



December 10, 2022

To the Board of Directors
and Management of
Pajaro Dunes Geologic Hazard Abatement District

We have audited the financial statements of the Pajaro Dunes Geologic Hazard Abatement District for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated September 12, 2022. Professional standards also require that we communicate to you the following information related to our audit:

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the reporting period. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We noted no particularly sensitive accounting estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures:

- Adjustments were made to the government fund financial statements as follows:
 - To adjust beginning fund balance to actual, to eliminate current year depreciation, and to eliminate debt that will not be paid with current financial resources.
 - *While District personnel is capable of preparing these entries, they place reliance on the auditor to record the adjustments necessary to prepare the governmental fund statements.*

No other misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and Management of the Pajaro Dunes Geologic Hazard Abatement District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

HUTCHINSON AND BLOODGOOD LLP

A handwritten signature in black ink that reads "Kim Said". The signature is written in a cursive, flowing style.

Kim Said, CPA
Partner

**PAJARO DUNES GEOLOGIC HAZARD
ABATEMENT DISTRICT**

Financial Report

June 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2022, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

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 4 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 GAAS, 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 GAAS. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hatchinson and Bloodgood LLP

December 10, 2022

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2022

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, 2022. 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, 2022. 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, 2022

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 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, 2022

Government-Wide Financial Analysis

Statements of Net Position (page 10)

Condensed Statements of Net Position

	6/30/2022	6/30/2021
Assets:		
Current and other assets	\$ 1,496,042	\$ 1,272,334
Capital assets net of depreciation	<u>1,250,000</u>	<u>1,350,000</u>
Total assets	<u><u>\$ 2,746,042</u></u>	<u><u>\$ 2,622,334</u></u>
Liabilities:		
Current liabilities	\$ 115,555	\$ 105,656
Long-term debt	<u>893,787</u>	<u>981,699</u>
Total liabilities	<u>1,009,342</u>	<u>1,087,355</u>
Net Position:		
Investment in capital assets, net of related debt	266,213	283,301
Restricted for debt service	144,825	144,825
Unrestricted	<u>1,325,662</u>	<u>1,106,853</u>
Total net position	<u>1,736,700</u>	<u>1,534,979</u>
	<u><u>\$ 2,746,042</u></u>	<u><u>\$ 2,622,334</u></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 \$1,736,700, as of June 30, 2022. At June 30, 2022, the District reflected an accumulated balance in its unrestricted net position of \$1,325,662.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2022

Government-Wide Financial Analysis (Continued)

The District has 200 tons of rip-rap, 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

	6/30/2022	6/30/2021
Expenses:		
Hazard abatement program	\$ 208,560	\$ 149,371
Interest on long-term obligations	56,449	60,883
Depreciation	100,000	100,000
Total expenses	365,009	310,254
General Revenues	566,730	628,870
Change in net position	201,721	318,616
Net position - beginning of year	1,534,979	1,216,363
Net position - end of year	<u>\$ 1,736,700</u>	<u>\$ 1,534,979</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 \$201,721, during the current year.

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, 2022, the District's General Fund reported a fund balance of \$1,123,379. The fund balance is not available for future spending because it has already been reserved for specific provisions (page 12).

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2022

Financial Highlights

- The District's general fund balance increased \$217,742, from \$905,637 to \$1,123,379 (page 14).
- The District's debt service fund balance decreased by \$435, from \$365,413 to \$364,978 (page 14).
- Assessment revenues of \$563,901 were below prior year by \$61,018. The decrease was due to lower assessments as the District had funds carried forward from the prior years due to lower than anticipated expenditures in the prior years.
- General fund operating expenses of \$208,560 (before depreciation) were above the prior reporting period by 39.6%, or \$59,189. The increase is due primarily to an increase in contract costs for technical consulting.

General Fund Budgetary Highlights

- Total revenues over expenditures for the District's general fund operations were above budget by \$94,094. Actual assessment revenues were below budget by \$20,080.
- General fund operating expenses were below budget by \$111,545 or 34.85%. The underbudget variance is primarily due to anticipated technical consulting and seawall inspection costs, that while budgeted, will occur in the next fiscal year.

Capital Asset Administration

Changes in capital assets for the year were as follows:

	Balance 6/30/2021	Additions/ Transfers	Balance 6/30/2022
Depreciable capital asset	\$ 3,000,000	\$ --	\$ 3,000,000
Less accumulated depreciation	(1,650,000)	(100,000)	(1,750,000)
Total capital assets, net	<u>\$ 1,350,000</u>	<u>\$ (100,000)</u>	<u>\$ 1,250,000</u>

At June 30, 2022, the District's investment in capital assets amounted to \$1,250,000 (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.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management’s Discussion and Analysis
 For the Year Ended June 30, 2022

Debt Administration

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

	<u>Balance</u> <u>6/30/2021</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>6/30/2022</u>
Ltd Obligation improvement bonds	\$ 1,085,000	\$ --	\$ (85,000)	\$ 1,000,000

Future Plans

During this year, the District has updated our grading permit application documents in the form of a 90% plan to Santa Cruz County (SCC) and the California Coastal Commission (CCC). Our materials provide the technical and construction detail for seawall repair. We have also developed a 60% plan outlining an ongoing maintenance plan as required by SCC. During the current year FY22/23, the District will continue meetings with governmental control agencies to further refine and clarify our plans with the end goal being issuance of our grading permit and approval of our ongoing maintenance plan.

Capacity building will continue to be a part of our plans. As in 2021, we were again very fortunate to add a new District Director on the board who has extensive experience in Public Works projects management and city-county government operations. Our Engineer of Record (EOR) has continued to bring in additional experts to assist with some of the technical aspects of our plan. The EOR has communicated regularly with SCC and CCC staff to provide info and answer questions. This level of capacity building and work effort will continue into 2023 as we pursue approval of our requests.

Once preliminary approval of our plan and permit application is achieved, the District will focus on our next proposition 218 election. A community education effort will begin in 2023 to inform our property owners of final project details and construction costs of seawall repairs and maintenance. A 218 election may occur in 2023 based on timing of the permit approvals process.

Years of alternative analysis, control agency negotiations, permit plan development, and District capacity building, has finally set a course that will lead to the authorization of needed seawall repairs.

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, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents, unrestricted (Note 2)	\$ 1,116,870
Cash and cash equivalents, restricted (Note 2)	144,825
Assessments receivable	220,940
Prepaid expenses	13,407
Capital assets, net of accumulated depreciation (Note 3)	<u>1,250,000</u>
Total assets	<u>\$ 2,746,042</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Accrued interest	\$ 17,870
Accounts payable	7,685
Long-term obligations:	
Long-term obligations - due within one year (Note 4)	90,000
Long-term obligations - due in more than one year (Note 4)	<u>893,787</u>
Total liabilities	<u>1,009,342</u>
COMMITMENTS AND CONTINGENCIES (Note 6)	
Net Position:	
Invested in capital assets, net of related debt	266,213
Restricted for debt service	144,825
Unrestricted	<u>1,325,662</u>
Total net position	<u>1,736,700</u>
	<u>\$ 2,746,042</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Government-Wide
 Statement of Activities and Changes in Net Position
 Year Ended June 30, 2022

Function	Expenses	Revenue	Total
Hazard abatement program	\$ 208,560	\$ --	\$ (208,560)
Interest on long-term obligations	56,449	--	(56,449)
Depreciation	100,000	--	(100,000)
	<u>\$ 365,009</u>	<u>\$ --</u>	<u>(365,009)</u>
General Revenues:			
Assessment income			393,057
Emergency reserve fund assessments			170,844
Interest earnings			<u>2,829</u>
Total general revenues			<u>566,730</u>
Change in net position			201,721
Net position - beginning of year			<u>1,534,979</u>
Net position - end of year			<u>\$ 1,736,700</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Balance Sheet-Governmental Funds

June 30, 2022

	Governmental Fund Types		Total
	General	Debt Service	(Memorandum Only)
ASSETS			
Cash and cash equivalents, unrestricted (Note 2)	\$ 896,717	\$ 220,153	\$ 1,116,870
Cash and cash equivalents, restricted (Note 2)	--	144,825	144,825
Assessments receivable	220,940	--	220,940
Prepaid expenses	13,407	--	13,407
Total assets	\$ 1,131,064	\$ 364,978	\$ 1,496,042
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 7,685	\$ --	\$ 7,685
COMMITMENTS AND CONTINGENCIES (Note 6)			
Fund balances:			
Fund balance - reserved for debt service	--	364,978	364,978
Fund balance - reserved for reimbursement	1,123,379	--	1,123,379
Total fund balances	1,123,379	364,978	1,488,357
	\$ 1,131,064	\$ 364,978	\$ 1,496,042

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2022

Total fund balances of governmental funds	\$ 1,488,357
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.	1,250,000
Accrued interest on debt that will not be paid with current financial resources are not considered in the Governmental Funds Balance Sheet.	(17,870)
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	(90,000)
Long-term obligations - due in more than one year	<u>(893,787)</u>
Net position of governmental activities	<u><u>\$ 1,736,700</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2022

	General	Debt Service	Total (Memorandum Only)
PROGRAM REVENUES			
Assessment income	\$ 255,245	\$ 137,812	\$ 393,057
Emergency reserve fund assessments	170,844	--	170,844
Interest income	2,829	--	2,829
	<u>428,918</u>	<u>137,812</u>	<u>566,730</u>
Total revenues	<u>428,918</u>	<u>137,812</u>	<u>566,730</u>
EXPENDITURES			
Insurance	16,564	--	16,564
Legal	4,960	--	4,960
Accounting	12,499	--	12,499
Clerk	3,877	--	3,877
Assessment administration	6,930	--	6,930
Office	1,461	--	1,461
Board and clerk training	350	--	350
Audit	9,000	--	9,000
Bond fee	605	--	605
Technical planning	59,458	--	59,458
Reimbursements:			
Pelican Homeowners Association	92,856	--	92,856
Debt service:			
Principal	--	85,000	85,000
Interest	--	55,863	55,863
	<u>208,560</u>	<u>140,863</u>	<u>349,423</u>
Total expenditures	<u>208,560</u>	<u>140,863</u>	<u>349,423</u>
Excess (deficit) of revenue over expenditures	<u>220,358</u>	<u>(3,051)</u>	<u>217,307</u>
OTHER FINANCING SOURCES (USES)			
Operating transfer in	--	2,616	2,616
Operating transfer out	(2,616)	--	(2,616)
	<u>(2,616)</u>	<u>2,616</u>	<u>--</u>
Total other financing sources (uses)	<u>(2,616)</u>	<u>2,616</u>	<u>--</u>
NET CHANGE IN FUND BALANCE	217,742	(435)	217,307
BEGINNING FUND BALANCE	<u>905,637</u>	<u>365,413</u>	<u>1,271,050</u>
ENDING FUND BALANCE	<u>\$ 1,123,379</u>	<u>\$ 364,978</u>	<u>\$ 1,488,357</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, 2022

Net change in fund balances of governmental funds	\$ 217,307
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.	1,502
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>85,000</u>
Change in net position of governmental activities	<u><u>\$ 201,721</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual
Year Ended June 30, 2022

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
REVENUES						
Assessment income	\$ 271,169	\$ 255,245	\$ (15,924)	\$ 145,155	\$ 137,812	\$ (7,343)
Emergency reserve fund	175,000	170,844	(4,156)	--	--	--
Interest income	200	2,829	2,629	--	--	--
Total revenues	446,369	428,918	(17,451)	145,155	137,812	(7,343)
EXPENDITURES						
Insurance	15,806	16,564	758	--	--	--
Legal	18,968	4,960	(14,008)	--	--	--
Accounting	18,968	12,499	(6,469)	--	--	--
Clerk	11,589	3,877	(7,712)	--	--	--
Assessment administration	9,524	6,930	(2,594)	--	--	--
Office	3,742	1,461	(2,281)	--	--	--
Officer election	2,608	--	(2,608)	--	--	--
Board and clerk training	2,318	350	(1,968)	--	--	--
Website maintenance	1,581	--	(1,581)	--	--	--
Audit	10,538	9,000	(1,538)	--	--	--
Bond fee	669	605	(64)	--	--	--
Seawall annual inspection	6,199	--	(6,199)	--	--	--
Technical planning	124,739	59,458	(65,281)	--	--	--
Reimbursements (Note 6)						
Pelican Homeowners Association	92,856	92,856	--	--	--	--
Debt service:						
Principal	--	--	--	85,000	85,000	--
Interest	--	--	--	60,155	55,863	(4,292)
Total expenditures	320,105	208,560	(111,545)	145,155	140,863	(4,292)
Excess (deficit) of revenues over expenditures	126,264	220,358	94,094	--	(3,051)	(3,051)
OTHER FINANCING SOURCES (USES)						
Operating transfer in	--	--	--	--	2,616	2,616
Operating transfer out	--	(2,616)	(2,616)	--	--	--
Total other financing sources (uses)	--	(2,616)	(2,616)	--	2,616	2,616
NET CHANGE IN FUND BALANCE	\$ 126,264	217,742	\$ 91,478	\$ --	(435)	\$ (435)
BEGINNING FUND BALANCE		905,637			365,413	
ENDING FUND BALANCE		\$ 1,123,379			\$ 364,978	

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2022

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).

Government-Wide Financial Statements:

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.

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, 2022

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, 2022

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
-----------	----------

Depreciation expense totaled \$100,000 for the year ended June 30, 2022.

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 one financial institution 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, 2022

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, 2022, consist of the following:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
Riverwall	\$ 3,000,000	\$ --	\$ --	\$ 3,000,000
Less accumulated depreciation	(1,650,000)	(100,000)	--	(1,750,000)
	<u>\$ 1,350,000</u>	<u>\$ (100,000)</u>	<u>\$ --</u>	<u>\$ 1,250,000</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2022

NOTE 4. LONG-TERM OBLIGATIONS

Long-term obligations and the related current portion as of June 30, 2022, 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	\$ 1,000,000
Less bond discount, net	(16,213)
Less current portion	<u>(90,000)</u>
	<u><u>\$ 893,787</u></u>

Changes in long-term obligations for the year ended June 30, 2022, are as follows:

Debt	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Due within one year
2005 Ltd Oblig.					
Improv. Bonds	<u>\$ 1,085,000</u>	<u>\$ --</u>	<u>\$ (85,000)</u>	<u>\$ 1,000,000</u>	<u>\$ 90,000</u>

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	Total
2023	90,000	51,225	141,225
2024	95,000	46,322	141,322
2025	100,000	41,155	141,155
2026	105,000	35,723	140,723
2027-2032	<u>610,000</u>	<u>85,860</u>	<u>695,860</u>
Total	<u>\$ 1,000,000</u>	<u>\$ 260,285</u>	<u>\$ 1,260,285</u>

NOTE 5. INSURANCE

The District carries directors' and officers' coverage.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2022

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.

Reimbursements for the note listed above for each of the succeeding years are:

	Principal	Interest	Total
2023	85,823	7,033	92,856
2024	89,320	3,536	92,856
2025	<u>39,732</u>	<u>408</u>	<u>40,140</u>
	<u>\$ 214,875</u>	<u>\$ 10,977</u>	<u>\$ 225,852</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.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2022

NOTE 7. LINE OF CREDIT

The District entered into a borrowing agreement with Santa Cruz County Bank for a line of credit with an established limit of \$600,000, which expired on August 24, 2022. The interest rate on the line of credit was a fixed rate determined by the Bank to be 1.00% above Prime. The interest rate as of June 30, 2022 was 5.5%. There was no balance outstanding under the line of credit at June 30, 2022.

NOTE 8. SUBSEQUENT EVENTS

The District's Management has evaluated its June 30, 2022 financial statements for subsequent events through December 10, 2022, 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, 2022

	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	\$ 148,670	\$ 157,989	\$ 9,319	\$ 267,654	\$ 235,068	\$ (32,586)	\$ 416,324	\$ 393,057	\$ (23,267)
Emergency reserve fund	175,000	170,844	(4,156)	--	--	--	175,000	170,844	(4,156)
Interest income	50	2,252	2,202	150	577	427	200	2,829	2,629
Total revenues	323,720	331,085	7,365	267,804	235,645	(32,159)	591,524	566,730	(24,794)
EXPENDITURES									
Insurance	15,806	16,564	758	--	--	--	15,806	16,564	758
Legal	18,968	4,960	(14,008)	--	--	--	18,968	4,960	(14,008)
Accounting	18,968	12,499	(6,469)	--	--	--	18,968	12,499	(6,469)
Clerk	8,852	2,905	(5,947)	2,737	972	(1,765)	11,589	3,877	(7,712)
Assessment administration	8,430	6,413	(2,017)	1,094	517	(577)	9,524	6,930	(2,594)
Office	3,215	1,426	(1,789)	527	35	(492)	3,742	1,461	(2,281)
Officer election	2,608	--	(2,608)	--	--	--	2,608	--	(2,608)
Board and clerk training	2,318	350	(1,968)	--	--	--	2,318	350	(1,968)
Website maintenance	1,581	--	(1,581)	--	--	--	1,581	--	(1,581)
Audit	10,538	9,000	(1,538)	--	--	--	10,538	9,000	(1,538)
Bond fee	--	--	--	669	605	(64)	669	605	(64)
Seawall annual inspection	6,199	--	(6,199)	--	--	--	6,199	--	(6,199)
Technical planning	124,739	59,458	(65,281)	--	--	--	124,739	59,458	(65,281)
Reimbursements (Note 6):									
Pelican HOA	--	--	--	92,856	92,856	--	92,856	92,856	--
Debt service:									
Principal	--	--	--	85,000	85,000	--	85,000	85,000	--
Interest	--	--	--	60,155	55,863	(4,292)	60,155	55,863	(4,292)
Total expenditures	222,222	113,575	(108,647)	243,038	235,848	(7,190)	465,260	349,423	(115,837)
Excess (deficit) of revenues over expenditures	101,498	217,510	116,012	24,766	(203)	(24,969)	126,264	217,307	91,043
NET CHANGE IN ZONE BALANCE	\$ 101,498	217,510	\$ 116,012	\$ 24,766	(203)	\$ (24,969)	\$ 126,264	217,307	\$ 91,043
BEGINNING ZONE BALANCE		765,455			505,595			1,271,050	
ENDING ZONE BALANCE		\$ 982,965			\$ 505,392			\$ 1,488,357	