

**PAJARO DUNES GEOLOGIC HAZARD
ABATEMENT DISTRICT**

Financial Report

June 30, 2020

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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, 2020, 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, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States 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.



November 11, 2020

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

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, 2020. 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, 2020. 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, 2020

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, 2020

Government-wide Financial Analysis

Statements of Net Position (page 10)

Condensed Statements of Net Position

	6/30/2020	6/30/2019
Assets:		
Current and other assets	\$ 962,983	\$ 763,642
Capital assets net of depreciation	<u>1,450,000</u>	<u>1,550,000</u>
Total assets	<u><u>\$ 2,412,983</u></u>	<u><u>\$ 2,313,642</u></u>
Liabilities:		
Current liabilities	\$ 123,462	\$ 96,982
Long-term debt	<u>1,069,611</u>	<u>1,142,523</u>
Total liabilities	<u>1,193,073</u>	<u>1,239,505</u>
Deferred Inflows of Resources:		
Prepaid assessments	<u>3,547</u>	<u>10,675</u>
Net Position:		
Investment in capital assets, net of related debt	305,389	332,477
Restricted for debt service	144,825	144,825
Unrestricted	<u>766,149</u>	<u>586,160</u>
Total net position	<u>1,216,363</u>	<u>1,063,462</u>
	<u><u>\$ 2,412,983</u></u>	<u><u>\$ 2,313,642</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 \$1,216,363 as of June 30, 2020. At June 30, 2020, the District reflected an accumulated balance in its unrestricted net position of \$766,149.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2020

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

	6/30/2020	6/30/2019
Expenditures:		
Hazard abatement program	\$ 225,091	\$ 157,393
Interest on long-term obligations	64,908	71,039
Depreciation	100,000	100,000
Total expenditures	389,999	328,432
General Revenues	542,900	541,891
Change in net position	152,901	213,459
Net position - beginning of year	1,063,462	850,003
Net position - end of year	<u>\$ 1,216,363</u>	<u>\$ 1,063,462</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 \$152,901 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, 2020, the District's General Fund reported a fund balance of \$562,221. 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 \$152,435, from \$409,786 to \$562,221 (page 14).
- The District's debt service fund balance increased by \$19,176, from \$353,856 to \$373,032 (page 14).
- Assessment revenues of \$533,501 were above prior year by \$195.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

- General fund operating expenses of \$225,091 (before depreciation) were above the prior reporting period by 43.01%, or \$67,698, due to expenditures incurred for technical planning and consulting cost in the current year.

General Fund Budgetary Highlights

- Total revenues over expenditures for the District's general fund operations were above budget by \$81,292. Actual assessment revenues were below budget by \$6,541.
- General fund operating expenses were below budget by \$87,833 or 28.06%. The underbudget variance is primarily due lower general and administrative expenditure as well as lower technical planning expenditures.

Capital Asset Administration

Changes in capital assets for the year were as follows:

	Balance 6/30/2019	Additions/ Transfers	Balance 6/30/2020
Depreciable capital asset	\$ 3,000,000	\$ --	\$ 3,000,000
Less accumulated depreciation	(1,450,000)	(100,000)	(1,550,000)
Total capital assets, net	<u>\$ 1,550,000</u>	<u>\$ (100,000)</u>	<u>\$ 1,450,000</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management’s Discussion and Analysis
 For the Year Ended June 30, 2020

Capital Asset Administration (Continued)

As of June 30, 2020, the District’s investment in capital assets amounted to \$1,450,000 (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>6/30/2019</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>6/30/2020</u>
Ltd Obligation improvement bonds	\$ 1,240,000	\$ --	\$ (75,000)	\$ 1,165,000
				--
Total liabilities, net	<u>\$ 1,240,000</u>	<u>\$ --</u>	<u>\$ (75,000)</u>	<u>\$ 1,165,000</u>

Future Plans

The District has developed a preliminary application to Santa Cruz County (SCC) for a permit to repair and maintain the seawall. The District through our new Engineer of Record (EOR) has both verified and completed several studies, gathered technical information and considered construction alternatives. Based on that analysis, we adopted a 'repair and maintenance' verses 'replacement' approach to seawall fortification, which is now the basis for our going-forward efforts.

Resource-wise as has been reported, the District held a successful 218 election and has begun collecting revenue that can be utilized for any future emergencies should there be a failure of the seawall. We also secured a Letter of Credit for \$600,000, should additional funds be necessary in an emergency. Our operating budgets also allocate a greater percentage of our budget to the professional services necessary for work related to applications and permits.

This past year, the District has successfully added two new Directors with skill sets that complement the work-tasks before us. Our new and existing Directors and Staff will continue working very closely with our EOR and SCC officials to process our application and make changes necessary to secure local agreements before moving our request forward to state agencies. Once SCC negotiations are successfully completed, a new timeline will be developed for our next 218 election which will raise funds for the construction work, as well as a projection of timeline for seawall repairs. The District will also begin the community education groundwork necessary to keep our District members informed of our progress and future requirements for a successful repair and maintenance project.

Overall, we are leveraging on our successful capacity building efforts and have articulated our seawall repair goals and construction details into a permit application. In the upcoming year we will commit our efforts to managing the refinement of our application and negotiating approvals with the various oversight agencies. We look forward to accomplishing a great deal in 2021 forward.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2020

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, 2020

	Governmental Activities
ASSETS	
Cash and cash equivalents, unrestricted (Note 2)	\$ 601,015
Cash and cash equivalents, restricted (Note 2)	144,825
Assessments receivable	205,116
Prepaid expenses	12,027
Capital assets, net of accumulated depreciation (Note 3)	<u>1,450,000</u>
Total assets	<u>\$ 2,412,983</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Accrued interest	\$ 20,732
Accounts payable	27,730
Long-term obligations:	
Long-term obligations - due within one year (Note 4)	80,000
Long-term obligations - due in more than one year (Note 4)	<u>1,064,611</u>
Total liabilities	<u>1,193,073</u>
Deferred Inflows of Resources:	
Prepaid assessments	<u>3,547</u>
COMMITMENTS AND CONTINGENCIES (Note 6)	
Net Position:	
Invested in capital assets, net of related debt	305,389
Restricted for debt service	144,825
Unrestricted	<u>766,149</u>
Total net position	<u>1,216,363</u>
	<u>\$ 2,412,983</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Government-Wide
 Statement of Activities and Changes in Net Position
 Year Ended June 30, 2020

Function	Expenses	Revenue	Total
Hazard abatement program	\$ 225,091	\$ --	\$ (225,091)
Interest on long-term obligations	64,908	--	(64,908)
Depreciation	100,000	--	(100,000)
	<u>\$ 389,999</u>	<u>\$ --</u>	<u>(389,999)</u>
General Revenues:			
Assessment income			365,629
Emergency reserve fund assessments			175,000
Interest earnings			<u>2,271</u>
Total general revenues			<u>542,900</u>
Change in net position			152,901
Net position - beginning of year			<u>1,063,462</u>
Net position - end of year			<u>\$ 1,216,363</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Balance Sheet-Governmental Funds

June 30, 2020

	Governmental Fund Types		Total
	General	Debt Service	(Memorandum Only)
ASSETS			
Cash and cash equivalents, unrestricted (Note 2)	\$ 372,808	\$ 228,207	\$ 601,015
Cash and cash equivalents, restricted (Note 2)	--	144,825	144,825
Assessments receivable	205,116	--	205,116
Prepaid expenses	12,027	--	12,027
Total assets	\$ 589,951	\$ 373,032	\$ 962,983
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 27,730	\$ --	\$ 27,730
COMMITMENTS AND CONTINGENCIES (Note 6)			
Fund balances:			
Fund balance - reserved for debt service	--	373,032	373,032
Fund balance - reserved for reimbursement	562,221	--	562,221
Total fund balances	562,221	373,032	935,253
	\$ 589,951	\$ 373,032	\$ 962,983

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2020

Total fund balances of governmental funds	\$ 935,253
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.	1,450,000
Accrued interest on debt that will not be paid with current financial resources are not considered in the Governmental Funds Balance Sheet.	(20,732)
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.	(3,547)
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	(80,000)
Long-term obligations - due in more than one year	<u>(1,064,611)</u>
Net position of governmental activities	<u><u>\$ 1,216,363</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2020

	General	Debt Service	Total (Memorandum Only)
PROGRAM REVENUES			
Assessment income	\$ 222,727	\$ 135,774	\$ 358,501
Emergency reserve fund assessments	175,000	--	175,000
Interest income	2,271	--	2,271
	<u>399,998</u>	<u>135,774</u>	<u>535,772</u>
Total revenues			
EXPENDITURES			
Insurance	14,996	--	14,996
Legal	9,240	--	9,240
Accounting	14,396	--	14,396
Clerk	4,628	--	4,628
Assessment administration	3,836	--	3,836
Office	1,422	--	1,422
Website maintenance	660	--	660
Audit	9,000	--	9,000
Bond fee	635	--	635
Seawall annual inspection	2,506	--	2,506
Technical planning	70,916	--	70,916
Reimbursements:			
Pelican Homeowners Association	92,856	--	92,856
Debt service:			
Principal	--	75,000	75,000
Interest	--	64,070	64,070
	<u>225,091</u>	<u>139,070</u>	<u>364,161</u>
Total expenditures			
Excess (deficiency) of revenue over expenditures	<u>174,907</u>	<u>(3,296)</u>	<u>171,611</u>
OTHER FINANCING SOURCES (USES)			
Operating transfer out	(22,472)	--	(22,472)
Operating transfer in	--	22,472	22,472
	<u>(22,472)</u>	<u>22,472</u>	<u>--</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCE	152,435	19,176	171,611
BEGINNING FUND BALANCE	<u>409,786</u>	<u>353,856</u>	<u>763,642</u>
ENDING FUND BALANCE	<u>\$ 562,221</u>	<u>\$ 373,032</u>	<u>\$ 935,253</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, 2020

Net change in fund balances of governmental funds	\$ 171,611
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.	1,250
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>75,000</u>
Change in net position of governmental activities	<u><u>\$ 152,901</u></u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual
Year Ended June 30, 2020

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
REVENUES						
Assessment income	\$ 231,339	\$ 222,727	\$ (8,612)	\$ 141,159	\$ 135,774	\$ (5,385)
Emergency reserve fund	175,000	175,000	--	--	--	--
Interest income	200	2,271	2,071	--	--	--
Total revenues	406,539	399,998	(6,541)	141,159	135,774	(5,385)
EXPENDITURES						
Insurance	15,000	14,996	(4)	--	--	--
Legal	18,000	9,240	(8,760)	--	--	--
Accounting	23,194	14,396	(8,798)	--	--	--
Clerk	8,400	4,628	(3,772)	--	--	--
Assessment administration	9,039	3,836	(5,203)	--	--	--
Office	5,250	1,422	(3,828)	--	--	--
Officer election	2,475	--	(2,475)	--	--	--
Board and clerk training	2,200	--	(2,200)	--	--	--
Website maintenance	1,500	660	(840)	--	--	--
Audit	10,000	9,000	(1,000)	--	--	--
Bond fee	635	635	--	--	--	--
Seawall annual inspection	6,000	2,506	(3,494)	--	--	--
Technical planning	118,375	70,916	(47,459)	--	--	--
Reimbursements (Note 6)						
Pelican Homeowners Association	92,856	92,856	--	--	--	--
Debt service:						
Principal	--	--	--	75,000	75,000	--
Interest	--	--	--	66,159	64,070	(2,089)
Total expenditures	312,924	225,091	(87,833)	141,159	139,070	(2,089)
Excess (deficiency) of revenues over expenditures	93,615	174,907	81,292	--	(3,296)	(3,296)
OTHER FINANCING SOURCES (USES)						
Operating transfer out	--	(22,472)	(22,472)	--	--	--
Operating transfer in	--	--	--	--	22,472	22,472
Total other financing sources (uses)	--	(22,472)	(22,472)	--	22,472	22,472
NET CHANGE IN FUND BALANCE	\$ 93,615	152,435	\$ 58,820	\$ --	19,176	\$ 19,176
BEGINNING FUND BALANCE		409,786			353,856	
ENDING FUND BALANCE		\$ 562,221			\$ 373,032	

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2020

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, 2020

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, 2020

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, 2020.

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, 2020

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, 2020, consist of the following:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Riverwall	\$ 3,000,000	\$ --	\$ --	\$ 3,000,000
Less accumulated depreciation	1,450,000	100,000	--	1,550,000
	<u>\$ 1,550,000</u>	<u>\$ (100,000)</u>	<u>\$ --</u>	<u>\$ 1,450,000</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2020

NOTE 4. LONG-TERM OBLIGATIONS

Long-term obligations and the related current portion as of June 30, 2020, 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	\$ 1,165,000
Less bond discount, net	(20,389)
Less current portion	<u>(80,000)</u>
	<u><u>\$ 1,064,611</u></u>

Changes in long-term obligations for the year ended June 30, 2020, are as follows:

Debt	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due within one year
2005 Ltd Oblig.					
Improv. Bonds	<u>\$ 1,240,000</u>	<u>\$ --</u>	<u>\$ 75,000</u>	<u>\$ 1,165,000</u>	<u>\$ 80,000</u>

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Notes to Basic Financial Statements
June 30, 2020

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	Total
2021	\$ 80,000	\$ 60,155	\$ 140,155
2022	85,000	55,862	140,862
2023	90,000	51,225	141,225
2024	95,000	46,322	141,322
2025	100,000	41,155	141,155
2026-2031	715,000	121,582	836,582
Total	<u>\$ 1,165,000</u>	<u>\$ 376,301</u>	<u>\$ 1,541,301</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, 2020

NOTE 6. COMMITMENTS AND CONTINGENCIES (Continued)

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

	Principal	Interest	Total
2021	\$ 78,980	\$ 13,875	\$ 92,855
2022	82,198	10,658	92,856
2023	85,547	7,309	92,856
2024	89,032	3,824	92,856
2025	<u>47,071</u>	<u>288</u>	<u>47,359</u>
	<u>\$ 382,828</u>	<u>\$ 35,954</u>	<u>\$ 418,782</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. 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 expires on August 24, 2021. 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, 2020 was 4.25%. There was no balance outstanding under the line of credit at June 30, 2020.

NOTE 8. SUBSEQUENT EVENTS

The District's Management has evaluated its June 30, 2020 financial statements for subsequent events through November 11, 2020, the date of issuance of the financial statements. On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The pandemic in the United States and throughout the world has resulted in substantial volatility in financial markets, which could lead to an adverse impact on the District's future financial results.

PAJARO DUNES GEOLOGIC HAZARD ABATEMENT DISTRICT

Schedule I - Revenues and Expenditures by Zone - Budget to Actual
Year Ended June 30, 2020

	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	\$ 135,950	\$ 126,740	\$ (9,210)	\$ 236,547	\$ 231,761	\$ (4,786)	\$ 372,497	\$ 358,501	\$ (13,996)
Emergency reserve fund	175,000	175,000	--	--	--	--	175,000	175,000	--
Interest income	50	1,371	1,321	150	900	750	200	2,271	2,071
Total revenues	311,000	303,111	(7,889)	236,697	232,661	(4,036)	547,697	535,772	(11,925)
EXPENDITURES									
Insurance	15,000	14,996	(4)	--	--	--	15,000	14,996	(4)
Legal	18,000	9,240	(8,760)	--	--	--	18,000	9,240	(8,760)
Accounting	18,000	14,396	(3,604)	2,597	--	(2,597)	20,597	14,396	(6,201)
Clerk	8,400	3,923	(4,477)	--	705	705	8,400	4,628	(3,772)
Assessment administration	8,000	3,394	(4,606)	1,039	442	(597)	9,039	3,836	(5,203)
Office	3,050	397	(2,653)	500	1,025	525	3,550	1,422	(2,128)
Officer election	2,475	--	(2,475)	--	--	--	2,475	--	(2,475)
Board and clerk training	2,200	--	(2,200)	--	--	--	2,200	--	(2,200)
Website maintenance	1,500	660	(840)	--	--	--	1,500	660	(840)
Audit	10,000	9,000	(1,000)	--	--	--	10,000	9,000	(1,000)
Bond fee	--	--	--	635	635	--	635	635	--
Seawall annual inspection	6,000	2,506	(3,494)	--	--	--	6,000	2,506	(3,494)
Technical planning	118,375	70,916	(47,459)	--	--	--	118,375	70,916	(47,459)
Reimbursements (Note 6):									
Pelican HOA	--	--	--	92,856	92,856	--	92,856	92,856	--
Debt service:									
Principal	--	--	--	75,000	75,000	--	75,000	75,000	--
Interest	--	--	--	64,070	64,070	--	64,070	64,070	--
Total expenditures	211,000	129,428	(81,572)	236,697	234,733	(1,964)	447,697	364,161	(83,536)
Excess (deficiency) of revenues over expenditures	100,000	173,683	73,683	--	(2,072)	(2,072)	100,000	171,611	71,611
NET CHANGE IN ZONE BALANCE	\$ 100,000	173,683	\$ 73,683	\$ --	(2,072)	\$ (2,072)	\$ 100,000	171,611	\$ 71,611
BEGINNING ZONE BALANCE		262,535			501,107			763,642	
ENDING ZONE BALANCE		\$ 436,218			\$ 499,035			\$ 935,253	