

**THE PACE WATER SYSTEM, INC.
AND
PACE PROPERTY FINANCE
AUTHORITY, INC.**

Management's Discussion and Analysis,
Combined Financial Statements,
and Supplemental Information

December 31, 2021 and 2020

DURST JORDAN, CPA, PA

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4459-B Hwy. 90
Pace, Florida 32571
Phone: (850) 995-5000
Fax: (850) 994-4522

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Pace Water System, Inc.
and Pace Property Finance Authority, Inc.

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the System), as of and for the years ended December 31, 2021 and 2020, and the related notes to the combined financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the System), as of December 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System'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 System's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic

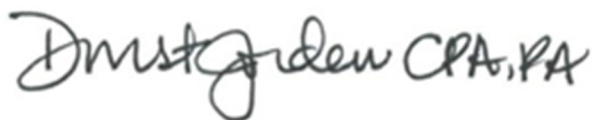
financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The schedule of expenditures of state financial assistance, as required by Chapter 10.550, *Rules of the Auditor General*, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2022, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Durst Jordan, CPA, PA

Pace, FL

April 25, 2022



4459-B Hwy. 90
Pace, Florida 32571
Phone: (850) 995-5000
Fax: (850) 994-4522

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
The Pace Water System, Inc. and
Pace Property Finance Authority, Inc.

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 combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the System), which comprise the combined balance sheets as of December 31, 2021 and 2020, and the related statements of income and retained earnings, the statements of functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Durst Jordan CPA, PA

Durst Jordan, CPA, PA
April 25, 2022



The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Management's Discussion and Analysis

For the years ended December 31, 2021 and 2020

This section of the System's annual financial report presents our discussion and analysis of the System's financial performance during the fiscal year ended December 31, 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis, Combined Financial Statements, and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The combined financial statements of the System report information about the System using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Combined Balance Sheets include all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System. All current year revenues and expenses are accounted for in the Statement of Income and Retained Earnings. This statement measures the success of the System's operations over the past year and can be used to determine whether the System has successfully recovered all its cost through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the System's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing 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.

FINANCIAL ANALYSIS OF THE BOARD

The financial statements of the System begin on page 11. The Combined Balance Sheets and the Statements of Income and Retained Earnings report the contributed and proprietary capital of the System and changes in them. The contributed and proprietary capital, the difference between assets and liabilities, is one way to measure the financial health or financial position. Over time, increases or decreases in the System's contributed and proprietary capital are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered such as economic conditions, population growth, and changing government legislation.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
Management's Discussion and Analysis
For the years ended December 31, 2021 and 2020

ASSETS, LIABILITIES, AND CAPITAL

The following table summarizes the Combined Balance Sheets:

| | 2021 | 2020 |
|--|------------------------------|------------------------------|
| Assets | | |
| Current assets | \$ 15,191,302 | \$ 16,853,294 |
| Non-current assets: | | |
| Capital assets | 104,966,108 | 92,308,433 |
| Other assets | 139,825 | 164,827 |
| Total non-current assets | <u>105,105,933</u> | <u>92,473,260</u> |
| Total Assets | <u><u>\$ 120,297,235</u></u> | <u><u>\$ 109,326,554</u></u> |
| Liabilities | | |
| Current liabilities | \$ 6,707,979 | \$ 4,342,680 |
| Long-term liabilities | <u>25,670,809</u> | <u>22,182,090</u> |
| Total liabilities | 32,378,788 | 26,524,770 |
| Contributed and Proprietary Capital | | |
| Membership certificates | 42,795 | 42,058 |
| Contributions in aid of construction, net | 46,659,600 | 44,682,532 |
| Retained earnings | <u>41,216,052</u> | <u>38,077,194</u> |
| Total contributed and proprietary capital | <u>87,918,447</u> | <u>82,801,784</u> |
| Total Liabilities and Capital | <u><u>\$ 120,297,235</u></u> | <u><u>\$ 109,326,554</u></u> |

As noted from the above table, total assets increased approximately \$10.97 million and total liabilities increased approximately \$5.85 million. Most of the increase in total assets is due to a \$10.62 million increase in construction in progress for construction of wastewater pollution control facilities. The increase in liabilities is mostly due to a new State Revolving Fund loan with a balance of \$5.84 million.

Contributed and proprietary capital increased approximately \$5.12 million mostly due to net income of approximately \$3.14 million, tap fees of approximately \$3.21 million, and developer contributions of approximately \$1.77 million offset by annual amortization of approximately \$3 million. See the discussion below regarding further analysis of the increase as it relates to the Statement of Income and Retained Earnings.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
Management's Discussion and Analysis
For the years ended December 31, 2021 and 2020

ASSETS, LIABILITIES, AND CAPITAL (Continued)

The following table summarizes the System's Statements of Income and Retained Earnings:

| | 2021 | 2020 |
|---|---------------|---------------|
| Operating revenues | \$ 12,371,060 | \$ 11,340,725 |
| Non-operating revenues | 129,412 | 763,263 |
| Total revenues | 12,500,472 | 12,103,988 |
| | | |
| Program services | 7,425,206 | 6,735,758 |
| Supporting services | 1,936,408 | 1,724,315 |
| Total expenses | 9,361,614 | 8,460,073 |
| | | |
| Excess of revenues over expenses | 3,138,858 | 3,643,915 |
| Retained earnings - beginning of period | 38,077,194 | 34,433,279 |
| Retained earnings - end of period | \$ 41,216,052 | \$ 38,077,194 |

While the Combined Balance Sheets show the change in financial position of Contributed and Proprietary Capital, the Statement of Income and Retained Earnings provides answers as to the nature and source of these changes. As noted in the table above, total revenues increased approximately \$396 thousand or 3%. Most of the increase is due to the increase in water, sewer, and reuse sales offset by a decrease average water usage per customer due to a wet year. Billing rates charged for services increased in 2021.

Expenses of the System increased approximately \$902 thousand or 11% from 2020 primarily due to increases in the number of employees, maintenance and repairs, depreciation and amortization, and new software expense. See the Statements of Functional Expenses for more information.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
Management's Discussion and Analysis
For the years ended December 31, 2021 and 2020

CAPITAL ASSETS

Capital assets consist of the following:

| | Balance 12/31/20 | Additions & Increases | Disposals & Decreases | Balance 12/31/21 |
|--|----------------------|--------------------------|--------------------------|-----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 6,263,316 | \$ - | \$ - | \$ 6,263,316 |
| Construction in progress | 2,775,888 | 14,009,098 | (1,896,649) | 14,888,337 |
| | <u>9,039,204</u> | <u>14,009,098</u> | <u>(1,896,649)</u> | <u>21,151,653</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 1,455,657 | 163,289 | - | 1,618,946 |
| Plant and equipment | 125,837,201 | 4,296,385 | (34,436) | 130,099,150 |
| Capitalized interest | 1,841,216 | - | - | 1,841,216 |
| Furniture, fixtures, equipment, and software | 200,583 | 7,500 | (5,800) | 202,283 |
| Vehicles | 1,697,654 | 285,359 | - | 1,983,013 |
| Accumulated depreciation | (47,763,082) | (4,207,307) | 40,236 | (51,930,153) |
| | <u>83,269,229</u> | <u>545,226</u> | <u>-</u> | <u>83,814,455</u> |
| Capital Assets, Net | <u>\$ 92,308,433</u> | <u>\$14,554,324</u> | <u>\$ (1,896,649)</u> | <u>\$ 104,966,108</u> |

Capital assets increased \$12.66 million or approximately 14%. Most of the increase is for construction of the wastewater disposal project including rapid infiltration basins and an effluent pumping station. This project is funded by a State Revolving Fund loan for 20 years at 0%.

Commitments for capital expenditures totaled approximately \$19.69 million at December 31, 2021.

ECONOMIC FACTORS AND BUDGETARY ANALYSIS

The System expects continued growth over the next few years and will continue to explore expansion options to serve its franchise with added customers from water, sewer, and reuse. The System is expanding its wastewater treatment with spray fields and rapid infiltration basins to discharge wastewater with the least amount of impact to the environment. The Board develops an annual budget for the subsequent fiscal year that is approved by the System prior to the beginning of the budgeted fiscal year.

There were several variances between actual results and budgeted amounts. Variances in revenues resulted in approximately \$536 thousand less revenue collection than budgeted. Water sales were not as high as expected due to 2021 being a wet year. Variances in expenses resulted in approximately \$2.07 million less expenses than budgeted. This is due to the budget not including approximately \$3 million in amortization expense. Overall, the excess of revenues over expenses was approximately \$1.53 million more than budgeted.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
Management's Discussion and Analysis
For the years ended December 31, 2021 and 2020

CONTACTING THE BOARD

This financial report is designed to provide our members with a general overview of the System's finances and to demonstrate its accountability for the money it receives. If you have questions about this report and need additional information, contact the General Manager of the System at 4401 Woodbine Road, Pace, Florida 32571 or telephone number: (850) 994-5129.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Combined Balance Sheets
 As of December 31, 2021 and 2020

ASSETS

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 6,968,557 | \$ 8,840,297 |
| Cash and cash equivalents (restricted) | 5,474,352 | 5,468,227 |
| Total cash and cash equivalents | 12,442,909 | 14,308,524 |
| Certificates of deposits (restricted) | 251,441 | 250,626 |
| Accounts receivable, net of allowance for doubtful accounts of \$45,000 and \$45,000, respectively | 823,013 | 955,214 |
| Unbilled accounts receivable | 552,493 | 447,085 |
| Financed sewer & water tap receivables, current portion | 10,084 | 16,778 |
| Inventory | 1,010,992 | 794,657 |
| Prepaid expenses | 100,370 | 80,410 |
| Total current assets | 15,191,302 | 16,853,294 |
| Non-current Assets | | |
| Utility plant in service, net of accumulated depreciation of \$51,930,153 and \$47,763,082, respectively | 90,077,771 | 89,532,545 |
| Construction in progress | 14,888,337 | 2,775,888 |
| Financed sewer & water tap receivables, less current portion | 139,540 | 164,542 |
| Utility deposits | 285 | 285 |
| Total non-current assets | 105,105,933 | 92,473,260 |
| Total Assets | \$ 120,297,235 | \$ 109,326,554 |

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

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Combined Balance Sheets
 As of December 31, 2021 and 2020

LIABILITIES AND CAPITAL

| | 2021 | 2020 |
|--|----------------|----------------|
| Current Liabilities | | |
| Accounts payable | \$ 1,369,395 | \$ 272,803 |
| Accrued liabilities | 105,074 | 98,951 |
| Bonds payable, current portion | 737,297 | 717,334 |
| Loans payable, current portion | 1,640,127 | 1,227,763 |
| Customer deposits | 1,874,331 | 1,799,137 |
| Accrued interest payable | 141,916 | 152,188 |
| Retainage payable | 839,839 | 74,504 |
| Total current liabilities | 6,707,979 | 4,342,680 |
| Long-term Liabilities | | |
| Accrued sick leave | 140,148 | 138,192 |
| Bonds payable, less current portion | 13,120,239 | 13,857,537 |
| Loans payable, less current portion | 12,410,422 | 8,186,361 |
| Total long-term liabilities | 25,670,809 | 22,182,090 |
| Total Liabilities | 32,378,788 | 26,524,770 |
| Contributed and Proprietary Capital | | |
| Membership certificates | 42,795 | 42,058 |
| Contributions in aid of construction: | | |
| Developer contributions, net of accumulated amortization of \$11,698,064 and \$10,840,074, respectively | 23,716,908 | 22,806,846 |
| Tap fees, net of accumulated amortization of \$32,590,346 and \$30,448,172, respectively | 22,942,692 | 21,875,686 |
| Total contributions in aid of construction | 46,659,600 | 44,682,532 |
| Retained earnings | 41,216,052 | 38,077,194 |
| Total Contributed and Proprietary Capital | 87,918,447 | 82,801,784 |
| Total Liabilities and Capital | \$ 120,297,235 | \$ 109,326,554 |

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

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Combined Statements of Income and Retained Earnings
 For the years ended December 31, 2021 and 2020

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Revenues | | |
| Water sales | \$ 6,716,052 | \$ 6,423,220 |
| Sewer and reuse sales | 5,246,479 | 4,508,651 |
| Impact fees | 7,114 | 13,095 |
| Late fees | 179,087 | 195,727 |
| Service charges | 163,245 | 147,604 |
| Miscellaneous service income | 59,083 | 52,428 |
| Interest income | 20,161 | 52,501 |
| Gain on sale of assets, net | - | 69,615 |
| PPP loan forgiveness | - | 635,000 |
| Other income | 109,251 | 6,147 |
| Total revenues | 12,500,472 | 12,103,988 |
| Expenses | | |
| Program services | 7,425,207 | 6,735,758 |
| Supporting services | 1,936,407 | 1,724,315 |
| Total expenses | 9,361,614 | 8,460,073 |
| Excess of Revenues over Expenses | 3,138,858 | 3,643,915 |
| Retained Earnings - Beginning of Year | 38,077,194 | 34,433,279 |
| Retained Earnings - End of Year | \$ 41,216,052 | \$ 38,077,194 |

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

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Combined Statement of Functional Expenses
 For the year ended December 31, 2021

| | 2021 | | |
|------------------------------------|-----------------------------|--------------------------------|---------------------|
| | Program Services | Supporting Services | Total |
| Accounting and auditing | \$ - | \$ 23,089 | \$ 23,089 |
| Advertising | - | 19,724 | 19,724 |
| Bad debts | - | 57,741 | 57,741 |
| Bank charges | - | 151,864 | 151,864 |
| Billing services | - | 161,379 | 161,379 |
| Chemicals | 276,968 | - | 276,968 |
| Computer support and maintenance | 197,576 | 74,942 | 272,518 |
| Depreciation and amortization, net | 1,173,825 | 33,317 | 1,207,142 |
| Disposal | 106,271 | - | 106,271 |
| Education and training | - | 25,917 | 25,917 |
| Engineering | 27,221 | - | 27,221 |
| Insurance | 642,785 | 243,815 | 886,600 |
| Interest expense | 694,932 | - | 694,932 |
| Legal | - | 27,595 | 27,595 |
| Maintenance and repairs | 892,916 | 25,344 | 918,260 |
| Miscellaneous | - | 1,087 | 1,087 |
| Office expense | - | 44,946 | 44,946 |
| Other contractual services | 79,411 | 40,000 | 119,411 |
| Retirement cost | 149,502 | 56,707 | 206,209 |
| Salaries and wages | 2,038,414 | 773,192 | 2,811,606 |
| Sewer hauling | 13,924 | - | 13,924 |
| Special events | - | 29,829 | 29,829 |
| Supplies | 185,545 | 5,266 | 190,811 |
| Taxes and licenses | 29,385 | 11,146 | 40,531 |
| Telephone | - | 97,946 | 97,946 |
| Testing and fees | 59,613 | - | 59,613 |
| Travel and per diem | 20,628 | 7,824 | 28,452 |
| Utilities | 710,654 | 20,171 | 730,825 |
| Vehicle expense | 125,637 | 3,566 | 129,203 |
| Total | \$ 7,425,207 | \$ 1,936,407 | \$ 9,361,614 |

The accompany notes are an integral part of the financial statements.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Combined Statement of Functional Expenses
 For the year ended December 31, 2020

| | 2020 | | |
|------------------------------------|-----------------------------|--------------------------------|---------------------|
| | Program Services | Supporting Services | Total |
| Accounting and auditing | \$ - | \$ 25,899 | \$ 25,899 |
| Advertising | - | 12,567 | 12,567 |
| Bad debts | - | 57,704 | 57,704 |
| Bank charges | - | 138,101 | 138,101 |
| Billing services | - | 138,981 | 138,981 |
| Chemicals | 210,914 | - | 210,914 |
| Computer support and maintenance | 60,605 | 22,988 | 83,593 |
| Depreciation and amortization, net | 1,171,224 | 33,243 | 1,204,467 |
| Disposal | 73,625 | - | 73,625 |
| Education and training | - | 13,398 | 13,398 |
| Engineering | 21,947 | - | 21,947 |
| Insurance | 591,804 | 224,478 | 816,282 |
| Interest expense | 774,044 | - | 774,044 |
| Legal | - | 31,532 | 31,532 |
| Maintenance and repairs | 645,721 | 18,328 | 664,049 |
| Miscellaneous | - | 2,657 | 2,657 |
| Office expense | - | 41,738 | 41,738 |
| Other contractual services | 48,521 | 36,099 | 84,620 |
| Postage | - | 4,172 | 4,172 |
| Retirement cost | 137,927 | 52,317 | 190,244 |
| Salaries and wages | 1,871,250 | 709,785 | 2,581,035 |
| Sewer hauling | 11,395 | - | 11,395 |
| Special events | - | 27,435 | 27,435 |
| Supplies | 171,400 | 4,865 | 176,265 |
| Taxes and licenses | 19,181 | 7,275 | 26,456 |
| Telephone | - | 94,764 | 94,764 |
| Testing and fees | 87,784 | - | 87,784 |
| Travel and per diem | 6,244 | 2,369 | 8,613 |
| Utilities | 694,215 | 19,704 | 713,919 |
| Vehicle expense | 137,957 | 3,916 | 141,873 |
| Total | \$ 6,735,758 | \$ 1,724,315 | \$ 8,460,073 |

The accompany notes are an integral part of the financial statements.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Combined Statements of Cash Flows

For the years ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|-----------------------------|-----------------------------|
| Cash Flows from Operating Activities | | |
| Excess of revenue over expenses | \$ 3,138,858 | \$ 3,643,915 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization, net | 1,207,142 | 1,204,467 |
| Amortization of debt issuance costs | 27,024 | 44,400 |
| (Gain) loss on disposal of assets | - | (69,615) |
| PPP loan forgiveness | - | (635,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net of allowance | 132,201 | (302,787) |
| Unbilled accounts receivable | (105,408) | 265,485 |
| Inventory | (216,335) | 25,246 |
| Prepaid expenses | (19,960) | (1,085) |
| Utility deposits | - | 3,853 |
| Accounts payable | 1,096,592 | 56,655 |
| Accrued liabilities | 6,123 | 1,704 |
| Customer deposits | 75,194 | 117,993 |
| Accrued interest payable | (10,272) | 102,701 |
| Retainage payable | 765,335 | 20,098 |
| Accrued sick leave | 1,956 | 8,862 |
| Net cash from operating activities | <u>6,098,450</u> | <u>4,486,892</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sales of capital assets | - | 79,234 |
| Additions to utility plant in service and CIP | (15,096,929) | (2,650,985) |
| Certificates of deposit appreciation | (815) | (1,901) |
| Net cash from investing activities | <u>(15,097,744)</u> | <u>(2,573,652)</u> |
| Cash Flows from Financing Activities | | |
| Bond and loan principal reductions | (1,945,098) | (2,345,557) |
| Loan proceeds | 5,837,164 | 635,000 |
| Tap fees excluding financed taps | 3,203,680 | 4,145,696 |
| Principal paydowns on financed taps | 37,196 | 28,295 |
| Increase in membership certificates | 737 | 1,593 |
| Net cash from financing activities | <u>7,133,679</u> | <u>2,465,027</u> |
| Net Change in Cash and Cash Equivalents | (1,865,615) | 4,378,267 |
| Cash and Cash Equivalents - Beginning of Period | 14,308,524 | 9,930,257 |
| Cash and Cash Equivalents - End of Period | <u>\$ 12,442,909</u> | <u>\$ 14,308,524</u> |
| Cash and Cash Equivalents consist of: | | |
| Restricted | \$ 5,474,352 | \$ 5,468,227 |
| Unrestricted | 6,968,557 | 8,840,297 |
| Total | <u>\$ 12,442,909</u> | <u>\$ 14,308,524</u> |
| Supplemental Disclosure of Noncash Investing and Financing Activities: | | |
| Contributions received from developers | \$ 1,768,052 | \$ 1,679,700 |
| Retirement of fixed assets | - | 23,947 |

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

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

The Pace Water System, Inc. was organized on November 16, 1964, under laws of the State of Florida to construct, maintain, and operate a water system and sewage disposal system for the use and benefit of its members.

The Pace Property Finance Authority, Inc. (Authority) was created in March 1990 by County Resolution No. 90-12 pursuant to Chapter 617 of Florida Statutes. In accordance with Florida Statutes Section 189.403, the Authority qualifies as a dependent special district. The Authority was created for the sole purpose of issuing tax free bonds. Thus, the Authority was created as a conduit debt entity. Additionally, based on the criteria of GASB Statement No. 14, the Authority is a component unit of Santa Rosa County. However, the Authority meets the criteria for inclusion in more than one reporting entity - Pace Water System as well as Santa Rosa County. GASB Statement No. 14 indicates that in these cases, judgment must be exercised by management of the reporting entities as to which reporting entity the organization should be included. The Authority has the same elected governing body as the Pace Water System. Additionally, both the Authority and Pace Water System own portions of an interconnected single water/sewer system. Finally, the Authority's debt was issued solely to finance the Pace water/sewer system improvements. Based on these facts, management has decided to include the Authority in the combined financial statements of Pace Water System rather than as a component unit of Santa Rosa County.

Pace Water System, Inc. and Pace Property Finance Authority, Inc. are referred to collectively as “the System.” The System is a not-for-profit corporation incorporated under Chapter 617 of the Florida Statutes. The System owns, operates, and maintains a water and sewer system for the supply and distribution of water and the collection and disposal of sewage and wastewater within its franchise area granted by Santa Rosa County. The System receives revenues from water, sewer, and reuse activities.

B. Basis of Accounting and Presentation

The combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the "System") are prepared using the accrual method of accounting in accordance with generally accepted accounting principles. These statements conform to predominate practices within the utilities industry. All material inter-organization transactions have been eliminated for the combined financial statement presentation.

C. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. Carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

E. Accounts Receivable

Accounts receivable is recorded net of an allowance for bad debts estimated from historical performance and projections of trends. Accounts receivable includes late fees and delinquent charges assessed on terms established in the customer deposit agreement. Late fees are assessed on past due accounts at a rate of 10% of the billed amount. Delinquent charges are assessed after 60 days of nonpayment. The System charges off uncollectible trade receivables after attempts of collection have been exhausted by the System and a collection agency. This normally occurs after 120 days of nonpayment. The total amount of accounts receivable past due 90 days or more as of December 31, 2021 and 2020, was \$43,683 and \$19,693, respectively.

F. Unbilled Accounts Receivable

Accounts receivable from utility customers and the related revenues reflect an estimated amount based on the number of days of unbilled services at December 31, 2021 and 2020.

G. Financed Sewer and Water Tap Receivable

Financed taps are carried at the unpaid principal balance which is equivalent to the net realizable value since uncollected taps create a lien on the property.

H. Utility Plant in Service

The System's capitalization policy is to capitalize all costs for items \$5,000 or more unless the item is a component of a network of assets. Property acquired through purchase or internal construction is stated at cost and includes direct internal labor costs. Engineering labor costs are charged to construction projects using contract percentages established by federal regulations. Property contributed by members and developers is recorded at the estimated fair value at the date received. Depreciation is computed using straight-line methods with assets lives in the following ranges:

| | |
|---|------------|
| Buildings and improvements | 30 years |
| Plant and equipment | 5-50 years |
| Furniture, fixtures, equipment and software | 5-10 years |
| Vehicles | 7 years |
| Capitalized interest | 50 years |

I. Inventory

Inventories consist of parts to be used in new installations and for repair and maintenance. Inventory is stated at the lower of cost or market with cost being determined by the first-in, first-out method of inventory valuation.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

The System's policy is to allow unused sick leave to accumulate and vest up to 176 hours per employee. This unused sick leave is recorded as a long-term liability. The System does not allow employees to accumulate unused vacation time. Unused vacation time may be transferred to sick time at the end of the year, provided it does not cause the sick time balance to exceed the 176-hour limit.

K. Contributed Capital

Tap fees received by the System are recorded as contributed capital to the extent the fees received substantially exceeds the cost to connect. The System has determined that the cost of connection for tap fees to be negligible. Therefore, the System records the entire tap fee to contributed capital. The System's accounting policy of tap fees conforms to generally accepted accounting principles of nongovernmental utilities.

L. Contributions in Aid of Construction

Property contributed by members and developers is recorded as contributions in aid of construction at estimated fair value at the date received. The contributions are amortized over the estimated useful lives of the related contributed assets, with such amortization being offset against depreciation charged to operations.

M. Income Taxes

The System is exempt from payment of income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements. The System is required to file a Form 990 to the Internal Revenue Service.

N. Advertising Costs

Advertising costs are expensed as incurred and were \$19,724 and \$12,567 in 2021 and 2020, respectively.

O. Customer Deposits

Customers are required to make deposits at the time of connection to the System. These deposits are designed to ensure payment of final service billings and to protect the utility against financial loss from damage to equipment located on the customer's property. When a customer withdraws from the system, the deposit is refunded less the amount of any charges outstanding against the account.

P. Bad Debts

The System uses the allowance method for calculating bad debts. Bad debt expense was \$57,741 and \$57,704 for the years ended December 31, 2021 and 2020, respectively.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Recent Accounting Pronouncements

Leases: In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02). The main principle of this revised accounting guidance requires that lessees recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of the current guidance, including the lease classification criteria and the lessor accounting model. The amendments in ASU 2016-02 will be effective for the Organization for annual reporting periods ending after December 15, 2021. The exact impact of the adoption of the standard has yet to be determined.

R. Expense Allocation

The costs of providing program and support activities have been detailed in the Statements of Functional Expenses and summarized on a functional basis in the Statements of Activities. Expenses directly related to a program or supporting service are charged to the individual program or supporting service. Indirect expenses are allocated between program and support services based on a labor percentage allocation or a fixed asset percentage allocation.

NOTE 2 – CASH, CASH EQUIVALENTS & CDs

Cash, cash equivalents, and CDs consist of the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---------------------------------|----------------------|----------------------|
| Cash in bank | \$ 12,063,608 | \$ 13,927,281 |
| Short-term U.S. treasuries | 378,351 | 379,793 |
| Petty cash | 950 | 1,450 |
| Total cash and cash equivalents | <u>\$ 12,442,909</u> | <u>\$ 14,308,524</u> |
| Certificates of deposit | \$ 251,441 | \$ 250,626 |

The System places its cash accounts and certificates of deposits with numerous financial institutions to limit the amount of credit exposure to any one financial institution. Furthermore, the System minimizes credit risk due to excess deposits by requiring each financial institution to pledge collateral under State Statutes to secure these funds. At December 31, 2021, the System's cash balances were secured by the FDIC, public funds, or invested in CDs in other banks.

Short-term U.S. Treasuries are not secured but are backed by the full faith and credit of the United States Government and have maturities less than 3 months. Therefore, they are reported as cash equivalents.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 2 – CASH, CASH EQUIVALENTS & CDs (Continued)

Cash and certificates of deposit are restricted for the following purposes:

| | 2021 | 2020 |
|-------------------------|---------------------|---------------------|
| Employee benefits | \$ 38,217 | \$ 28,820 |
| Customer deposits | 1,799,137 | 1,799,137 |
| Debt retirement | 816,965 | 753,221 |
| Capital improvements | 2,820,033 | 3,137,675 |
| Total restricted assets | <u>\$ 5,474,352</u> | <u>\$ 5,718,853</u> |

NOTE 3 – UTILITY PLANT IN SERVICE

Utility plant in service for the years ended December 31, 2021 and 2020 was as follows:

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Land | \$ 6,263,316 | \$ 6,263,316 |
| Buildings and improvements | 1,618,946 | 1,455,657 |
| Plant and equipment | 130,099,150 | 125,837,201 |
| Capitalized interest | 1,841,216 | 1,841,216 |
| Furniture, fixtures, equipment, and software | 202,283 | 200,583 |
| Vehicles | 1,983,013 | 1,697,654 |
| | <u>142,007,924</u> | <u>137,295,627</u> |
| Less: Accumulated depreciation | <u>(51,930,153)</u> | <u>(47,763,082)</u> |
| Utility plant in service, net | <u>\$ 90,077,771</u> | <u>\$ 89,532,545</u> |
| | | |
| Construction in progress | \$ 14,888,337 | \$ 2,775,888 |

Construction in progress consists mostly of the wastewater disposal project including rapid infiltration basins and an effluent pumping station. This project is funded by a State Revolving Fund loan for 20 years at 0%.

Depreciation and amortization expense consist of the following:

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Depreciation: | | |
| Utility plant and equipment | \$ 4,161,276 | \$ 4,041,796 |
| Amortization: | | |
| Contributions in aid of construction (CIAC): | | |
| Developer contributions | (857,990) | (821,156) |
| Tap fees | (2,142,174) | (2,062,203) |
| Capitalized interest | 46,030 | 46,030 |
| Total depreciation and amortization, net | <u>\$ 1,207,142</u> | <u>\$ 1,204,467</u> |

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 4 – FINANCED SEWER AND WATER TAP FEES

The System finances sewer and water tap fees for new customers at 10% for a period of up to 300 months. Each customer is automatically billed each month a portion of principal and interest calculated on the unpaid principal balance as part of the regular billing process. The System financed new sewer and water taps of \$5,500 and \$14,500 for the years ended December 31, 2021 and 2020, respectively.

NOTE 5 – LONG-TERM DEBT

Bonds and loans payable at December 31, 2021 and 2020 consist of the following:

| Bonds Payable | Interest Rates | 2021 | 2020 |
|---|-------------------|----------------------|----------------------|
| \$2,000,000 Utility System Refunding Revenue Bonds, Series 2017, Maturity date of September 1, 2027 | 2.30% | \$ 1,251,991 | \$ 1,444,547 |
| \$13,500,000 Utility System Refunding Revenue Bonds, Series 2019, Maturity date of September 1, 2039 | 2.96% | 12,605,545 | 13,130,324 |
| Total bonds payable | | <u>13,857,536</u> | <u>14,574,871</u> |
| Less: Current portion | | <u>(737,297)</u> | <u>(717,334)</u> |
| | | <u>\$ 13,120,239</u> | <u>\$ 13,857,537</u> |
| Loans Payable | | | |
| \$6,338,379 State Revolving Loan, Project No. WWG12085101P, Award date March 13, 2003, Maturity date of June 15, 2023 | 2.58- 2.95% | \$ 1,480,759 | \$ 1,825,819 |
| \$10,194,743 State Revolving Loan, Project No. WW851020, Award date September 14, 2007 Maturity date of June 15, 2029 | 2.65% | 4,268,286 | 4,816,337 |
| \$6,357,405 State Revolving Loan, Project No. WW851021, Award date January 14, 2009 Maturity date of June 15, 2029 | 2.86% | 2,628,587 | 2,963,239 |
| \$15,133,340 State Revolving Loan, Project No. WW570600, Award date December 7, 2020 Maturity date of May 15, 2042 | 0.00% | 5,837,164 | -0- |
| Total loans payable | | <u>14,214,796</u> | <u>9,605,395</u> |
| Less: Debt issuance costs | | <u>(164,247)</u> | <u>(191,271)</u> |
| Less: Current portion | | <u>(1,640,127)</u> | <u>(1,227,763)</u> |
| | | <u>12,410,422</u> | <u>8,186,361</u> |
| Net Long-Term Debt | | <u>\$ 25,530,661</u> | <u>\$ 22,043,898</u> |

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 5 – LONG-TERM DEBT (Continued)

The annual requirements to amortize debt at December 31, 2021 are as follows:

| Years Ending | Loans Payable | | Bonds Payable | | Total | |
|-----------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 1,640,127 | \$ 228,873 | \$ 737,297 | \$ 401,920 | \$ 2,377,424 | \$ 630,793 |
| 2023 | 2,053,434 | 201,468 | 757,821 | 381,397 | 2,811,255 | 582,865 |
| 2024 | 2,089,381 | 165,522 | 778,923 | 360,294 | 2,868,304 | 525,816 |
| 2025 | 2,126,325 | 128,576 | 800,618 | 338,598 | 2,926,943 | 467,174 |
| 2026 | 1,767,528 | 93,374 | 822,925 | 316,292 | 2,590,453 | 409,666 |
| Thereafter | 13,834,177 | 306,924 | 9,959,952 | 2,140,496 | 23,794,129 | 2,447,420 |
| | <u>\$23,510,972</u> | <u>\$ 1,124,737</u> | <u>\$13,857,536</u> | <u>\$ 3,938,997</u> | <u>\$37,368,508</u> | <u>\$5,063,734</u> |

Interest expense paid on long-term debt for 2021 and 2020 was \$694,932 and \$774,044, respectively. No interest expense was capitalized in the current year or previous year.

The System entered into Clean Water State Revolving Loan Agreements with the Florida Department of Environmental Protection to finance the planning, design, and construction of wastewater transmission, collection, reuse, and treatment facilities. The loans are secured by the net revenues subordinate to the revenue bonds.

Debt Issuance Costs

The System follows the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of the debt issuance costs is currently reported as interest expense in the income statement. Unamortized debt issuance costs were \$164,247 and \$191,271 at December 31, 2021 and 2020, respectively. Debt issuance costs amortized to interest expense were \$27,204 and \$44,400 for the years ending December 31, 2021 and 2020, respectively.

Line of Credit

The System has a line of credit of \$5,000,000 expiring August 20, 2023. This line of credit is unsecured and bears interest at a variable rate equal to the London Interbank Offered Rate (LIBOR) plus 1.5%. As of December 31, 2021, there were no outstanding amounts due.

PPP Loan

On May 15, 2020, the System signed an SBA loan agreement as part of the “Payroll Protection Program” which helps businesses keep their workforce employed during the Coronavirus (COVID-19) crisis. The System received loan proceeds of \$635,000. This loan was fully forgiven in 2020. Mortgage forgiveness income of \$635,000 was recognized in these financial statements.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 6 – BOND & LOAN COVENANTS

In December 2020, PPFA signed a \$15,133,340 loan agreement with the State of Florida Department of Environmental Protection to finance the construction of wastewater pollution control facilities. For the year ended December 31, 2021, PPFA had expended \$9,695,016 for the project. PPFA was reimbursed for \$5,837,164 of that amount. Reimbursements are considered loan proceeds.

The loan is a 20-year loan at 0% interest. Payments are due semi-annually beginning November 15, 2022.

Bonds:

The System is required to establish and maintain revenue, sinking fund, and reserve accounts in order to segregate resources for the accumulation of debt service payments. In addition, the system must maintain utility rates that will provide net revenues, excluding tap fees, to pay at least 105% of the annual debt service and to provide revenues, including tap fees, to pay at least 110% of the annual debt service. The System is in compliance with all such covenants.

Loans:

Loan covenants require the establishment of a reserve account and a debt service account. The System is required to deposit in the reserve account 3% of the loan amount excluding capitalized interest. Monthly deposits are required in the debt service account equal to one-sixth of the semi-annual loan payment. The System is required to maintain rates and charges sufficient to provide net revenues (excluding tap fees) less annual debt service payments on revenue bonds that are equal to or exceeding 115% of the annual debt service on this loan. The System is in compliance with all the above loan covenants.

NOTE 7 – MEMBERSHIP CERTIFICATES

The System issues membership certificates for \$2.50 each. There were 17,118 and 16,823 membership certificates issued and outstanding at December 31, 2021 and 2020. For those years, membership certificates totaled \$42,795 and \$42,058, respectively.

NOTE 8 – CONTRIBUTIONS IN AID OF CONSTRUCTION

Details of contributions in aid of construction (CIAC) are as follows:

| | Balance 12/31/20 | Changes in CIAC | Balance 12/31/21 |
|---|----------------------|---------------------|---------------------|
| Developer contributions | \$ 33,646,920 | \$ 1,768,052 | \$ 35,414,972 |
| Accumulated amort. developer contributions | (10,840,074) | (857,990) | (11,698,064) |
| Tap fees | 52,323,858 | 3,209,180 | 55,533,038 |
| Accumulated amort. of tap fees | (30,448,172) | (2,142,174) | (32,590,346) |
| Total contributions in aid of construction, net | <u>\$ 44,682,532</u> | <u>\$ 1,977,068</u> | <u>\$46,659,600</u> |

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 9 – RETIREMENT PLAN

The System sponsors a defined contribution plan covering all employees who have met certain service requirements. It provides for employer contributions of 9% of salaries. The System contributed \$206,209 and \$190,244 in 2021 and 2020, respectively.

NOTE 10 – COMMITMENTS

The System is continually upgrading and improving its plant and expanding its service capabilities to its franchise area as needed. During the year, the System entered into contracts for effluent disposal projects and system improvements and upgrades. These construction projects were in various stages of completion. As of December 31, 2021 and 2020, approximately \$19,689,409 and \$17,683,771 were outstanding.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

The System limits the concentration of credit risk with respect to trade receivables with the requirement of customer deposits and turn-off policies. Low credit risk is associated with financed tap receivables since uncollected taps create a lien on the property. Management believes that losses due to credit risk are within the range of the allowance for doubtful accounts.

Concentrations of credit risk related to cash are disclosed in Note 2.

NOTE 12 – RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation claims; and natural disasters for which the System carries commercial insurance. Claims incurred are based on actual repair and/or replacement costs.

The System is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the System's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the System.

NOTE 13 – RELATED PARTY

Santa Rosa County is classified as a related party as the sole member of Pace Property Finance Authority, Inc. In the past, the System and the County have participated in cost sharing projects for the mutual benefit of each other. During the current year, no direct or indirect transactions occurred between the System and Santa Rosa County, and no amounts were due from or to Santa Rosa County as of December 31, 2021 and 2020.

NOTE 14 – SPRAYFIELD RIGHTS

The System received 1 million gallons per day of effluent disposal capacity through spray irrigation from Stonebrook Village, Ltd. in 1990 as part of an agreement between the two parties. Management has not recorded this transaction in the financial statements since the fair value of these sprayfield rights has not been reasonably determined.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2022, the date which the financial statements were available to be issued.

NOTE 16 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects the System's financial assets as of December 31, 2021, reduced by amounts not available for general use within one year of the balance sheet date:

| | |
|--|---------------------|
| Financial assets at 12/31/21 | |
| Cash and cash equivalents | \$ 12,442,909 |
| Certificates of deposit | 251,441 |
| Accounts receivable, net | 823,013 |
| Unbilled accounts receivable | 552,493 |
| Financed sewer & water tap receivables, current portion | <u>10,084</u> |
| Total financial assets at 12/31/21 | 14,079,940 |
| Less those unavailable for general expenditure within one year, due to: | |
| Cash restricted for employee benefits | (38,217) |
| Cash restricted for customer deposits | (1,799,137) |
| Cash designated for capital improvements | (2,820,033) |
| Debt reserve requirements | <u>(816,965)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 8,605,588</u> |

As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.



4459-B Hwy. 90
Pace, Florida 32571
Phone: (850) 995-5000
Fax: (850) 994-4522

MANAGEMENT LETTER

To the Board of Directors of
The Pace Water System, Inc.
and Pace Property Finance Authority, Inc.

Report on the Financial Statements

We have audited the combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the System) as of and for the years ended December 31, 2021 and 2020 and have issued our report thereon dated April 25, 2022.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United State of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated April 25, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings in the prior year.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information can be found in Note 1 (A) of the financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and communicate the results of our determination as to whether or not the System has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the System did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)2., Rules of Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any findings in the current year.

Special District Component Units

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Durst Jordan CPA, PA". The signature is written in a cursive, flowing style.

Durst Jordan, CPA, PA
April 25, 2022



4459-B Hwy. 90
Pace, Florida 32571
Phone: (850) 995-5000
Fax: (850) 994-4522

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

To the Board of Directors of
The Pace Water System, Inc.
and Pace Property Finance Authority, Inc.

Report on Compliance for Each Major State Project

We have audited The Pace Water System, Inc. and Pace Property Finance Authority, Inc.'s (the System's) compliance with the types of compliance requirements described in the Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on each of the System's major State projects for the fiscal year ended December 31, 2021. The System's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State projects for the year ended December 31, 2021.

Basis for Opinion on Each Major State Project

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*. Our responsibilities under those standards, Chapter 10.550, *Rules of the Auditor General*, are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major State project. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's State projects.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and Chapter 10.550, *Rules of the Auditor General* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major State project as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and Chapter 10.550, *Rules of the Auditor General*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.



Durst Jordan, CPA, PA
Pace, FL
April 25, 2022



The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Schedule of Expenditures of State Financial Assistance
 For the year ended December 31, 2021

| <u>Agency/Pass-Through Entity Program or Cluster Title</u> | <u>State CSFA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Expenditures</u> | <u>Passed Through to Subrecipients</u> |
|---|----------------------------------|---|---------------------|--|
| State of Florida Department of Environmental Protection Wastewater Treatment and Stormwater Management TF | 37.077 | N/A | \$ 9,695,016 | \$ - |
| Total Expenditures of State Financial Assistance | | | <u>\$ 9,695,016</u> | <u>\$ -</u> |

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended December 31, 2021

A. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance includes the State Revolving Fund loan activity of Pace Property Finance Authority, Inc. (PPFA) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.550 Rule of the Auditor General, State of Florida. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

The entity did not elect to use the 10% de minimis indirect cost rate. All project costs are direct costs.

B. Loan

In December 2020, PPFA signed a \$15,133,340 loan agreement with the State of Florida Department of Environmental Protection to finance the construction of wastewater pollution control facilities. For the year ended December 31, 2021, PPFA had expended \$9,695,016 for the project. PPFA was reimbursed for \$5,837,164 of that amount. Reimbursements are considered loan proceeds.

The loan is a 20-year loan at 0% interest. Payments are due semi-annually beginning November 15, 2022.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Schedule of Findings and Questioned Costs
 For the year ended December 31, 2021

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

State Projects

Internal control over State projects:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for State projects?

Unmodified

Any audit findings disclosed that are to be reported in accordance with Chapter 10.557 Rules of the Auditor General?

_____ yes X no

Identification of major state projects:

State Project

CFSA Number
37.077

Name of State Project
Wastewater Treatment Facility
Construction

Dollar threshold used to distinguish between type A and type B state projects

\$ 750,000

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
Schedule of Findings and Questioned Costs
For the year ended December 31, 2021

Section II - Financial Statement Findings

No matters were reported for the year ended December 31, 2021.

Section III - State Financial Assistance Findings and Questioned Costs

No matters were reported for the year ended December 31, 2021.

Other Issues

- a.) A management letter is not required because there were no findings required to be reported in the management letter (see AG Rule Section 10.656(3)(e)).
- b.) A Summary of Prior Audit Findings is not required because there were no prior audit findings related to State projects (see AG Rules 10.557(3)(e)5. and 10.656(3)(d)5.).