

**PAJARO DUNES GEOLOGIC HAZARD
ABATEMENT DISTRICT**

Financial Report

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pajaro Dunes Geologic Hazard Abatement District
Watsonville, California

We have audited the accompanying financial statements of Pajaro Dunes Geologic Hazard Abatement District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pajaro Dunes Geologic Hazard Abatement District as of June 30, 2018, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United State of America.

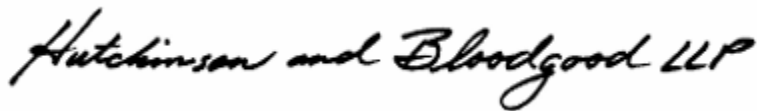
Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The information included in the accompanying Schedule I (page 24) is presented for additional analysis and is not a required part of the basic financial statements.

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



October 12, 2018

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

As management of the Pajaro Dunes Geologic Hazard Abatement District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the year ended June 30, 2018. Please read this in conjunction with the District's basic financial statements.

Using This Financial Report

This annual report consists of management's discussion and analysis, the basic financial statements and notes to financial statements. Management's discussion and analysis provides a narrative of the District's financial performance and activities for the year ended June 30, 2018. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-Wide Financial Statements –

Statement of Net Position and Statement of Activities and Changes in Net Position

One of the most important questions asked about the District's finances is, "Is the District better off, or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. Think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax base to assess the *overall health* of the District.

Government Fund Financial Statements –

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

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

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the District's budgetary information.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Government-wide Financial Analysis

Statements of Net Position (page 10)

Condensed Statements of Net Position

	6/30/2018	6/30/2017
Assets:		
Current and other assets	\$ 600,142	\$ 608,514
Capital assets net of depreciation	<u>1,650,000</u>	<u>1,750,000</u>
Total assets	<u>\$ 2,250,142</u>	<u>\$ 2,358,514</u>
Liabilities:		
Current liabilities	\$ 166,901	\$ 176,247
Long-term debt	<u>1,215,435</u>	<u>1,343,139</u>
Total liabilities	<u>1,382,336</u>	<u>1,519,386</u>
Deferred Inflows of Resources:		
Prepaid assessments	<u>17,803</u>	<u>24,931</u>
Net Position:		
Investment in capital assets, net of related debt	364,565	396,653
Restricted for debt service	144,825	144,825
Unrestricted	<u>340,613</u>	<u>272,719</u>
Total net position	<u>850,003</u>	<u>814,197</u>
	<u>\$ 2,250,142</u>	<u>\$ 2,358,514</u>

As noted earlier in this analysis, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities and deferred inflows by \$850,003 as of June 30, 2018. At June 30, 2018, the District reflected an accumulated balance in its unrestricted net position of \$340,613.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Government-wide Financial Analysis (Continued)

The District has 200 tons of riprap, which is stored at a site provided by Granite Rock. The cost of the rock and storage was \$15,000 and was incurred and expensed in September 2012. The agreement with Granite Rock expires December 31, 2022, at which point any unused rock is to be forfeited unless a new agreement is reached.

Statements of Activities and Changes in Net Position (page 11)

Condensed Statements of Activities and Changes in Net Position

	6/30/2018	6/30/2017
Expenses:		
Hazard abatement program	\$ 184,824	\$ 160,731
Interest on long-term obligations	76,767	84,848
Depreciation	100,000	100,000
Total expenses	361,591	345,579
General Revenues	397,397	434,788
Change in net position	35,806	89,209
Net position - beginning of year	814,197	724,988
Net position - end of year	<u>\$ 850,003</u>	<u>\$ 814,197</u>

The statement of activities and changes in net position shows how the government's net position changed during the year. In the case of the District, net position increased by \$35,806 during the current year.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Governmental Funds Financial Analysis

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, the unreserved fund balance may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2018, the District's General Fund reported a fund balance of \$183,527. The fund balance is not available for future spending because it has already been reserved for specific provisions (page 12).

Financial Highlights

- The District's general fund balance increased \$46,632, from \$136,895 to \$183,527 (page 14).
- The District's debt service fund balance decreased by \$60,878, from \$464,588 to \$403,710 (page 14).
- Assessment revenues of \$396,176 were below prior year by \$38,091, due to the paydown of one loan.
- General fund operating expenses of \$184,824 (before depreciation) were above the prior reporting period by 14.99%, or \$24,093, due to expenditures incurred for contractors in assisting with the 218 election. General fund operating expenses were above budget by \$17,907 or 10.73%.

General Fund Budgetary Highlights

Total revenues over expenditures for the District's general fund operations were below budget by \$15,774. Actual assessment revenues were above budget by \$1,112.

Capital Asset Administration

Changes in capital assets for the year were as follows:

	<u>Balance</u> <u>6/30/2017</u>	<u>Additions/ Transfers</u>	<u>Balance</u> <u>6/30/2018</u>
Depreciable capital asset	\$ 3,000,000	\$ --	\$ 3,000,000
Less accumulated depreciation	(1,250,000)	(100,000)	(1,350,000)
Total capital assets, net	<u>\$ 1,750,000</u>	<u>\$ (100,000)</u>	<u>\$ 1,650,000</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Capital Asset Administration (Continued)

At June 30, 2018, the District's investment in capital assets amounted to \$1,650,000 (net of accumulated depreciation). This investment in capital assets consists solely of a riverwall. See note 3 for further information on the District's capital assets.

Debt Administration

Changes in long-term debt for the year were as follows:

	<u>Balance</u> <u>6/30/2017</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>6/30/2018</u>
Ltd Obligation improvement bonds	\$ 1,380,000	\$ --	\$ (70,000)	\$ 1,310,000
Other long-term debt	132,287	--	(72,535)	59,752
Total liabilities, net	<u>\$ 1,512,287</u>	<u>\$ --</u>	<u>\$ (142,535)</u>	<u>\$ 1,369,752</u>

Future Plans

The District successfully passed a 218 assessment election in June of 2018, to establish funds for a reserve fund, which will be used only for emergencies should there be a failure on the seawall.

The District's future plans involve solidifying plans to shore up the seawall by means of cost savings alternatives that do not involve rebuilding the entire wall. The District has now completed, through its Engineering contractor "ARUP", a study that recommends that a new wall is not needed. Their recommendation is to proceed with an aggressive program to repair and maintain the existing wall. A preliminary meeting was held with the California Coastal Commission to discuss the possible approaches.

Several meetings and discussions have taken place between the District's Engineer of Record (ARUP) and public agencies such as the California Coastal Commission and the California Parks Department in the obtaining of an emergency repair and maintenance a permit. A revised application was submitted to the California Coastal Commission in November 2015.

As of the date of this report there are insufficient funds to respond to permit application questions from the County of Santa Cruz. In order to move forward with the repair project permit the District would need to conduct an assessment election to raise approximately \$300,000 to respond to the County.

Additionally, the District is subject to penalties for rocks that were placed on State Parks property during emergency repairs in 2003 and 2004. The District is currently liable for penalties of \$5,045 per month. Total penalties to date are \$813,095, or \$3,103 per homeowner. The State has indicated that it is willing to abate those penalties once the rocks are removed as long as the District makes a good faith effort to continue to secure the needed permits from State agencies. In the interim, progress on the permit application for the seawall repair is stalled for lack of funds. An assessment election is required to raise those funds.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

The GHAD is in the process of preparing the necessary documents to obtain a Letter of Credit for \$600,000. These funds will be necessary to be available to marshal the resources necessary to respond in the event of an emergency situation.

Contacting the District's Financial Management

The financial report is designed to provide a general overview of the District's accountability for the District's assets. If you have questions about this report or need additional financial information, contact the Pajaro Dunes Geologic Hazard Abatement District at 2661 Beach Road, Watsonville, California 95076 or (831) 761-7744.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Government-Wide
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents, unrestricted (Note 2)	\$ 312,473
Cash and cash equivalents, restricted (Note 2)	144,825
Assessments receivable	124,370
Prepaid expenses	18,474
Capital assets, net of accumulated depreciation (Note 3)	<u>1,650,000</u>
Total assets	<u><u>\$ 2,250,142</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Accrued interest	\$ 24,244
Accounts payable	12,905
Long-term obligations:	
Long-term obligations - due within one year (Note 4)	129,752
Long-term obligations - due in more than one year (Note 4)	<u>1,215,435</u>
Total liabilities	<u>1,382,336</u>
Deferred Inflows of Resources:	
Prepaid assessments	<u>17,803</u>
COMMITMENTS AND CONTINGENCIES (Note 6)	
Net Position:	
Invested in capital assets, net of related debt	364,565
Restricted for debt service	144,825
Unrestricted	<u>340,613</u>
Total net position	<u>850,003</u>
	<u><u>\$ 2,250,142</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Government-Wide
 Statement of Activities and Changes in Net Position
 Year Ended June 30, 2018

Function	Expenses	Revenue	Total
Hazard abatement program	\$ 184,824	\$ --	\$ (184,824)
Interest on long-term obligations	76,767	--	(76,767)
Depreciation	100,000	--	(100,000)
	<u>\$ 361,591</u>	<u>\$ --</u>	<u>(361,591)</u>
General Revenues:			
Assessment income			396,176
Interest earnings			<u>1,221</u>
Total general revenues			<u>397,397</u>
Change in net position			35,806
Net position - beginning of year			<u>814,197</u>
Net position - end of year			<u>\$ 850,003</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Balance Sheet-Governmental Funds

June 30, 2018

	Governmental Fund Types		Total
	General	Debt Service	(Memorandum Only)
ASSETS			
Cash and cash equivalents, unrestricted (Note 2)	\$ 53,588	\$ 258,885	\$ 312,473
Cash and cash equivalents, restricted (Note 2)	--	144,825	144,825
Assessments receivable	124,370	--	124,370
Prepaid expenses	18,474	--	18,474
	<u>18,474</u>	<u>--</u>	<u>18,474</u>
Total assets	<u>\$ 196,432</u>	<u>\$ 403,710</u>	<u>\$ 600,142</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 12,905	\$ --	\$ 12,905
	<u>12,905</u>	<u>--</u>	<u>12,905</u>
COMMITMENTS AND CONTINGENCIES (Note 6)			
Fund balances:			
Fund balance - reserved for debt service	--	403,710	403,710
Fund balance - reserved for reimbursement	183,527	--	183,527
	<u>183,527</u>	<u>--</u>	<u>183,527</u>
Total fund balances	<u>183,527</u>	<u>403,710</u>	<u>587,237</u>
	<u>\$ 196,432</u>	<u>\$ 403,710</u>	<u>\$ 600,142</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2018

Total fund balances of governmental funds	\$ 587,237
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	1,650,000
Accrued interest on debt that will not be paid with current financial resources are not considered in the Governmental Funds Balance Sheet.	(24,244)
Prepaid property assessments for limited obligation bonds were considered other financing sources in the year they were received in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These funds are considered deferred inflows of resources of the District on the Statement of Net Position and are recognized as assessment income over a fifteen year period in the Statement of Activities and Changes in Net Position.	(17,803)
Long-term obligations are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet. The long-term obligations were adjusted as follows:	
Long-term obligations - due within one year	(129,752)
Long-term obligations - due in more than one year	<u>(1,215,435)</u>
Net position of governmental activities	<u><u>\$ 850,003</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2018

	General	Debt Service	Total (Memorandum Only)
PROGRAM REVENUES			
Assessment income	\$ 169,503	\$ 219,545	\$ 389,048
Interest income	1,221	--	1,221
	<u>170,724</u>	<u>219,545</u>	<u>390,269</u>
Total revenues			
EXPENDITURES			
Insurance	14,088	--	14,088
Legal	18,120	--	18,120
Accounting	17,814	--	17,814
Clerk	6,770	--	6,770
Assessment administration	7,130	--	7,130
Office	1,773	--	1,773
Officer election	300	--	300
Website maintenance	628	--	628
Audit	7,500	--	7,500
Bond fee	635	--	635
Technical planning	17,210	--	17,210
Reimbursements:			
Pelican Homeowners Association	92,856	--	92,856
Debt service:			
Principal	--	142,535	142,535
Interest	--	77,156	77,156
	<u>184,824</u>	<u>219,691</u>	<u>404,515</u>
Total expenditures			
Deficiency of revenue over expenditures	<u>(14,100)</u>	<u>(146)</u>	<u>(14,246)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfer in	60,732	--	60,732
Operating transfer out	--	(60,732)	(60,732)
	<u>60,732</u>	<u>(60,732)</u>	<u>--</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCE	46,632	(60,878)	(14,246)
BEGINNING FUND BALANCE	<u>136,895</u>	<u>464,588</u>	<u>601,483</u>
ENDING FUND BALANCE	<u>\$ 183,527</u>	<u>\$ 403,710</u>	<u>\$ 587,237</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Government-Wide
Statement of Activities and Changes in Net Position
Year Ended June 30, 2018

Net change in fund balances of governmental funds	\$ (14,246)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(100,000)
The bond discount is reported as amortizable interest expense in the Government-Wide Statement of Activities and Changes in Net Position, but it does not require the use of current financial resources. Therefore, the discount was reported as an expenditure the year the bonds were issued in Governmental Funds.	(2,088)
Accrued interest on long-term debt is reported as interest expense in the Government-Wide Statement of Activities and Changes in Net Position, but it does not require the use of current financial resources. Therefore, the accrued interest relating to the special assessment bonds is not reported in Governmental Funds.	2,477
The prepaid assessment revenue is classified as deferred inflows of resources in the Government-Wide Statement of Net Position and is recognized as assessment income over fifteen years in the Statement of Activities and Changes in Net Position. The prepaid assessments were considered other financing sources in the year they were paid and recognized entirely during that period in the Statement of Revenues, Expenditures, and Changes in Fund Balances.	7,128
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Position. Repayment of debt principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Position.	
Current year principal debt repayments	<u>142,535</u>
Change in net position of governmental activities	<u><u>\$ 35,806</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual
Year Ended June 30, 2018

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
REVENUES						
Assessment income	\$ 168,391	\$ 169,503	\$ 1,112	\$ 218,841	\$ 219,545	\$ 704
Interest income	200	1,221	1,021	--	--	--
Total revenues	<u>168,591</u>	<u>170,724</u>	<u>2,133</u>	<u>218,841</u>	<u>219,545</u>	<u>704</u>
EXPENDITURES						
Insurance	13,391	14,088	697	--	--	--
Legal	9,271	18,120	8,849	--	--	--
Accounting	18,150	17,814	(336)	--	--	--
Clerk	7,759	6,770	(989)	--	--	--
Assessment administration	9,271	7,130	(2,141)	--	--	--
Office	2,343	1,773	(570)	--	--	--
Officer election	2,060	300	(1,760)	--	--	--
Website maintenance	3,183	628	(2,555)	--	--	--
Audit	7,983	7,500	(483)	--	--	--
Bond fee	650	635	(15)	--	--	--
Technical planning	--	17,210	17,210	--	--	--
Reimbursements (Note 6)						
Pelican Homeowners Association	92,856	92,856	--	--	--	--
Debt service:						
Principal	--	--	--	142,535	142,535	--
Interest	--	--	--	76,306	77,156	850
Total expenditures	<u>166,917</u>	<u>184,824</u>	<u>17,907</u>	<u>218,841</u>	<u>219,691</u>	<u>850</u>
Excess (deficiency) of revenues over expenditures	<u>1,674</u>	<u>(14,100)</u>	<u>(15,774)</u>	<u>--</u>	<u>(146)</u>	<u>(146)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfer out	--	60,732	60,732	--	--	--
Operating transfer in	--	--	--	--	(60,732)	(60,732)
Total other financing sources (uses)	<u>--</u>	<u>60,732</u>	<u>60,732</u>	<u>--</u>	<u>(60,732)</u>	<u>(60,732)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,674</u>	<u>46,632</u>	<u>\$ 44,958</u>	<u>\$ --</u>	<u>(60,878)</u>	<u>\$ (60,878)</u>
BEGINNING FUND BALANCE		<u>136,895</u>			<u>464,588</u>	
ENDING FUND BALANCE		<u>\$ 183,527</u>			<u>\$ 403,710</u>	

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the District: The Pajaro Dunes Geologic Hazard Abatement District (the District) was formed October 27, 1998 to reduce damage caused by severe storms to the Pajaro Dunes area located in southern Santa Cruz County. The District maintains two areas as follows:

- Zone 1, the boundaries of which are coterminous with the development known as Pajaro Dunes, the District maintains a rock revetment seawall.
- Zone 2, the boundaries of which are coterminous with the Pelican Point Condominium Project, the District maintains a sheet pile river wall.

Both of those structures were designed to reduce damage from 30-year storm events.

Basis of Accounting: The accounts of the District are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Basis of Presentation: Management's Discussion and Analysis – Government auditing standards require the financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of management's discussion and analysis (MD&A).

The District Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These two statements present summaries of Governmental Activities.

Government-Wide Financial Statements:

These statements are presented on an "economic resource" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities and Changes in Net Position presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Assessments and other items not properly included among program revenues are reported instead as general revenues.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued):

Governmental Fund Financial Statements:

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in government fund balances as presented in these statements to the net position presented in the Government-Wide Financial Statements. The District has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net position. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period (the District considers all revenues available if they are collected within 60 days after year-end). Property taxes are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and recognized as revenue at that time. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Budgets: The District’s Board of Directors annually adopts the budget for the District. Board of Directors action is required for the approval of budget revisions.

Property Assessment Revenue: Property assessments are governed by Proposition 218, which requires that assessments to operate the District be put to a vote of the members of the District. Property assessments are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Santa Cruz County bills, collects, and remits the property assessments to the District. Taxes remitted within 60 days of year-end are accrued as assessments receivable.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, 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.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: The District's capital assets are capitalized at historic cost. The District does not have a capitalization threshold for reporting capital assets. Donations or contributions of capital assets are recorded at fair market value when received.

Depreciation is recorded on a straight-line basis over the estimated useful life of the capital asset as follows:

Riverwall	30 years
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Depreciation expense totaled \$100,000 for the year ended June 30, 2018.

Total Columns on Governmental Fund Financial Statement: Total columns on the Governmental Fund financial statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Classification of Net Position: In the Government-Wide financial statements, net position is classified in the following categories:

Invested in capital assets, net of related debt – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted net position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or the District's enabling legislation.

Unrestricted net position – This category represents the net position of the District, which is not restricted for any project or other purpose.

Use of Restricted/Unrestricted Net Position: When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

NOTE 2. CASH AND CASH EQUIVALENTS

The District maintains cash balances at two financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 2. CASH AND CASH EQUIVALENTS (Continued)

As described in Note 1, the District uses the County of Santa Cruz to bill, collect, and remit property assessments. During the time the County holds the District's funds, the County maintains those funds in a cash and investment pool that is available for use by all funds with various financial institutions and a safekeeping agent. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents". Statutes authorize the County to invest in obligations of the U.S Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's investment pool.

As detailed in the 2005 Limited Obligation Bond issuance statement the District is required to maintain a reserve fund in the amount of \$144,825 for the benefit of the District and the owners of the bonds as a reserve for the payment of principal and interest on the bonds.

NOTE 3. CAPITAL ASSETS

In accordance with government auditing standards, the District reported all capital assets in the Government-Wide Statement of Net Position. The District elected to use the "basic approach", whereby accumulated depreciation and depreciation expense have been recorded.

District capital assets consist solely of a riverwall. Title to the riverwall transferred from the Pelican Homeowners Association to the District in 2009 after the issuance date of the 2005 Limited Obligation Improvement Bonds. The contribution of this asset is recorded in the Government-Wide financial statements as donated capital. The District currently does not anticipate constructing additional capital assets.

Capital assets of the District for the year ended June 30, 2018, consist of the following:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Riverwall	\$ 3,000,000	\$ --	\$ --	\$ 3,000,000
Less accumulated depreciation	1,250,000	100,000	--	1,350,000
	<u>\$ 1,750,000</u>	<u>\$ (100,000)</u>	<u>\$ --</u>	<u>\$ 1,650,000</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 4. LONG-TERM OBLIGATIONS

Long-term obligations and the related current portion as of June 30, 2018, consist of the following:

Bonds:

2005 Limited Obligation Improvement Bonds, variable interest at 3.2% - 5.1%, payable on March 2 and September 2; final payment September 2, 2030 \$ 1,310,000

Note Payable:

Santa Cruz County Bank (SCCB); secured by Zone 1 District assessment revenues; payable semi-annually on March 1 and September 1 with interest at prime plus 1%, with a floor of 5.5%; final payment due March 1, 2019 59,752

1,369,752

Less bond discount, net (24,565)

Less current portion (129,752)

\$ 1,215,435

Changes in long-term obligations for the year ended June 30, 2018, are as follows:

Debt	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due within one year
2005 Ltd Oblig.					
Improv. Bonds	\$ 1,380,000	\$ --	\$ 70,000	\$ 1,310,000	\$ 70,000
SCCB	15,762	--	15,762	--	--
SCCB	<u>116,525</u>	<u>--</u>	<u>56,773</u>	<u>59,752</u>	<u>59,752</u>
	<u>\$ 1,512,287</u>	<u>\$ --</u>	<u>\$ 142,535</u>	<u>\$ 1,369,752</u>	<u>\$ 129,752</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 4. LONG-TERM OBLIGATIONS (Continued)

Aggregate maturities or payments required on principal and interest for each of the succeeding five years and thereafter in five -year increments are as follows:

Year	Bond Principal	Bond Interest	Loan Principal	Loan Interest	Total
2019	70,000	67,678	59,752	1,382	198,812
2020	75,000	64,070	--	--	139,070
2021	80,000	60,155	--	--	140,155
2022	85,000	55,862	--	--	140,862
2023	90,000	51,225	--	--	141,225
2024-2028	525,000	177,065	--	--	702,065
2029-2033	385,000	31,995	--	--	416,995
Total	<u>\$ 1,310,000</u>	<u>\$ 508,050</u>	<u>\$ 59,752</u>	<u>\$ 1,382</u>	<u>\$ 1,879,184</u>

NOTE 5. INSURANCE

The District carries directors' and officers' coverage.

NOTE 6. COMMITMENTS AND CONTINGENCIES

Pelican Homeowners Association:

The District entered into a contract on December 9, 2000 with the Pelican Homeowners Association, Inc. The terms of the contract call for the Pelican Homeowners Association, Inc. to obtain the necessary funds to repair the river wall, and for the District to reimburse the Pelican Homeowners Association, Inc. through Zone 2 property assessments.

The District is obligated to reimburse the Homeowners Association with funds received from property assessments for the following obligation:

The Pelican Homeowners Association note is payable in monthly installments of \$7,738, including interest at 4.0%. Final payment is due in February 2025. The District will reimburse the Pelican Homeowners Association's monthly payments as long as Zone 2 property assessments are collected.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2018

NOTE 6. COMMITMENTS AND CONTINGENCIES (Continued)

Reimbursements for the note listed above for each of the succeeding five years and thereafter in five-year increments are:

	Principal	Interest	Total
2019	72,896	19,960	92,856
2020	75,866	16,990	92,856
2021	78,957	13,899	92,856
2022	82,174	10,682	92,856
2023	85,522	7,334	92,856
2024-2028	<u>136,744</u>	<u>4,335</u>	<u>141,079</u>
	<u>\$ 532,159</u>	<u>\$ 73,200</u>	<u>\$ 605,359</u>

California Department of Parks and Recreation:

The District has been in discussions with the Department of Parks and Recreation, regarding the "Right of Entry Permit" connected with the existing seawall. At present there are insufficient funds to respond to permit application questions from the County of Santa Cruz. In order to move forward with the permit the District would need to conduct an assessment election to raise approximately \$300,000 to respond to the County. Additionally, the Department of Parks and Recreation assessed a penalty fee for not removing the rip-rap rocks buried in State Parks property adjacent to the revetment. The Department of Parks and Recreation has verbally agreed to hold the rip-rap rocks buried issues in abeyance until the permit is resolved. The District's management believes the matter will be settled without material adverse financial impact to the District as long as an assessment election is held.

NOTE 7. SUBSEQUENT EVENTS

The District's management has evaluated its June 30, 2018 financial statements for subsequent events through October 12, 2018, the date of issuance of the financial statements. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Schedule I - Revenues and Expenditures by Zone - Budget to Actual
Year Ended June 30, 2018

	ZONE 1			ZONE 2			TOTAL		
	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
PROGRAM REVENUES									
Assessment income	\$ 148,257	\$ 149,830	\$ 1,573	\$ 238,975	\$ 239,218	\$ 243	\$ 387,232	\$ 389,048	\$ 1,816
Interest income	50	566	516	150	655	505	200	1,221	1,021
Total revenues	148,307	150,396	2,089	239,125	239,873	748	387,432	390,269	2,837
EXPENDITURES									
Insurance	13,391	14,088	697	--	--	--	13,391	14,088	697
Legal	9,271	18,120	8,849	--	--	--	9,271	18,120	8,849
Accounting	18,150	17,814	(336)	--	--	--	18,150	17,814	(336)
Clerk	5,040	5,148	108	2,719	1,622	(1,097)	7,759	6,770	(989)
Assessment administration	8,241	6,317	(1,924)	1,030	813	(217)	9,271	7,130	(2,141)
Office	2,343	1,377	(966)	--	396	396	2,343	1,773	(570)
Officer election	2,060	300	(1,760)	--	--	--	2,060	300	(1,760)
Website maintenance	3,183	628	(2,555)	--	--	--	3,183	628	(2,555)
Audit	7,983	7,500	(483)	--	--	--	7,983	7,500	(483)
Bond fee	--	--	--	650	635	(15)	650	635	(15)
Technical planning	--	17,210	17,210	--	--	--	--	17,210	17,210
Reimbursements (Note 6):									
Pelican HOA	--	--	--	92,856	92,856	--	92,856	92,856	--
Debt service:									
Principal	72,535	72,535	--	70,000	70,000	--	142,535	142,535	--
Interest	5,181	7,185	2,004	71,125	69,971	(1,154)	76,306	77,156	850
Total expenditures	147,378	168,222	20,844	238,380	236,293	(2,087)	385,758	404,515	18,757
Excess (deficiency) of revenues over expenditures	929	(17,826)	(18,755)	745	3,580	2,835	1,674	(14,246)	(15,920)
NET CHANGE IN ZONE BALANCE	\$ 929	(17,826)	\$ (18,755)	\$ 745	3,580	\$ 2,835	\$ 1,674	(14,246)	\$ (15,920)
BEGINNING ZONE BALANCE		99,566			501,917			601,483	
ENDING ZONE BALANCE		\$ 81,740			\$ 505,497			\$ 587,237	