

**PAJARO RIVER WATERSHED
FLOOD PREVENTION AUTHORITY**

FINANCIAL STATEMENTS
June 30, 2019

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY
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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Pajaro River Watershed Flood Prevention Authority (the Authority) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 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 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Pajaro River Watershed Flood Prevention Authority, as of June 30, 2019, and the respective changes in financial position thereof, for the fiscal 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 6, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2020, on our consideration of the Pajaro River Watershed Flood Prevention Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Moss, Remy & Hurlbain LLP

Santa Maria, CA
January 9, 2020

Management's Discussion and Analysis

The Management Discussion and Analysis (MD&A) of Pajaro River Watershed Flood Prevention Authority (PRWFPA) presents an overview and analysis of the financial activities and changes in financial position for PRWFPA.

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 (SWG) and it is comprised of designated staff members from both voting and non-voting member jurisdictions.

During Fiscal Year (FY) 2018-2019 the PRWFPA activities included:

- PRWFPA continued to monitor and manage land acquisitions in the Soap Lake Floodplain, including facilitating the Department of Water Resources approval of an agricultural land lease of the Leung Property. The property was acquired by the Open Space Authority with funds from the PRWFPA Proposition 50 Grant and any lease or sale of the property requires prior approval by the State.
- PRWFPA continued to monitor the development of the Army Corps of Engineers Pajaro River Flood Risk Reduction Project and legislatively supported the efforts to fund and implement the project. As part of the

support, the Board of Directors adopted a resolution on November 2, 2018 affirming their support for the award of Federal funds necessary for the planning and design of the Project and sent representation to Washington D.C. in October 2018 to meet with Federal representatives.

- PRWFPA continued to monitor the development of the California High Speed Rail San Jose to Merced Project Section, which will cross the Soap Lake Floodplain. When available, the PRWFPA will review the recommended alignment and design and evaluate floodplain and downstream flow impacts.
- PRWFPA continued to monitor the development of the Pacheco Reservoir Expansion Project. A new dam on Pacheco Creek would reduce the peak discharge in the Upper Pajaro River, and consequently reduce peak discharge on the Lower Pajaro River, deliver flood protection benefits to the downstream Pajaro River Watershed.
- Held monthly Staff Working Group meetings to discuss PRWFPA issues and coordinate Board packet items.

Financial Highlights

The MD&A is intended to serve as an introduction to PRWFPA'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 position decreased by \$32,828 over the fiscal year ending June 30, 2018, primarily due to California Proposition 50 grant funding closeout.

The General Fund balance at fiscal year-end was \$625,941. This amount is \$32,828 less than one year ago.

PRWFPA's cash and investments balance on June 30, 2019, was \$635,964 which represents a decrease of \$31,037 over one fiscal year ago.

Pajaro Revenues

Total revenues for FY 2018-2019 were \$67,087, which was \$1,787 more than budgeted due to additional interest earned. Revenues included interest income and \$64,000 in membership 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 PRWFPA. The fiscal year-end General Fund balance decreased from \$658,769 to \$625,941. Expenditures were under final budget amounts due to an overall decrease in professional services due to less than anticipated easement/land acquisitions. There was a 5% decrease in the General Fund balance this fiscal year from the prior fiscal year.

Budget: Amendments and Variances

The budget adopted on June 30, 2018, was not amended.

PRWFPA held no capital assets during fiscal year 2018-2019.

Ongoing Activities for FY 2019-2020

- PRWFPA continues to encourage floodplain acquisitions by providing outreach and grant funds to agencies and organizations pursuing acquisitions within the Soap Lake Floodplain.
- PRWFPA will continue to pursue grant funding opportunities.
- Continue working with the Army Corps of Engineers and legislative representatives to discuss Watershed activities and the Pajaro River Flood Risk Reduction Project.
- PRWFPA will continue to identify new opportunities to fund floodplain acquisitions.
- PRWFPA will continue to review development proposals within the floodplain.

Request for Information

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 or by calling 831.883.3750. Written correspondence should be addressed to the PRWFPA Executive Coordinator c/o AMBAG, Post Office Box 2453, Seaside, California 93955-2453.

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY

STATEMENT OF NET POSITION

June 30, 2019

| | <u>Governmental Activities</u> |
|---------------------------------|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 635,964 |
| Total assets | <u>635,964</u> |
| LIABILITIES | |
| Accounts payable | <u>10,023</u> |
| Total liabilities | <u>10,023</u> |
| NET POSITION | |
| Restricted for flood prevention | <u>625,941</u> |
| Total net position | <u><u>\$ 625,941</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, 2019

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | |
|--|------------------|-------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Contributions and Grants | | Capital Contributions and Grants |
| Governmental activities: | | | | | |
| Flood prevention | \$ 99,915 | \$ 64,000 | \$ - | \$ - | \$ (35,915) |
| Total governmental activities | <u>\$ 99,915</u> | <u>\$ 64,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(35,915)</u> |
| General Revenues: | | | | | |
| Interest income | | | | | <u>3,087</u> |
| Total general revenues | | | | | <u>3,087</u> |
| Change in net position | | | | | (32,828) |
| Net position, beginning of fiscal year | | | | | <u>658,769</u> |
| Net position, end of fiscal year | | | | | <u>\$ 625,941</u> |

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

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
 June 30, 2019

| | <u>General Fund</u> |
|-------------------------------------|-------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and investments | \$ 635,964 |
| Total assets | <u>\$ 635,964</u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities: | |
| Accounts payable | \$ 10,023 |
| Total liabilities | <u>10,023</u> |
| Fund Balance: | |
| Restricted: | |
| Flood prevention | <u>625,941</u> |
| Total fund balance | <u>625,941</u> |
| Total liabilities and fund balance | <u>\$ 635,964</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 POSITION
June 30, 2019

| | |
|--------------------|------------|
| Total Fund Balance | \$ 625,941 |
| Total Net Position | \$ 625,941 |

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

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2019

| | General Fund |
|--|-----------------|
| Revenues: | |
| Membership administrative contributions | \$ 64,000 |
| Interest income | 3,087 |
| | <hr/> |
| Total revenues | 67,087 |
| | <hr/> |
| Expenditures: | |
| Regional Analysis and Planning Services, Inc. Administration | 26,537 |
| Insurance | 1,080 |
| Legal | 3,125 |
| Professional services: | |
| Soap Lake Preservation | 62,776 |
| Other charges | 6,397 |
| | <hr/> |
| Total expenditures | 99,915 |
| | <hr/> |
| Excess of revenues over (under) expenditures | (32,828) |
| | <hr/> |
| Fund balance - beginning of fiscal year | 658,769 |
| | <hr/> |
| Fund balance - end of fiscal year | \$ 625,941 |
| | <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, 2019

| | |
|----------------------------|--------------------|
| Net Change in Fund Balance | <u>\$ (32,828)</u> |
| Change in Net Position | <u>\$ (32,828)</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, 2019

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 Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61, and No. 80.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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, 2019

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. PRWFPA does not have fiduciary funds.

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 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, 2019

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 position, 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 June 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. Professional contracts entered into by the Authority are subject to annual review by the Board of Directors.

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, 2019

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.

NOTE 2 - CASH AND INVESTMENTS

On June 30, 2018, the Authority had the following cash and investments on hand:

| | |
|----------------------------|-------------------|
| Cash in bank | \$ 501,745 |
| Investments | <u>134,219</u> |
| Total cash and investments | <u>\$ 635,964</u> |

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority had investments in the Local Agency Investment Fund, however, external pools are not measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code

The table on the following page 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.

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code (Continued)

| <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 | \$ 134,219 | \$ 134,219 | \$ - | \$ - | \$ - |
| Total | \$ 134,219 | \$ 134,219 | \$ - | \$ - | \$ - |

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 on the following page is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk (Continued)

| <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 | <u>\$ 134,219</u> | N/A | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 134,219</u> |

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

No contingent liabilities are outstanding, and no lawsuits are pending of any real financial consequence.

NOTE 4 – NET POSITION

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

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 enabling legislation.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Authority was charged \$26,537 by Regional Analysis and 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, 2019, \$3,350 was an inter organization payable.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO RIVER WATERSHED FLOOD PREVENTION AUTHORITY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended June 30, 2019

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Membership administrative contributions | \$ 64,000 | \$ 64,000 | \$ 64,000 | \$ - |
| Interest income | 1,300 | 1,300 | 3,087 | 1,787 |
| Total revenues | 65,300 | 65,300 | 67,087 | 1,787 |
| Expenditures: | | | | |
| Regional Analysis and Planning Services, Inc. | | | | |
| Administration | 45,000 | 45,000 | 26,537 | 18,463 |
| Legal | 15,000 | 15,000 | 3,125 | 11,875 |
| Insurance | 1,600 | 1,600 | 1,080 | 520 |
| Professional Services: | | | | |
| Soap Lake Preservation | 97,500 | 97,500 | 62,776 | 34,724 |
| Other charges | 22,400 | 22,400 | 6,397 | 16,003 |
| Total expenditures | 181,500 | 181,500 | 99,915 | 81,585 |
| Excess of revenues over (under) expenditures | (116,200) | (116,200) | (32,828) | 83,372 |
| Fund balance - July 1 | 658,769 | 658,769 | 658,769 | |
| Fund balance - June 30 | <u>\$ 542,569</u> | <u>\$ 542,569</u> | <u>\$ 625,941</u> | <u>\$ 83,372</u> |