,483)</u>	<u>\$ 1,858,430</u>

See Note 4 for additional information.

Conditions Affecting Current and Future Financial Position

Management has evaluated conditions that would have a significant impact on the District's 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 District's funding sources, customers, stakeholders, and other interested parties with an overview of the District'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 District's Director of Finance, Saticoy Sanitary District, 4105 West Gonzales Road, Oxnard, California 93036-2748.

Basic Financial Statements

SATICOY SANITARY DISTRICT
Statement of Net Position
June 30, 2024
(with comparative data for 2023)

ASSETS	2024	2023
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,171,284	\$ 531,082
Receivables:		
Interest	10,272	4,910
Sewer service fees	159,181	39,669
Other, net	40,359	72,543
Special assessment	14,043	5,342
Grants	269,204	-
Prepaid and other	1,405	1,060
Total current assets - unrestricted	1,665,748	654,606
Restricted assets:		
Cash and cash equivalents (note 2)	288,978	291,165
Total current assets - restricted	288,978	291,165
Total current assets	1,954,726	945,771
Non-current assets:		
Sewer service fees receivable	21,983	45,476
Capital assets, net (note 3)	6,125,629	5,302,154
Total non-current assets	6,147,612	5,347,630
Total assets	8,102,338	6,293,401
LIABILITIES		
Current liabilities:		
Payable from current assets - unrestricted:		
Accounts payable and accrued expenses	309,086	70,167
Accrued interest payable	20,675	15,133
Bonds payable, current portion (note 4)	33,300	28,100
Loans payable, current portion (note 4)	152,853	116,383
Total payables from current assets - unrestricted	515,914	229,783
Non-current liabilities:		
Bonds payable, net of current portion (note 4)	810,000	843,300
Loans payable, net of current portion (note 4)	862,277	515,130
Retention payable	42,414	-
Total non-current liabilities	1,714,691	1,358,430
Total liabilities	2,230,605	1,588,213
NET POSITION		
Net investment in capital assets (note 5)	4,267,199	3,799,241
Restricted	288,978	291,165
Unrestricted	1,315,556	614,782
Total net position	\$ 5,871,733	\$ 4,705,188

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

SATICOY SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2024
(with comparative data for 2023)

	2024	2023
Operating revenues		
Sewer service fees	\$ 961,986	\$ 935,299
Other charges, property taxes and penalties	132,960	101,060
Total operating revenues	<u>1,094,946</u>	<u>1,036,359</u>
Operating expenses		
Board member fees and expenses	8,309	8,562
Operations, management and administrative	748,386	702,369
Total operating expenses	<u>756,695</u>	<u>710,931</u>
Operating income before depreciation	338,251	325,428
Depreciation	<u>(198,601)</u>	<u>(189,401)</u>
Operating income (loss)	<u>139,650</u>	<u>136,027</u>
Non-operating revenues (expenses)		
Industrial Area Sewer Assessment District	79,522	79,991
Grant revenue-state	36,360	105,231
Grant revenue-federal	944,076	224,829
Investment earnings (loss)	35,470	9,771
Interest expense	<u>(68,533)</u>	<u>(68,042)</u>
Total non-operating revenues (expenses)	<u>1,026,895</u>	<u>351,780</u>
Change in net position	1,166,545	487,807
Net position, beginning of year	<u>4,705,188</u>	<u>4,217,381</u>
Net position, end of year	<u>\$ 5,871,733</u>	<u>\$ 4,705,188</u>

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

SATICOY SANITARY DISTRICT
Statement of Cash Flows
Year Ended June 30, 2024
(with comparative data for 2023)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Receipts from customers for sewer fees and other services	\$ 1,031,111	\$ 972,111
Payments to vendors for materials and services	(475,707)	(688,857)
Net cash provided by operating activities	<u>555,404</u>	<u>283,254</u>
Cash flows from non-capital financing activities:		
Proceeds from Industrial Area Sewer Assessment District, net	<u>70,821</u>	<u>77,100</u>
Net cash provided by non-capital financing activities	<u>70,821</u>	<u>77,100</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,022,076)	(324,311)
Grant funds received	711,232	349,636
Principal paid on loan and bonds payable	355,517	(139,808)
Interest paid on loan and bonds payable	(62,991)	(68,827)
Net cash used for capital and related financing activities	<u>(18,318)</u>	<u>(183,310)</u>
Cash flows from investing activities:		
Investment income (loss)	<u>30,108</u>	<u>5,390</u>
Net cash provided by investing activities	<u>30,108</u>	<u>5,390</u>
Net (decrease) increase in cash and cash equivalents	638,015	182,434
Cash and cash equivalents, beginning of year	<u>822,247</u>	<u>639,813</u>
Cash and cash equivalents, end of year	<u>\$ 1,460,262</u>	<u>\$ 822,247</u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$ 1,171,284	\$ 531,082
Restricted cash and cash equivalents	<u>288,978</u>	<u>291,165</u>
Total cash and cash equivalents	<u>\$ 1,460,262</u>	<u>\$ 822,247</u>

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

SATICOY SANITARY DISTRICT
Statement of Cash Flows, continued
Year Ended June 30, 2024
(with comparative data for 2023)

	2024	2023
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income	\$ 139,650	\$ 136,027
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	198,601	189,401
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable - sewer service fees	(96,019)	(18,138)
Accounts receivable - other, net	32,184	(46,110)
Prepaid and other	(345)	19,300
Increase (decrease) in liabilities:		
Retention payable	42,414	-
Accounts payable and accrued expenses	238,919	2,774
Total adjustments	415,754	147,227
Net cash provided by operating activities	\$ 555,404	\$ 283,254
Non-cash investing, capital, and financing activities:		
Change in fair value of investments	\$ 6,609	\$ (1,645)

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

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 1: Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Saticoy Sanitary District (District) was formed September 16, 1941, under the provisions of the Sanitary District Act of 1923 Health and Safety Code, State of California, Section 6400 et seq. The District covers an area generally known as the Saticoy District in Ventura County. On July 14, 1942, the Ventura County Board of Supervisors conveyed all the properties owned by the Saticoy Sewer Maintenance District to the newly formed Saticoy Sanitary District. The District's five-member Board of Directors (Board) is comprised of five publicly elected members-at-large serving overlapping four-year terms.

The District has no employees, but instead contracts with the Ventura Regional Sanitation District (VRSD), Mark S. Norris Consulting, and Doyle Consulting Services for administration, engineering, operations & maintenance and financial services. The District is provided management services on a fully reimbursable contract basis by VRSD, Mark S. Norris Consulting, and Doyle Consulting Services. VRSD processes all cash receipts and disbursements of the District, and maintains the financial records, appropriation and expense records, and minutes of the Board meetings.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing sewer services to its citizens on a continuing basis be financed or recovered primarily through user charges (sewer service assessments and connection fees), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as sewer service assessments and connection fees, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions in which the District gives (receives) value without directly receiving (giving) value in exchange.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the generally accepted accounting principles. The District has elected to follow all pronouncements of the Governmental Accounting Standards Board (GASB).

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

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

D. Assets, Liabilities and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

Substantially all the District's cash is invested in interest-bearing accounts. The District considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has not adopted its own investment policy but has directed the Director of Finance and Administration to follow the guidelines in Ventura Regional Sanitation District's investment policy when depositing funds in financial institutions. Investments have been made in the following areas:

- Ventura County Pooled Investment Fund (VCPIF)
- Local Agency Investment Fund (LAIF)
- Certificates of deposits
- Money market funds

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.

4. Sewer Service Fees, Property Taxes and Industrial Area Sewer Assessments

The District charges a sewer service fee based on the following: (a) each single-family unit in a single building is \$143.62 per month per dwelling unit, (b) each multiple-family and mobile home space is \$143.62 per dwelling unit or space, (c) each restaurant or drive-in is \$143.62 per month (d) each church is \$143.62 per month and each church with parsonage is \$143.62 per month, (e) each commercial user shall be determined on an individual basis provided the minimum monthly charge is not less than \$143.62 dollars per month, and (f) each vacant lot is \$8.27 per month.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

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

D. Assets, Liabilities and Net Position, continued

4. Sewer Service Fees, Property Taxes and Industrial Area Sewer Assessments, (continued)

The District formed the Industrial Area Sewer Assessment District 2001 (Assessment District) in 2001. The Assessment District was formed pursuant to the Municipal Improvement Act of 1913 and improvement bonds were issued in 2002 pursuant to the Improvement Bond Act of 1915 to finance sewer collection system improvements. The District currently charges an annual levy to 44 parcels to cover the annual principal and interest payments associated with the improvement bonds.

The District annually submits a list of customers, sewer service fee amounts, and Industrial Area Sewer assessment amounts to the County of Ventura (County) who, in accordance with the California Government Code, adds these amounts to the annual property tax billing.

The County of Ventura Assessor's Office assesses all real and personal property within the County each year. The County of Ventura Tax Collector's Office bills and collects the District's share of property taxes and sewer service fees. The County of Ventura Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Unpaid property tax bills become a lien on the property and ultimately are collected by the County and paid to the District. The County deducts one-quarter of one percent of the collected amounts as its billing fee.

Sewer service fees and Industrial assessments receivable at year-end are related to amounts collected by the County of Ventura, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

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

D. Assets, Liabilities and Net Position, (continued)

5. 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.

6. Capital Assets

Property and equipment with a cost of \$5,000 or more and a life greater than or equal to five years are capitalized and stated at cost, except for the portions acquired by contribution or donation, which are reported at their acquisition value on the date acquired. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over estimated useful lives of the assets as shown below:

Structures and improvements	5 to 30 years
Equipment	5 to 25 years
Wastewater treatment & collection facilities	50 years

7. Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indentures or to be used for specific purposes based on contract provisions, such as bonded debt service.

8. Restricted Liabilities

Certain liabilities, which are currently payable, have been classified as current liabilities payable from restricted assets since assets have been restricted for their payment.

9. Net Position

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

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position used 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.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

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

D. Assets, Liabilities and Net Position, (continued)

9. Net Position, (continued)

- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

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

10. Budgetary Policies

The District adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

E. Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. Certain amounts presented in the prior year financial statements may have been reclassified in order to be consistent with the current year's presentation.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 2: Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

	2024	2023
Cash and cash equivalents	\$1,171,284	\$ 531,082
Restricted cash and cash equivalents	288,978	291,165
Total	\$1,460,262	\$ 822,247

Cash and cash equivalents as of June 30, consist of the following:

	2024	2023
Deposits held with financial institutions:		
Checking account	\$ 505,502	\$ 138,645
Money market account	216,264	218,452
Investments:		
Ventura County Pooled Investment Fund (VCPIF)	738,496	465,150
Total	\$1,460,262	\$ 822,247

Authorized Deposits and Investments

The District does not have its own investment policy but adheres to the deposits and investments authorized in the Ventura Regional Sanitation District’s Investment Policy. In accordance with the Investment Policy, the District is authorized to invest funds in accordance with the Ventura County Treasurer - Tax Collector’s Statement of Investment Policy.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has, the greater its fair value has in sensitivity to changes in market interest rates. The Investment Policy does not discuss interest rate risk.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 2: Cash and Cash Equivalents, (continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposit 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 the public agencies. As of June 30, 2024 and 2023, respectively, the District had no demand deposits in excess of federally depository insured limits.

Custodial credit risk for *investments* is the risk that, in the event of the 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. The Code and the Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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 VCPIF or LAIF).

Credit Risk

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy or debt agreements, and the actual rating as of year-end for each investment type:

Investment Type	Total as of June 30, 2024	Minimum Legal Rating	Exempt from Disclosure	Not rated
Ventura County Pooled				
Investment Fund (VCPIF)	\$ 738,496	N/A	\$ -	\$ 738,496
Totals	<u>\$ 738,496</u>		<u>\$ -</u>	<u>\$ 738,496</u>

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 2: Cash and Cash Equivalents, (continued)

Concentration of Credit Risk

The investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2024 and 2023, the District did not hold any investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments.

Ventura County Pooled Investment Fund (VCPIF)

The District is a voluntary participant in the VCPIF and the District determines the amount and term of its investment. The County Treasurer makes investments in accordance with a Statement of Investment Policy reviewed and approved annually by the Board of Supervisors. The Treasury Investment Oversight Committee comprised of the County Treasurer, a representative of the Board of Supervisors, the County Investment Manager, a representative of the County Superintendent of Schools and other Treasury Department support staff meets semi-annually to review the activities of the Treasurer and provide a report to the Board of Supervisors. The County's Treasurer has indicated to the District that as of June 30, 2024 and 2023 the value of the County's portfolio was approximately \$4.67 billion and \$4.45 billion, respectively. The County of Ventura Treasury publishes a monthly portfolio report that is available online at <https://www.ventura.org/ttc/investment-reports/>.

The District's investment in this pool is reported in the financial statements at net asset value. The net asset value of the District's investment in this pool is based upon the District's pro-rata share of the entire VCPIF portfolio. The District's exposure to risk (credit, market or legal) is not currently available.

Fair Value Measurements

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs that are observable for an asset or liability, either directly or indirectly, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability. The District's investments are not required to be categorized by fair value measurement.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2024 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets:				
Land	\$ 83,839	\$ -	\$ -	\$ 83,839
Construction in progress	160,712	1,022,076	-	1,182,788
Total non-depreciable assets	244,551	1,022,076	-	1,266,627
Depreciable assets:				
Wastewater treatment plant	8,183,019	-	-	8,183,019
Total depreciable assets	8,183,019	-	-	8,183,019
Less accumulated depreciation	(3,125,416)	(198,601)	-	(3,324,017)
Total depreciable assets, net	5,057,603	(198,601)	-	4,859,002
Total capital assets, net	<u>\$ 5,302,154</u>	<u>\$ 823,475</u>	<u>\$ -</u>	<u>\$ 6,125,629</u>

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets:				
Land	\$ 83,839	\$ -	\$ -	\$ 83,839
Construction in progress	250,397	324,311	(413,996)	160,712
Total non-depreciable assets	334,236	324,311	(413,996)	244,551
Depreciable assets:				
Wastewater treatment plant	7,769,023	413,996	-	8,183,019
Total depreciable assets	7,769,023	413,996	-	8,183,019
Less accumulated depreciation	(2,936,015)	(189,401)	-	(3,125,416)
Total depreciable assets, net	4,833,008	224,595	-	5,057,603
Total capital assets, net	<u>\$ 5,167,244</u>	<u>\$ 548,906</u>	<u>\$ (413,996)</u>	<u>\$ 5,302,154</u>

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 4: Long-term Debt

The following is a schedule of changes in long-term debt of the District for the fiscal year ended June 30, 2024:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due in One Year
2003 Improvement Bonds	\$ 871,400	\$ -	\$ (28,100)	\$ 843,300	\$ 33,300
Loan Payable - October 2013	297,222	-	(61,607)	235,615	64,127
Loan Payable - July 2015	334,291		(54,776)	279,515	57,017
Loan Payable - April 2024	-	500,000	-	500,000	31,709
Total long-term debt	<u>\$ 1,502,913</u>	<u>\$ 500,000</u>	<u>\$ (144,483)</u>	<u>\$ 1,858,430</u>	<u>\$ 186,153</u>

2003 Improvement Bonds

To finance the collection system construction within the industrial area of Saticoy, the District has formed an Industrial Area Sewer Assessment District under the Municipal Improvement Act of 1913, in order to issue bonds under the Improvement Act of 1915. Bonds were issued in the total, aggregate principal amount of \$1,509,845 on June 18, 2003, with interest of 4.5% per annum with a final maturity date of September 2, 2041. All of the bonds were purchased by the United States of America, acting through Utilities Service, United States Department of Agriculture. Principal and interest payments on all outstanding debt are provided by the Sewer Assessment District revenue. At June 30, 2024, the outstanding principal balance on the bonds were \$843,300.

Unpaid special assessments and interest and penalties thereon are pledged as collateral for the bonds.

Loan Payable – October 2013

In October 2013, the District entered into a loan agreement with Compass Bank (Lender) in the amount of \$750,000 in order to finance the cost of constructing certain sewer lines and other sanitary facilities. Under the loan agreement, loan payments are secured by a pledge of certain revenues of the District, consisting primarily of wastewater user charges levied annually upon properties in the District under Section 6697 of the Sanitary District Act of 1923.

The secured loan was in response to a cease-and-desist order from the California Regional Water Quality Control Board (CRWQCB). Lack of compliance with the order will result in fines and sanctions or both against the District. To pay for the additional debt service of the new loan, voters approved a wastewater rate increase which took effect in July of 2013.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 4: Long-term Debt, (continued)

Loan Payable – October 2013, (continued)

Based on the terms of the cease-and-desist order, the District had until December 31, 2015 to complete specified capital improvements and comply with CRWQCB standards. As of June 30, 2021, the CRWQCB has deferred any actions or final resolution on the compliance report submitted in 2016, while the District pursues a funding request via the State Water Resources Control Board Proposition 1 Water Bond Program to rehabilitate the wastewater conveyance system within the District. The District's Proposition 1 work plan was approved in May 2020 and the design funds were awarded June 28, 2021, with effort beginning thereafter. The rehabilitation work is not anticipated to commence until late 2023.

In the event of default and if not remedied within the designated time frame, the Lender may declare the entire principal amount of the unpaid loan repayment and the accrued interest thereon to be due and payable immediately and impose a default rate equal to an additional 5.00%.

Commencing on December 1, 2013, the District shall make semi-annual loan payments of \$33,132, with interest of 4.05% per annum with a final maturity date of June 1, 2028. At June 30, 2024, the outstanding principal balance of the loan was \$235,615.

Loan Payable – July 2015

In July 1, 2015, the District entered into a loan agreement with Compass Bank (Lender) in the amount of \$750,000 in order to finance public improvements relating to the rubberized asphalt overlay and sewer pipe replacement project. Under the loan agreement, net revenues, amounts on deposit and the reserve fund have been pledged for the payment of the installment payments.

In the event of default and if not remedied within the designated time frame, the Lender may declare the entire principal amount of the unpaid loan repayment and the accrued interest thereon to be due and payable immediately and impose a default rate equal to an additional 5.00%.

Upon declaration of acceleration, all revenues thereafter received are required to be applied to the installment payments in the following order: (1) payment of fees, costs and expenses of the bank (including accountant and legal fees), (2) payment of operations and maintenance costs, (3) payment of the entire unpaid principal amount and accrued interest there one.

Commencing on December 1, 2015, the District shall make semi-annual loan payments of \$37,264 with interest of 4.05% per annum with a final maturity date of June 1, 2028. At June 30, 2024, the outstanding principal balance of the loan was \$279,515.

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 4: Long-term Debt, (continued)

Loan Payable – April 2024

In April 2024, the District entered into a installment sale agreement with PNC Back (Lender) in the amount of \$500,000 in order to finance improvements relating to the rehabilitation of portions of the District’s Wastewater Treatment Plant with new components and recoating tanks. Under the agreement, net revenues, amounts on deposit and the reserve fund have been pledged for the payment of the installment payments.

In the event of default and if not remedied within the designated time frame, the Lender may declare the entire principal amount of the unpaid loan repayment and the accrued interest thereon to be due and payable immediately and impose a default rate equal to an additional 5.00%.

Upon declaration of acceleration, all revenues thereafter received are required to be applied to the installment payments in the following order: (1) payment of fees, costs and expenses of the bank (including accountant and legal fees), (2) payment of operations and maintenance costs, (3) payment of the entire unpaid principal amount and accrued interest there one.

Commencing on January 1, 2025, the District shall make semi-annual payments with interest of 5.90% per annum with a final maturity date of March 20, 2030. At June 30, 2024, the outstanding principal balance was \$500,000.

Debt to Maturity Schedule

Annual aggregate interest and principal maturities of long-term debt for the next five years ended each June 30, and each accumulated five-year period thereafter are shown in the following table:

Fiscal Year	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2025	\$ 33,300	\$ 37,204	\$ 152,853	\$ 42,757
2026	33,400	35,703	209,315	41,113
2027	33,600	34,196	219,457	30,972
2028	38,750	32,568	230,105	20,319
2029	38,900	30,821	99,075	10,561
2030-2034	207,450	127,154	104,325	5,310
2035-2039	262,950	75,155	-	-
2040-2042	194,950	13,414	-	-
	<u>\$ 843,300</u>	<u>\$ 386,215</u>	<u>\$ 1,015,130</u>	<u>\$ 151,032</u>

SATICOY SANITARY DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2024

Note 5: Net Investment in Capital Assets

The balance at June 30, consists of the following:

	2024	2023
Capital assets, net	\$ 6,125,629	\$ 5,302,154
Bonds payable, current portion	(33,300)	(28,100)
Bonds payable, net of current portion	(810,000)	(843,300)
Loans payable, current portion	(152,853)	(116,383)
Loans payable, net of current portion	(862,277)	(515,130)
	\$ 4,267,199	\$ 3,799,241

Note 6: Risk Management

The District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (the Authority). The Authority is a risk-pooling, self-insurance authority created under the provisions of California Government Code Section 6500 et. sec.

The Authority is governed by a board consisting of a representative from each member agency. The board controls the operations of the Authority, including selection of management and approval of operating budgets. The relationship between the District and the Authority is such that the Authority is not a component unit of the District for financial reporting purposes.

The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Copies of the Authority's annual financial report may be obtained from their office at 1121 "I" Street, Suite 200, Sacramento, CA 95814. At June 30, 2024, the District's participation in the self-insurance programs of the Authority was as follows:

Date	Coverage	Limits
7/1/23 – 24	General & Auto Liability, Professional Liability, Employment Practices and Benefits	\$2,500,000
7/1/23 – 24	Property	\$5,119,485

Note 7: Commitments and Contingencies

Litigation

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

Supplementary Information

SATICOY SANITARY DISTRICT
Debt Covenant Compliance
Year Ended June 30, 2024
(with comparative data for 2023)

	<u>2024</u>	<u>2023</u>
Revenue sources		
Operating revenues	\$ 1,094,946	\$ 1,036,359
Other revenues	980,436	330,060
Investment earnings	35,470	9,771
Total revenue sources	<u>2,110,852</u>	<u>1,376,190</u>
Expenses*		
Board member fees and expenses	8,309	8,562
Management and administrative	732,399	694,616
Total expenses	<u>740,708</u>	<u>703,178</u>
Net revenue	<u>\$ 1,370,144</u>	<u>\$ 673,012</u>
Installment payments		
2013 Loan		
Principal	\$ 54,776	\$ 52,623
Interest	11,488	13,641
	<u>66,264</u>	<u>66,264</u>
2015 Loan		
Principal	61,607	59,186
Interest	12,921	15,343
	<u>74,528</u>	<u>74,529</u>
2024 Loan		
Principal	72,712	-
Interest	36,923	-
	<u>109,635</u>	<u>-</u>
Total installment payments	<u>\$ 250,427</u>	<u>\$ 140,793</u>
Debt coverage	5.47	4.78

As part of the District's loan covenants, the District is required to have fiscal year net revenues equal to 115% (1.15) of loan repayments. The District was in compliance with their debt covenants for the year ended June 30, 2024 and June 30, 2023, as a result of the implementation of a 5-year rate increase. Initially, a 32% increase in sewer service fees was implemented on July 1, 2020, which was to be followed by four consecutive increases of 3% in sewer service fees for fiscal years 2022 through 2025. However, an additional 32% increase was implemented on July 1, 2022, which will follow with two consecutive increases of 3% in sewer service fees for fiscal years 2024 and 2025.

*Net of any NBS costs, which are expenses that pertain specifically to the improvement bonds and are recouped annually through Special Assessments.

Report on Internal Control and Compliance

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Board of Directors
Saticoy Sanitary District
Ventura, 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 Saticoy Sanitary District (the District) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2024.

Report on Internal Control Over Financial Reporting

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

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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which

could have a direct and material effect on the financial statement. 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 is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
December 12, 2024