

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

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

December 31, 2023 and 2022

DURST JORDAN, CPA, PA

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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, 2023 and 2022, 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 System, as of December 31, 2023 and 2022, 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

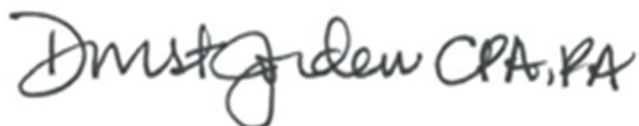
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although 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 June 26, 2024, 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.

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
Pace, FL
June 26, 2024

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

Management's Discussion and Analysis

For the years ended December 31, 2023 and 2022

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, 2023.

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 cash came 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 9. 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, 2023 and 2022

ASSETS, LIABILITIES, AND CAPITAL

The following table summarizes the Combined Balance Sheets:

	2023	2022
Assets		
Current assets	\$ 27,745,779	\$ 28,336,913
Non-current assets:		
Capital assets	128,318,875	118,555,351
Other assets	132,205	138,428
Total non-current assets	<u>128,451,080</u>	<u>118,693,779</u>
Total Assets	<u><u>\$ 156,196,859</u></u>	<u><u>\$ 147,030,692</u></u>
Liabilities		
Current liabilities	\$ 9,474,312	\$ 7,487,404
Long-term liabilities	<u>38,175,625</u>	<u>41,372,841</u>
Total liabilities	47,649,937	48,860,245
Contributed and Proprietary Capital		
Membership certificates	46,225	44,043
Contributions in aid of construction, net	60,044,082	52,929,084
Retained earnings	<u>48,456,615</u>	<u>45,197,320</u>
Total contributed and proprietary capital	<u>108,546,922</u>	<u>98,170,447</u>
Total Liabilities and Capital	<u><u>\$ 156,196,859</u></u>	<u><u>\$ 147,030,692</u></u>

As noted from the above table, total assets increased approximately \$9.2 million and total liabilities decreased approximately \$1.2 million. Most of the increase in total assets is due to a \$9.8 million increase in capital assets and construction in progress, \$793 thousand increase in accounts receivable, and \$677 thousand increase in inventory offset by a \$2.1 million decrease in cash. The \$1.2 million decrease in liabilities is mostly due to \$2.5 million in loan paydowns offset by a \$1 million increase in accounts payable.

Contributed and proprietary capital increased approximately \$10.4 million mostly due to net income of approximately \$3.3 million, tap fees of approximately \$7.1 million, and developer contributions of approximately \$3.5 million offset by annual amortization of approximately \$3.5 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, 2023 and 2022

ASSETS, LIABILITIES, AND CAPITAL (CONTINUED)

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

	2023	2022
Operating revenues	\$ 17,273,087	\$ 14,320,728
Non-operating revenues	(1,817,091)	108,903
Total revenues	15,455,996	14,429,631
Program services	9,704,572	8,359,272
Supporting services	2,492,129	2,089,091
Total expenses	12,196,701	10,448,363
Excess of revenues over expenses	3,259,295	3,981,268
Retained earnings - beginning of period	45,197,320	41,216,052
Retained earnings - end of period	\$ 48,456,615	\$ 45,197,320

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 \$1 million or 7%. Most of the increase is due to the increase in water, sewer, and reuse sales offset by a \$2.2 million loss on disposal of assets. Billing rates charged for services increased in 2023.

Expenses of the System increased approximately \$1.7 million or 17% from 2022 primarily due to increases in salaries and wages and depreciation 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, 2023 and 2022

CAPITAL ASSETS

Capital assets consist of the following:

	Balance 12/31/22	Additions & Increases	Disposals & Decreases	Balance 12/31/23
Capital Assets Not Being Depreciated				
Land	\$ 6,263,316	\$ 25,332	\$ (231)	\$ 6,288,417
Construction in progress	23,295,151	12,564,610	(23,364,303)	12,495,458
	<u>29,558,467</u>	<u>12,589,942</u>	<u>(23,364,534)</u>	<u>18,783,875</u>
Capital Assets Being Depreciated				
Buildings and improvements	1,618,946	225,371	(23,196)	1,821,121
Plant and equipment	138,108,386	27,524,054	(10,671,850)	154,960,590
Capitalized interest	1,841,216	-	(9,354)	1,831,862
Furniture, fixtures, equipment, and software	202,283	18,313	-	220,596
Vehicles	2,793,005	377,976	-	3,170,981
Accumulated depreciation	(55,566,952)	(5,407,780)	8,504,582	(52,470,150)
	<u>88,996,884</u>	<u>22,737,934</u>	<u>(2,199,818)</u>	<u>109,535,000</u>
Capital Assets, Net	<u>\$ 118,555,351</u>	<u>\$ 35,327,876</u>	<u>\$ (25,564,352)</u>	<u>\$ 128,318,875</u>

Capital assets increased \$9.8 million or approximately 8%. Most of the increase in construction in progress is for 20 ongoing projects for system upgrades. Most of the increase in assets being depreciated is due to approximately \$23 million in completed projects being placed in service, including a \$13.8 million effluent disposal project. Other additions are for system upgrades, developer contributions, and new vehicles. The System disposed of approximately \$10.7 million in assets including \$9.5 million for wastewater disposal that was replaced by the newly completed project.

Commitments for capital expenditures totaled approximately \$12 million at December 31, 2023.

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.

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

Management's Discussion and Analysis

For the years ended December 31, 2023 and 2022

ECONOMIC FACTORS AND BUDGETARY ANALYSIS (CONTINUED)

There were several variances between actual results and budgeted amounts. Variances in revenues resulted in approximately \$1 million less revenue collection than budgeted. Most of the difference was due to a loss on disposal of assets of \$2.2 million offset by increases in water, sewer, and reuse sales due the increase in customers and rates. Variances in expenses resulted in approximately \$2.7 million less expenses than budgeted. This is mostly due to the budget being \$1.9 million higher than actual for depreciation and amortization, net. Expenses were also under budget for chemicals, insurance, salaries and wages, salaries and wages, and supplies. Overall, the excess of revenues over expenses was approximately \$1.6 million more than budgeted.

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, 2023 and 2022

ASSETS

	2023	2022
Current Assets		
Cash and cash equivalents	\$ 16,013,710	\$ 16,665,115
Cash and cash equivalents (restricted)	7,338,378	8,792,210
Total cash and cash equivalents	23,352,088	25,457,325
Certificates of deposits (restricted)	258,941	252,070
Accounts receivable, net of allowance for doubtful accounts of \$45,000 and \$45,000, respectively	1,146,237	898,098
Unbilled accounts receivable	1,221,249	676,852
Financed sewer & water tap receivables, current portion	6,095	9,018
Inventory	1,575,245	898,657
Prepaid expenses	185,924	144,893
Total current assets	27,745,779	28,336,913
Non-Current Assets		
Utility plant in service, net of accumulated depreciation of \$52,470,150 and \$55,566,952, respectively	115,823,417	95,260,200
Construction in progress	12,495,458	23,295,151
Financed sewer & water tap receivables, less current portion	128,215	134,533
Utility deposits	3,990	3,895
Total non-current assets	128,451,080	118,693,779
Total Assets	\$ 156,196,859	\$ 147,030,692

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, 2023 and 2022

LIABILITIES AND CAPITAL

	2023	2022
Current Liabilities		
Accounts payable	\$ 3,257,706	\$ 1,836,878
Accrued liabilities	174,477	137,612
Bonds payable, current portion	1,234,101	1,201,637
Loans payable, current portion	2,089,380	1,296,766
Customer deposits	2,142,611	2,009,338
Accrued interest payable	220,829	230,778
Retainage payable	355,208	774,395
Total current liabilities	9,474,312	7,487,404
Long-Term Liabilities		
Accrued sick leave	230,454	131,213
Bonds payable, less current portion	22,090,349	23,324,450
Loans payable, less current portion	15,854,822	17,917,178
Total long-term liabilities	38,175,625	41,372,841
Total Liabilities	47,649,937	48,860,245
Contributed and Proprietary Capital		
Membership certificates	46,225	44,043
Contributions in aid of construction:		
Developer contributions, net of accumulated amortization of \$13,245,788 and \$12,629,098, respectively	29,415,746	26,879,786
Tap fees, net of accumulated amortization of \$37,452,832 and \$34,924,125, respectively	30,628,336	26,049,298
Total contributions in aid of construction	60,044,082	52,929,084
Retained earnings	48,456,615	45,197,320
Total Contributed and Proprietary Capital	108,546,922	98,170,447
Total Liabilities and Capital	\$ 156,196,859	\$ 147,030,692

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, 2023 and 2022

	2023	2022
Revenues		
Water sales	\$ 9,165,926	\$ 7,679,691
Sewer and reuse sales	7,603,390	6,191,563
Impact fees	5,719	6,170
Late fees	266,843	225,132
Service charges	160,732	148,533
Miscellaneous service income	70,477	69,639
Interest income	342,477	50,094
(Loss) gain on sale of assets, net	(2,175,049)	29,500
Other income	15,481	29,309
Total revenues	15,455,996	14,429,631
Expenses		
Program services	9,704,572	8,359,272
Supporting services	2,492,129	2,089,091
Total expenses	12,196,701	10,448,363
Excess of Revenues over Expenses	3,259,295	3,981,268
Retained Earnings - Beginning of Year	45,197,320	41,216,052
Retained Earnings - End of Year	\$ 48,456,615	\$ 45,197,320

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, 2023

	2023		
	Program Services	Supporting Services	Total
Accounting and auditing	\$ -	\$ 49,029	\$ 49,029
Advertising	-	24,458	24,458
Bad debts	-	50,028	50,028
Bank charges	-	165,272	165,272
Billing services	-	189,485	189,485
Chemicals	337,321	-	337,321
Computer support and maintenance	236,254	89,614	325,868
Depreciation and amortization, net	1,828,500	51,899	1,880,399
Disposal	226,075	-	226,075
Education and training	-	83,522	83,522
Engineering	120,931	-	120,931
Insurance	776,476	294,526	1,071,002
Interest expense	876,565	-	876,565
Legal	-	57,480	57,480
Maintenance and repairs	986,284	27,994	1,014,278
Miscellaneous	-	6,425	6,425
Office expense	-	86,177	86,177
Other contractual services	93,720	40,200	133,920
Retirement cost	181,017	68,662	249,679
Salaries and wages	2,568,628	974,307	3,542,935
Special events	-	46,169	46,169
Supplies	174,628	4,957	179,585
Taxes and licenses	31,651	12,005	43,656
Telephone	-	120,751	120,751
Testing and fees	82,011	-	82,011
Travel and per diem	44,308	16,806	61,114
Utilities	925,474	26,268	951,742
Vehicle expense	214,729	6,095	220,824
Total	\$ 9,704,572	\$ 2,492,129	\$ 12,196,701

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, 2022

	2022		
	Program Services	Supporting Services	Total
Accounting and auditing	\$ -	\$ 36,893	\$ 36,893
Advertising	-	16,786	16,786
Bad debts	-	55,926	55,926
Bank charges	-	150,972	150,972
Billing services	-	177,229	177,229
Chemicals	361,460	-	361,460
Computer support and maintenance	223,496	84,774	308,270
Depreciation and amortization, net	1,183,330	33,587	1,216,917
Disposal	212,652	-	212,652
Education and training	-	24,598	24,598
Engineering	155,181	-	155,181
Insurance	666,078	252,650	918,728
Interest expense	879,505	-	879,505
Legal	-	53,999	53,999
Maintenance and repairs	906,610	25,733	932,343
Miscellaneous	-	4,620	4,620
Office expense	-	32,633	32,633
Other contractual services	54,415	42,371	96,786
Retirement cost	163,925	62,178	226,103
Salaries and wages	2,155,244	817,506	2,972,750
Sewer hauling	375	-	375
Special events	-	41,246	41,246
Supplies	204,841	5,814	210,655
Taxes and licenses	29,292	11,111	40,403
Telephone	-	116,269	116,269
Testing and fees	68,999	-	68,999
Travel and per diem	31,770	12,051	43,821
Utilities	866,227	24,586	890,813
Vehicle expense	195,872	5,559	201,431
Total	\$ 8,359,272	\$ 2,089,091	\$ 10,448,363

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, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Excess of revenue over expenses	\$ 3,259,295	\$ 3,981,268
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization, net	1,880,399	1,216,917
Amortization of debt issuance costs	27,024	25,762
(Gain) loss on disposal of assets	2,175,049	(29,500)
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance	(248,139)	(75,085)
Unbilled accounts receivable	(544,397)	(124,359)
Inventory	(676,588)	112,335
Prepaid expenses	(41,031)	(44,523)
Utility deposits	(95)	(3,610)
Accounts payable	1,420,828	467,483
Accrued liabilities	36,865	32,538
Customer deposits	133,273	135,007
Accrued interest payable	(9,949)	88,862
Retainage payable	(419,187)	(65,444)
Accrued sick leave	99,241	(8,935)
Net cash from operating activities	<u>7,092,588</u>	<u>5,708,716</u>
 Cash Flows from Investing Activities		
Proceeds from sales of capital assets	25,000	29,500
Additions to utility plant in service and CIP	(13,836,719)	(13,977,061)
Certificates of deposit appreciation	<u>(6,871)</u>	<u>(629)</u>
Net cash from investing activities	<u>(13,818,590)</u>	<u>(13,948,190)</u>
 Cash Flows from Financing Activities		
Bond and loan principal reductions	(2,498,403)	(2,593,241)
Bond and loan proceeds	-	18,399,425
Tap fees excluding financed taps	7,097,745	5,435,385
Principal paydowns on financed taps	19,241	11,073
Increase in membership certificates	2,182	1,248
Net cash from financing activities	<u>4,620,765</u>	<u>21,253,890</u>
 Net Change in Cash and Cash Equivalents	<u>(2,105,237)</u>	<u>13,014,416</u>
Cash and Cash Equivalents - Beginning of Period	<u>25,457,325</u>	<u>12,442,909</u>
Cash and Cash Equivalents - End of Period	<u><u>\$ 23,352,088</u></u>	<u><u>\$ 25,457,325</u></u>
 Cash and Cash Equivalents consist of:		
Restricted	\$ 7,338,378	\$ 8,792,210
Unrestricted	16,013,710	16,665,115
Total	<u><u>\$ 23,352,088</u></u>	<u><u>\$ 25,457,325</u></u>
 Supplemental Disclosure of Noncash Investing and Financing Activities:		
Contributions received from developers	\$ 3,534,634	\$ 4,093,911
Retirement of fixed assets	(10,704,274)	-

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, 2023 and 2022

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, 2023 and 2022

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, 2023 and 2022, was \$37,729 and \$26,294, 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, 2023 and 2022.

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, 2023 and 2022

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 \$24,458 and \$16,786 in 2023 and 2022, 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 \$50,028 and \$55,926 for the years ended December 31, 2023 and 2022, respectively.

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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, 2023 and 2022:

	2023	2022
Cash in bank	\$ 22,624,969	\$ 24,826,957
Short-term U.S. treasuries	726,209	629,458
Petty cash	<u>910</u>	<u>910</u>
Total cash and cash equivalents	<u>\$ 23,352,088</u>	<u>\$ 25,457,325</u>
 Certificates of deposit	 \$ 258,941	 \$ 252,070

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, 2023, 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.

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

	2023	2022
Employee benefits	\$ 27,241	\$ 36,276
Customer deposits	2,142,611	2,009,338
Debt reserve	1,496,080	1,345,181
Capital improvements	<u>3,931,387</u>	<u>5,653,485</u>
Total restricted assets	<u>\$ 7,597,319</u>	<u>\$ 9,044,280</u>

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

NOTE 3 – UTILITY PLANT IN SERVICE

Utility plant in service for the years ended December 31, 2023 and 2022 was as follows:

	2023	2022
Land	\$ 6,288,417	\$ 6,263,316
Buildings and improvements	1,821,121	1,618,946
Plant and equipment	154,960,590	138,108,386
Capitalized interest	1,831,862	1,841,216
Furniture, fixtures, equipment, and software	220,596	202,283
Vehicles	3,170,981	2,793,005
	<u>168,293,567</u>	<u>150,827,152</u>
Less: Accumulated depreciation	(52,470,150)	(55,566,952)
Utility plant in service, net	<u>\$ 115,823,417</u>	<u>\$ 95,260,200</u>
Construction in progress	\$ 12,495,458	\$ 23,295,151

Construction in progress consists of over 20 projects as of December 31, 2023. Projects are mostly for system improvements.

Depreciation and amortization expense consist of the following:

	2023	2022
Depreciation:		
Utility plant and equipment	\$ 5,407,780	\$ 4,481,729
Amortization:		
Contributions in aid of construction (CIAC):		
Developer contributions	(998,674)	(931,033)
Tap fees	(2,528,707)	(2,333,779)
Total depreciation and amortization, net	<u>\$ 1,880,399</u>	<u>\$ 1,216,917</u>

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 \$10,000 and \$5,000 for the years ended December 31, 2023 and 2022, respectively.

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

NOTE 5 – LONG-TERM DEBT

Bonds and loans payable at December 31, 2023 and 2022 consist of the following:

	Interest Rates	2023	2022
Bonds Payable			
\$2,000,000 Utility System Refunding Revenue Bonds, Series 2017, Maturity date of September 1, 2027	2.30%	\$ 853,490	\$ 1,055,006
\$13,500,000 Utility System Refunding Revenue Bonds, Series 2019, Maturity date of September 1, 2039	2.96%	11,508,928	12,065,233
\$12,000,000 Utility System Refunding Revenue Bonds, Series 2022, Maturity date of September 1, 2042	2.56%	10,962,032	11,405,848
Total bonds payable		<u>23,324,450</u>	<u>24,526,087</u>
Less: Current portion		<u>(1,234,101)</u>	<u>(1,201,637)</u>
		\$ 22,090,349	\$ 23,324,450
Loans Payable			
\$6,338,379 State Revolving Loan, Project No. WWG12085101P, Award date March 13, 2003, Maturity date of December 15, 2025	2.58- 2.95%	\$ 761,050	\$ 1,125,928
\$10,194,743 State Revolving Loan, Project No. WW851020, Award date September 14, 2007 Maturity date of June 15, 2029	2.65%	3,127,936	3,705,616
\$6,357,405 State Revolving Loan, Project No. WW851021, Award date January 14, 2009 Maturity date of June 15, 2029	2.86%	1,930,088	2,284,296
\$15,133,340 State Revolving Loan, Project No. WW570600, Award date December 7, 2020 Maturity date of May 15, 2042	0.00%	12,236,589	12,236,589
Total loans payable		<u>18,055,663</u>	<u>19,352,429</u>
Less: Debt issuance costs		(111,461)	(138,485)
Less: Current portion		<u>(2,089,380)</u>	<u>(1,296,766)</u>
		<u>15,854,822</u>	<u>17,917,178</u>
Net Long-Term Debt		<u>\$ 37,945,171</u>	<u>\$ 41,241,628</u>

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

NOTE 5 – LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize debt at December 31, 2023 are as follows:

Years Ending	Loans Payable		Bonds Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 2,089,380	\$ 165,521	\$ 1,234,101	\$ 640,922	\$ 3,323,481	\$ 806,443
2025	2,126,324	128,575	1,267,448	607,573	3,393,772	736,148
2026	1,767,527	93,373	1,301,706	573,317	3,069,233	666,690
2027	1,795,314	65,589	1,336,896	538,126	3,132,210	603,715
2028	1,823,864	37,037	1,147,267	501,974	2,971,131	539,011
Thereafter	11,350,005	234,541	17,037,032	3,312,042	28,387,037	3,546,583
	<u>\$20,952,414</u>	<u>\$ 724,636</u>	<u>\$23,324,450</u>	<u>\$ 6,173,954</u>	<u>\$44,276,864</u>	<u>\$ 6,898,590</u>

The total principal above \$44,276,864 exceeds bonds and loans payable on the previous page by \$2,896,751. The difference is the amount not yet drawn on the \$15,133,340 State Revolving Loan, Project No. WW570600. The System expects that the total loan amount will disbursed and payable, and therefore, the remaining disbursement is included in the debt maturity amounts above.

Interest expense paid on long-term debt for 2023 and 2022 was \$876,565 and \$879,505, 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 \$111,461 and \$138,485 at December 31, 2023 and 2022, respectively. Debt issuance costs amortized to interest expense were \$27,024 and \$25,762 for the years ending December 31, 2023 and 2022, respectively.

Line of Credit

The System has a line of credit of \$5,000,000 expiring August 20, 2024. This line of credit is unsecured and bears interest at a variable rate equal to the Secured Overnight Financing Rate (SOFR) plus 1.5%. As of December 31, 2023, there were no outstanding amounts due.

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

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. During the year ended December 31, 2023, PPFA expended \$1,624,279 for the project.

The loan is a 20-year loan at 0% interest. Payments are due semi-annually beginning February 15, 2024.

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 18,490 and 17,617 membership certificates issued and outstanding at December 31, 2023 and 2022. For those years, membership certificates totaled \$46,225 and \$44,043, respectively.

NOTE 8 – CONTRIBUTIONS IN AID OF CONSTRUCTION

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

	Balance 12/31/22	Changes in CIAC	Balance 12/31/23
Developer contributions	\$ 39,508,884	\$ 3,152,650	\$ 42,661,534
Accumulated amort. developer contributions	(12,629,098)	(616,690)	(13,245,788)
Tap fees	60,973,423	7,107,745	68,081,168
Accumulated amort. of tap fees	(34,924,125)	(2,528,707)	(37,452,832)
Total contributions in aid of construction, net	<u>\$ 52,929,084</u>	<u>\$ 7,114,998</u>	<u>\$ 60,044,082</u>

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

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 \$249,679 and \$226,103 in 2023 and 2022, 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, 2023 and 2022, approximately \$11,951,000 and \$4,999,000 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, 2023 and 2022.

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

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

NOTE 14 – WASTE LOAD ALLOCATION AGREEMENT

The Board approved a waste load allocation agreement with Emerald Coast Utilities Authority (ECUA) after year-end. The agreement allows ECUA to use a portion of the System’s waste load allocation each year. ECUA will pay the System \$27,500 per year. This agreement shall remain in effect for 99 years. Termination can be made by either party with three (3) years notice after the tenth (10th) anniversary of the contract.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 26, 2024, 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, 2023, reduced by amounts not available for general use within one year of the balance sheet date:

Financial assets at 12/31/23	
Cash and cash equivalents	\$ 23,352,088
Certificates of deposit	258,941
Accounts receivable, net	1,146,237
Unbilled accounts receivable	1,221,249
Financed sewer & water tap receivables, current portion	<u>6,095</u>
Total financial assets at 12/31/23	25,984,610
Less those unavailable for general expenditure within one year, due to:	
Cash restricted for employee benefits	(27,241)
Cash restricted for customer deposits	(2,142,611)
Cash designated for capital improvements	(3,931,387)
Debt reserve requirements	<u>(1,496,080)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,387,291</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.



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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, 2023 and 2022 and have issued our report thereon dated June 26, 2024.

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 June 26, 2024, 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.

Finding #2022-01 Material Adjustments: This finding still applies in the current year. See Finding #2023-01.

Finding #2022-02 Reports from Software: This finding still applies in the current year. See Finding #2023-02.

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.



Durst Jordan, CPA, PA
June 26, 2024



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Pace, Florida 32571
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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

Opinion on 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, 2023. 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, 2023.

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.

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
Pace, FL
June 26, 2024



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

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 26, 2024.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as **Findings #2023-1, #2023-2, and #2023-3** to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as **Finding #2023-4** and **#2023-5** to be significant deficiencies.

Report on 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*.

The System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

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

Durst Jordan, CPA, PA
June 26, 2024

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Schedule of Expenditures of State Financial Assistance
 For the year ended December 31, 2023

<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	<u>\$ 1,624,279</u>	<u>\$ -</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 1,624,279</u></u>	<u><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, 2023

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. During the year ended December 31, 2023, PPFA expended \$1,624,279 for the project.

The loan is a 20-year loan at 0% interest. Payments are due semi-annually beginning February 15, 2024.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
 Schedule of Findings and Questioned Costs
 For the year ended December 31, 2023

A. SUMMARY OF AUDITOR'S 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?

 X yes no

Significant deficiency(ies) identified?

 X yes 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 Program

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

Auditee qualified as a low-risk auditee?

 yes X no

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

Schedule of Findings and Questioned Costs

For the year ended December 31, 2023

B. FINANCIAL STATEMENT FINDINGS

Finding #2023-1: Material Adjustments (Material Weakness)

Criteria or Specific Requirement

Year-end financial statements presented to be audited should be free of significant adjustments in order to comply with generally accepted accounting principles.

Cause

Key financial accounts were not reconciled properly.

Effect

Material adjustments were needed to properly record accounts receivable, inventory, capital assets, accounts payable, accrued expenses, contributions in aid of construction, depreciation, amortization, and fund transfers.

Recommendation

We recommend that prior audit adjustments be reviewed and discussed to reduce the adjustments made by auditors.

Management Response

The System will discuss adjusting journal entries with the auditor to reduce the number of adjusting journal entries for the next audit. The System will also ensure that all audit adjustments are entered timely and reconciled to the final audited numbers.

Finding #2023-2: Reports from Software (Material Weakness)

Criteria or Specific Requirement

Trial balances should be reconciled monthly to reports from the software.

Cause

In September 2021, the System changed to a new software that will eventually integrate accounting, fixed assets, inventory, and billing. The conversion has been a long process. Most financial statement reports from the software are highly customized reports based on inputs from the System.

Effect

During the audit, we had significant difficulties obtaining the reports we needed to reconcile to the trial balance. Additional audit testing was performed to confirm that the reports we received were accurate. Many times, that wasn't the case. The reports from the software had to be customized to include all transactions for a complete summary of the accounts being audited.

Recommendation

We recommend the System work closely with the software developer to discuss ways to improve reports to include all necessary information for accuracy in reporting throughout the year.

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

Schedule of Findings and Questioned Costs

For the year ended December 31, 2023

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding #2023-2: Reports from Software (Material Weakness)(Continued)

Management Response

The System has had multiple conversations with the software company about what information is necessary for the accounting reports. Significant progress has been made since year-end. The System will continue to work with the software company to adjust parameters for reports which will generate complete and accurate information for financial reporting throughout the year and for the annual audit.

Finding #2023-3: Inventory Count (Material Weakness)

Criteria or Specific Requirement

The inventory count as of year-end should be free of material errors.

Cause

Inventory was miscounted. For complete meters, there were 32 boxes of meters or 278 meters that were not shown to us when we performed the inventory test count. For reclaim and disconnect meters, the final inventory count we received from the Warehouse Manager was 946 meters less than our test count.

Effect

There were material differences between our inventory test count and the System's final inventory count. If we had not performed the inventory test count, inventory would have been materially misstated.

Recommendation

We recommend that special care is taken to ensure that the inventory count is materially accurate.

Management Response

This is the first time material errors were found in the inventory count. The System will discuss the reasons for the differences with the Warehouse Manager and discuss ways to make sure that an accurate count is provided going forward.

Finding #2023-4: Bank Reconciliations (Significant Deficiency)

Criteria or Specific Requirement

During our testing of cash, we noted that the book balance on several of the bank reconciliations did not agree to the general ledger.

Cause

Certain cash adjustments were made that affected the balance per book after the bank reconciliations were prepared.

The Pace Water System, Inc. and Pace Property Finance Authority, Inc.
Schedule of Findings and Questioned Costs
For the year ended December 31, 2023

C. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding #2023-4: Bank Reconciliations (Significant Deficiency)(Continued)

Effect

Bank reconciliations didn't match the general ledger which resulted in audit adjustments.

Recommendation

If adjustments are made to a cash account after the account is reconciled, then the System should go back and redo the bank reconciliation to match the general ledger.

Management Response

Bank reconciliations will be updated going forward if any transactions affect cash after the reconciliation is prepared.

Finding #2023-5: Billing Rates (Significant Deficiency)

Criteria or Specific Requirement

Billing rates in the system should match advertised rates for all customers.

Cause

In 2023, the System increased water and sewer rates. Sewer rates for customers who used over 10,000 gallons were not put into the billing system correctly due to a rounding difference in the rate.

Effect

There were billing rate discrepancies for sewer customers who used 10,000 or more gallons of water. Overall, less than \$10,000 was overbilled for the year or approximately \$.08 per month for each sewer customer. However, this could be a material issue if billing rates were input incorrectly to one of the larger billing categories.

Recommendation

Once billing rates are updated in the system, there should be a different person that checks that the rates are correct.

Management Response

Rates for 2024 were reviewed to ensure that rates were input to the billing system correctly.

D. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

There were no findings which were required to be reported in accordance with the Uniform Guidance.

E. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

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.).