

**PAJARO RIVER WATERSHED  
FLOOD PREVENTION AUTHORITY**

**FINANCIAL STATEMENTS**  
June 30, 2011



**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
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June 30, 2011

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**FINANCIAL SECTION**





MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS  
RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

802 EAST MAIN  
SANTA MARIA, CA 93454  
TEL: 805.925.2579  
FAX: 805.925.2147  
www.mlhcpas.com

### INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Pajaro River Watershed Flood Prevention Authority  
Marina, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Pajaro River Watershed Flood Prevention Authority (the Authority) as of and for the fiscal year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Pajaro River Watershed Flood Prevention Authority. Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1 to basic financial statements effective July 1, 2010, Pajaro River Watershed Flood Prevention Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Statements Omnibus*.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Pajaro River Watershed Flood Prevention Authority, as of June 30, 2011, and the respective changes in financial position thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5, and the budgetary information on page 19, 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.

MOSS, LEVY & HARTZHEIM LLP

*Moss, Levy & Hartzheim LLP*  
February 20, 2012

# Management's Discussion and Analysis

## Overview of PRWFPA and Audited Finances Statements for Fiscal Year Ending June 30, 2011

### General

The purpose of the Pajaro River Watershed Flood Prevention Authority (PRWFPA) is to identify, evaluate, fund and implement environmentally sound flood prevention and control strategies in the Pajaro River Watershed, on an intergovernmental, cooperative basis as required by the Pajaro River Watershed Flood Prevention Authority Act (AB807 Keeley).

The Board of Directors of PRWFPA consists of eight members appointed, one each from the Monterey County Board of Supervisors, the San Benito County Board of Supervisors, the Santa Clara County Board of Supervisors, the Santa Cruz County Board of Supervisors, the Board of Directors of the Monterey County Water Resources Agency, the Board of Directors of the San Benito County Water District, the Board of Directors of the Santa Clara Valley Water District and the Board of Directors of the Zone 7 Flood Control District subject to the provisions of Part 2, Chapter 1, section 401 of the Pajaro River Watershed Flood Prevention Authority Act.

The Board of Directors may also vote to invite, as associate members, governmental entities from within the watershed. Associate members are not entitled to vote or hold office.

In addition, the Board of Directors has established a standing committee of staff members from the involved Authority jurisdictions to advise the Board of Directors. It is called the Staff Working Group and it is comprised of designated staff members from both voting and non-voting involved jurisdictions.

During FY 2010-2011 the PRWFPA, activities included:

- Continued implementation of Phase 1 of the Soap Lake Floodplain Preservation Project (Soap Lake Project).
- Outreach to Land Trusts and other open space preservation groups to identify best practices and to identify potential partnership opportunities in the Soap Lake Floodplain.
- Continued to review and coordinate reviews of development proposals in and near the Soap Lake Floodplain.



- Continued participation in the Pajaro River Watershed IRWMP regional planning and coordination process.
- Participated in efforts to coordinate and seek/maintain funding for the Pajaro River Watershed flood studies.
- Conducted Special meeting with Army Corps of Engineers and legislative representatives to discuss the Lower Pajaro River Flood Control project.
- Facilitated and assisted in coordinating the Santa Cruz and Monterey County Pajaro River Bench Excavation Project.
- Held monthly Staff Working Group meetings to discuss FPA issues and coordinate Board packet items.
- Continued work on the Soap Lake Project Grant Program: The State stoppage of funding significantly impacted the PRWFPA's ability to market and implement the project. The FPA is still slated to receive approximately \$4 million dollars from a California Proposition 50 grant to implement Phase 1 of the Soap Lake Project. The \$3.5 million will be used to match up to 50 percent of the land or easement acquisition costs incurred by the participating agencies and organizations and \$0.5 million will be used to administer the program. The FPA received approximately \$69,055 in reimbursements with approximately \$32,000 held in retention by the State of California. Through FY 2010-2011, the FPA has incurred \$334,501.44 of eligible reimbursable project administration expenditures. The FPA has received payment of \$287,951.35.

### **Financial Highlights**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Consistent with Government Accounting Standards Board requirements, two years of financial information is provided to enable the reader to draw comparisons on the results of operations and financial position from year to year.

Net assets of the Authority increased by 17.5 percent over the fiscal year ending June 30, 2011.

The General Fund balance at fiscal year end was \$477,453. This amount is \$71,336 more than one year ago.

The Authority's cash and investments balance on June 30, 2011, was \$369,558 representing an increase of \$41,466 over one fiscal year ago.

The Authority has a \$122,947 receivable from California Proposition 50 grant as of June 30, 2011.

## **Pajaro Revenues**

Total funding for FY 2010-2011 was \$166,056, less than \$100,944 budgeted due to additional Proposition 50 grant funds not being invoiced as the State of California experienced stoppage on funding. In addition to the Proposition 50 funds, the budget was comprised of \$64,000 in membership administrative contributions.

## **Overall Financial Position**

The overall financial position of PRWFPA has remained consistent during the past twelve months.

## **Highlights of the Authority Funds**

The General Fund contains all financial resources of the Authority. The fiscal year-end General Fund balance increased from \$406,117 to \$477,453. Primarily all expenditures were under final budget amounts. There was a 17.5 percent increase in the General Fund balance this fiscal year over one fiscal year ago at this time.

## **Budget: Amendments and Variances**

The budget adopted on June 4, 2010, was amended once during the fiscal year.

The Authority held no infrastructure assets during fiscal year 2010-2011.

## **Current Financial Issues and Concerns**

The Pajaro River Watershed Flood Prevention Authority (FPA) is implementing Phase 1 of the Soap Lake Floodplain Preservation Project (Soap Lake Project). The Soap Lake Project is designed to preserve the natural floodplain characteristics through the acquisition of land and flood conservation easements. The FPA is encouraging the floodplain acquisitions by providing grant funds to agencies and organizations pursuing acquisitions within the Soap Lake Floodplain.

The FPA will receive approximately \$4 million dollars from a California Proposition 50 grant to implement Phase 1 of the Soap Lake Project. Approximately \$3.5 million will be used to support the land and easement acquisitions and \$0.5 million will be used to administer the program. The

\$3.5 million will be used to match up to 50 percent of the land or easement acquisition costs incurred by the participating agencies and organizations.

The FPA will distribute the grant funds on a competitive basis and may proceed with one or more solicitations. The FPA has developed a Request for Proposals (RFP) to initiate the first solicitation of the Soap Lake Project Grant Program. The RFP includes the grant guidelines which establish eligibility requirements, appropriate match percentage, proposal scoring process and criteria, and program timeline. The following program guidelines have been approved by the FPA Board of Directors and the Proposition 50 grant agency (Department of Water Resources).

Anyone seeking clarification, having questions, or desiring more information about the topics discussed in this Management's Discussion and Analysis is requested to contact the Pajaro River Watershed Flood Prevention Authority Executive Coordinator via email at: [info@ambag.org](mailto:info@ambag.org) or by calling 831.883.3750. Written correspondence should be addressed to the PRWFPA Executive Coordinator c/o AMBAG, Post Office Box 809, Marina, California 93933-0809.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
**STATEMENT OF NET ASSETS**  
 June 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 369,558
Accounts receivable	<u>122,947</u>
Total assets	<u>492,505</u>
<b>LIABILITIES</b>	
Accounts payable	<u>15,052</u>
Total liabilities	<u>15,052</u>
<b>NET ASSETS</b>	
Restricted	<u>477,453</u>
Total net assets	<u><u>\$ 477,453</u></u>

The notes to basic financial statements are an integral part of this statement.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**

**STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Contributions</u>	<u>Contributions</u>
			<u>and Grants</u>	<u>and Grants</u>
				<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Governmental activities:				
Flood prevention	\$ 94,720	\$ -	\$ 101,059	\$ -
	<u>\$ 94,720</u>	<u>\$ -</u>	<u>\$ 101,059</u>	<u>\$ -</u>
Total governmental activities	<u>\$ 94,720</u>	<u>\$ -</u>	<u>\$ 101,059</u>	<u>\$ -</u>
General Revenues:				
Membership administrative contributions				64,000
Interest income				997
				<u>64,997</u>
Total general revenues				<u>64,997</u>
Change in net assets				71,336
Net assets, beginning of fiscal year				<u>406,117</u>
Net assets, end of fiscal year				<u>\$ 477,453</u>

The notes to basic financial statements are an integral part of this statement.

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY  
 GOVERNMENTAL FUND  
 BALANCE SHEET  
 June 30, 2011

	<u>General Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 369,558
Accounts receivable	<u>122,947</u>
Total assets	<u>\$ 492,505</u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	<u>\$ 15,052</u>
Total liabilities	<u>15,052</u>
Fund Balance:	
Restricted:	
Professional service	<u>477,453</u>
Total fund balance	<u>477,453</u>
Total liabilities and fund balance	<u>\$ 492,505</u>

The notes to basic financial statements are an integral part of this statement.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL**  
**FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2011

Total Fund Balance	\$ <u>477,453</u>
Total Net Assets	\$ <u>477,453</u>

The notes to basic financial statements are an integral part of this statement.

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY  
 GOVERNMENTAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 For the Fiscal Year Ended June 30, 2011

	General Fund
<b>Revenues:</b>	
Membership administrative contributions	\$ 64,000
Proposition 50 funds	101,059
Interest income	997
	<hr/>
Total revenues	166,056
	<hr/>
<b>Expenditures:</b>	
Regional Analysis Planning Services Administration	54,259
Insurance	1,109
Professional services:	
Soap Lake Preservation	32,845
Other charges	6,507
	<hr/>
Total expenditures	94,720
	<hr/>
Excess of revenues over (under) expenditures	71,336
	<hr/>
Fund balance - July 1	406,117
	<hr/>
Fund balance - June 30	\$ 477,453
	<hr/> <hr/>

The notes to basic financial statements are an integral part of this statement.



**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balance	<u>\$ 71,336</u>
Change in Net Assets	<u>\$ 71,336</u>

The notes to basic financial statements are an integral part of this statement.

# PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Organization

The Pajaro River Watershed Flood Prevention Authority (PRWFPA) was organized on July 1, 2000, under the authorization of Chapter 963 of Assembly Bill No.807, approved on October 10, 1999. The PRWFPA undertakes flood prevention and control projects within the boundaries of the Pajaro River Watershed. The PRWFPA may levy and collect assessments and special taxes and sell bonds in accordance with prescribed procedures. The Pajaro River Watershed consists of more than 1,400 square miles of land. Much of the watershed is prime agricultural and rangeland, providing a strong base for the region's economy. The Pajaro River Watershed includes portions of San Benito, Santa Clara, Santa Cruz, and Monterey Counties. The Assembly Bill No. 807, designates the board of supervisors of certain counties and the boards of directors of certain local Authority as appointing directors.

#### B. Reporting Entity

The reporting entity is the Pajaro River Watershed Flood Prevention Authority. There are no component units included in this report which meets the criteria of the GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39.

#### C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *The direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### D. Basis of Presentation

##### Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The Authority does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Authority, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Authority.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Presentation (Continued)**

**Fund Financial Statements:**

Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**E. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

**Revenues – exchange and non-exchange transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, “available” means collectible within the current period or within 60 days after fiscal year end.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes and grants. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Expenses/expenditures:**

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first then unrestricted resources as they are needed.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Fund Accounting**

The accounts of the Authority are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance or net assets, revenues, and expenditures. The Authority's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority's accounts are organized into one major fund:

**Major Governmental Fund**

The *General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

**G. Budgets and Budgetary Accounting**

The Authority adopts an annual budget on or before July 30. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations.

The Board of Directors may amend the budget by motion during each fiscal year. The original and revised budgets are presented for the General Fund.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the Authority are subject to annual review by the Board of Directors; hence, they legally are one year contracts with an option for renewal for another fiscal year.

**H. Investments**

Investments are stated at fair value.

**I. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the Authority.

**J. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**K. Fund Balances**

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

# PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### K. Fund Balances (Continued)

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Authority’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the Authority intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Authority.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

#### L. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Implementation of the Statement and the impact on the Authority’s financial statements are explained in Note 1 – K Fund Balances.

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 59, “Financial Instruments Omnibus.” The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of the GASB Statement No. 59, did not have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2011.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 2 - CASH AND INVESTMENTS**

On June 30, 2011, the Authority had the following cash and investments on hand:

Cash in bank	\$ 242,439
Investments	<u>127,119</u>
Total cash and investments	<u>\$ 369,558</u>

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Authority by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Authority Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Authority Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Authority Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
LAIF	\$ 127,119	\$ 127,119	\$ -	\$ -	\$ -
Total	<u>\$ 127,119</u>	<u>\$ 127,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2011

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
LAIF	\$ 127,119	N/A	\$ -	\$ -	\$ -	\$ 127,119

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the Authority's deposits with financial institutions in excess of the federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**NOTE 3 – CONTINGENCIES**

According to the Authority's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

**NOTE 4 – NET ASSETS**

The government-wide activity statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

*Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

*Restricted Net Assets* – 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 enabling legislation.

*Unrestricted Net Assets* – This category represents net assets of the Authority, not restricted for any project or other purpose.

**PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2011

**NOTE 5 – RELATED PARTY TRANSACTIONS**

The Authority was charged \$54,259 by Regional Analysis Planning Services, Inc. (RAPS), which is a component unit of the Association of Monterey Bay Area Governments (AMBAG), for shared personnel and administrative services. As of June 30, 2011, \$9,918 was an inter organization payable.



**REQUIRED SUPPLEMENTARY INFORMATION SECTION**



PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Membership administrative contributions	\$ 64,000	\$ 64,000	\$ 64,000	\$ -
Proposition 50 funds	200,000	200,000	101,059	(98,941)
Interest income	3,000	3,000	997	(2,003)
<b>Total revenues</b>	<b>267,000</b>	<b>267,000</b>	<b>166,056</b>	<b>(100,944)</b>
<b>Expenditures:</b>				
Regional Analysis Planning Services				
Administration	60,000	60,000	54,259	5,741
Legal	10,000	10,000		10,000
Insurance	1,500	1,500	1,109	391
Professional Services:				
Consulting services	5,000	5,000		5,000
Soap Lake Preservation	110,000	110,000	32,845	77,155
Soap Lake Administration	12,000	12,000		12,000
Other charges	17,250	17,250	6,507	10,743
<b>Total expenditures</b>	<b>215,750</b>	<b>215,750</b>	<b>94,720</b>	<b>121,030</b>
Excess of revenues over (under) expenditures	51,250	51,250	71,336	20,086
Fund balance - July 1	406,117	406,117	406,117	
Fund balance - June 30	<u>\$ 457,367</u>	<u>\$ 457,367</u>	<u>\$ 477,453</u>	<u>\$ 20,086</u>

