

MOSS LANDING HARBOR DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Moss Landing Harbor District
Moss Landing, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Moss Landing Harbor District (District), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 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 the Moss Landing Harbor District as of June 30, 2015 and 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

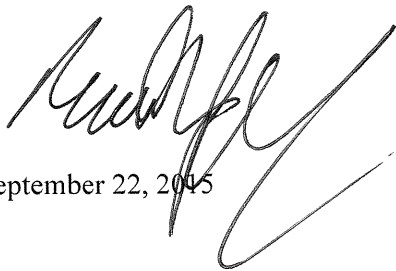
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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

The basic financial statements include summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended June 30, 2014, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2015 on our consideration of the Moss Landing Harbor District'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 the 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'Audrey', written over the date.

September 22, 2015

MOSS LANDING HARBOR DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014

Our discussion and analysis of the Moss Landing Harbor District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read this in conjunction with the District's basic financial statements.

Financial Highlights

The District's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board Statement #34 (GASB 34). The underlying concept is that the financial statements are based on the governmental entity's assets, the liabilities related to those assets and the changes from year-to-year in those assets. The year-to-year changes result from net income, or loss, and contributions from outside sources (such as federal and state funding).

Operating revenues of were \$3,158,567 in 2015, \$2,797,728 in 2014 and \$2,700,904 in 2013. Operating revenues were above budget by \$331,523, or 11.7%, in 2015. Berthing income and related revenues increased by \$360,839, or 12.90%, in 2015, due primarily to an increase occupancy for assigned berths, and an increase in temporary berthing. Berthing and related revenues were above budget by \$153,744 or 8.24%. Rent, concessions and other income increased by \$76,188, or 8.93%, over the prior year. An increase in percentage rents, combined with greater triple net income contributed to the increase in rent income. Rent, concessions and other income were over budget by \$28,252, or 3.31%.

The District's property tax revenues increased by \$2,714. Grant revenues increased by \$318,098, due to an increase in proceeds, and the final amounts to be received, from the Federal Emergency Management Agency (FEMA) which was in response to damage incurred from the tsunami in March 2011.

Operating expenses (before depreciation) were \$1,840,125 in 2015, \$1,620,836 in 2014, and \$2,678,959 in 2013. The current year costs were higher than the prior year by \$219,289, or 13.52%, and below budget by \$114,167 or 5.94%. The increase in expenses as compared to the prior year was due to an election in 2015, which cost the District \$161,865. The District maintains a practice of budgeting annually for dredge expenses, acknowledging that dredge episodes are periodic and may only be incurred every three to five years.

Using This Annual 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, 2015. 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.

The basic financial statements consist of three statements:

Statement of financial position – presents information on all of the District's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund retained earnings may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of revenues, expenses and changes in retained earnings – presents information showing how the District's retained earnings changed during the fiscal year. All changes in retained earnings are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.

Statement of cash flows – presents information showing how the District's cash changed during the year. It shows the sources and uses of cash and cash equivalents.

Financial Analysis of the District as a Whole

Fund equity invested in capital assets represent the District's long-term investment in capital assets, net of accumulated depreciation and related debt, and are not available for current operations.

A summary of fund equity for years ended June 30, are presented below.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 6,074,144	\$ 4,470,227	\$ 2,650,196
Non-current assets	7,389	7,389	757,389
Capital assets, net of depreciation	<u>14,821,489</u>	<u>15,651,639</u>	<u>16,350,095</u>
 Total assets	 <u>\$ 20,903,022</u>	 <u>\$ 20,129,255</u>	 <u>\$ 19,757,680</u>
 Current liabilities	 \$ 1,218,638	 \$ 1,256,551	 \$ 1,057,109
Long-term debt	<u>4,406,076</u>	<u>4,559,371</u>	<u>4,861,561</u>
 Total liabilities	 <u>\$ 5,624,714</u>	 <u>\$ 5,815,922</u>	 <u>\$ 5,918,670</u>
 Investment in capital assets, net of related debt	 \$ 10,065,588	 \$ 10,790,078	 \$ 11,198,810
Retained earnings	<u>5,212,720</u>	<u>3,523,255</u>	<u>2,640,200</u>
 Total fund equity	 <u>\$ 15,278,308</u>	 <u>\$ 14,313,333</u>	 <u>\$ 13,839,010</u>

A summary of changes in retained earnings is presented below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Changes in retained earnings			
Operating revenues	\$ 3,158,567	\$ 2,797,728	\$ 2,700,904
Operating expenses	(1,840,125)	(1,620,836)	(2,678,959)
Depreciation	<u>(945,417)</u>	<u>(949,096)</u>	<u>(766,841)</u>
 Net operating income	 373,025	 227,796	 (744,896)
 Non-operating revenues	 771,436	 457,040	 1,537,350
Non-operating expenses - interest	<u>(179,486)</u>	<u>(210,513)</u>	<u>(209,728)</u>
 Increase in retained earnings	 <u>\$ 964,975</u>	 <u>\$ 474,323</u>	 <u>\$ 582,726</u>

Financial Analysis of the District as a Whole (Continued)

A statement of major revenues and expenses is presented below,

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues			
Berthing	\$ 2,182,094	\$ 2,007,651	\$ 1,932,573
Rents	598,525	546,068	552,424
District property taxes	258,407	255,693	233,341
Operations, concessions and other	377,948	244,009	215,907
Grant revenues	506,041	187,942	1,290,481
Interest income	6,988	13,405	13,528
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 3,930,003</u>	<u>\$ 3,254,768</u>	<u>\$ 4,238,254</u>
Expenses			
Depreciation	\$ 945,417	\$ 949,096	\$ 766,841
Personnel	711,905	715,933	693,996
Utilities	335,274	290,924	297,850
Interest	179,486	210,513	209,728
General and administrative	441,045	271,535	303,398
Repairs and maintenance	175,069	279,930	1,366,382
District	176,832	62,514	17,333
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 2,965,028</u>	<u>\$ 2,780,445</u>	<u>\$ 3,655,528</u>

Future Plans

The District continues to be certified as a California Clean Marina, a standard that it intends to maintain for the benefit of its tenants as well as to attract new tenants. The District is continuing with infrastructure improvement projects, ongoing dock refurbishing and installing sea lion deterrent fencing. The District may attempt to locate a floating dock somewhere within the harbor to attract sea lions, thus getting them off the docks. Shoreline erosion repairs slated for future years in 3 locations were escalated because of Tsunami damage in 2011. FEMA is still considering an extension within which to conduct this project and is slated to cover 75% of the projected costs while the District will contribute the remaining 25%. The permits for construction of a new restaurant at the North Harbor were approved by the County; the District obtained a waiver of impact fees from TAMC and will negotiate a reduction in impact fees from other agencies before securing the permits. If reasonable bids are received the District should break ground on the new North Harbor Restaurant building sometime during the 2015/16 fiscal year. We continue to welcome numerous permanent slipholders who had previously been in other harbors but chose Moss Landing because of its reasonable prices and overall improvements. The District entered into a refunding agreement with Umpqua Bank resulting in interest savings of some \$20,000 annually. All of these efforts should maintain revenue and attract tenants.

Budget Highlights

The District's budget projected operating revenues of \$2,827,044. The District finished the budget year with operating revenues of \$3,158,567, which was \$331,523 or 11.17% more than budgeted.

The District's budget projected expenditures (before depreciation) of \$1,954,292. The District finished the budget year with expenditures of \$1,840,125, which was \$114,167 or 5.94% less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2015, 2014 and 2013, totaled \$14,008,779, \$14,008,779, and \$14,707,235, respectively, as shown below. This amount represents a net decrease, including additions and disposals, net of depreciation, of \$830,150, or 5.92% from June 30, 2014.

Capital Assets (Net of Depreciation)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 16,793,849	\$ 16,747,651	\$ 16,726,970
Floating docks	9,623,001	9,623,001	9,592,114
Construction in progress	319,505	257,374	73,860
Equipment	773,609	766,671	751,113
	<u>27,509,964</u>	<u>27,394,697</u>	<u>27,144,057</u>
Less depreciation	<u>14,331,335</u>	<u>13,385,918</u>	<u>12,436,822</u>
	<u>\$ 13,178,629</u>	<u>\$ 14,008,779</u>	<u>\$ 14,707,235</u>

Debt Administration

All of the District's debt is related to the North Harbor facilities expansion. The District's debt at June 30, 2015, 2014 and 2013, totaled \$4,755,901, \$4,861,561, and \$5,151,285, respectively. This represents a decrease of \$105,660, or 2.17%, from 2014. In July 2014, the District consolidated its existing loans in to one loan with UMPQUA Bank at a lower interest rate.

Contacting the District's Financial Management

This 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 Linda G. McIntyre, General Manager, Moss Landing Harbor District, 7881 Sandholdt Road, Moss Landing, CA 95039, by calling (831) 633-5417, emailing to mcintyre@mosslandingharbor.dst.ca.us or by visiting the District's web page at www.mosslandingharbor.dst.ca.us.

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF NET POSITION JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,491,726	\$ 3,112,201
Restricted cash and cash equivalents	1,437,675	68,340
Investments	-	750,000
Accounts receivable, net	134,283	90,926
Grant receivable	-	286,344
Prepaid expenses and other current assets	10,460	162,416
Total current assets	<u>6,074,144</u>	<u>4,470,227</u>
Non-current assets		
Investments	7,389	7,389
Capital assets, net of allowance for depreciation	14,821,489	15,651,639
Total non-current assets	<u>14,828,878</u>	<u>15,659,028</u>
Total assets	<u>20,903,022</u>	<u>20,129,255</u>
LIABILITIES		
Current liabilities		
Accounts payable	70,195	117,113
Accrued wages and vacation	104,623	102,688
Accrued interest	56,478	94,902
Deposits	397,645	400,872
Current portion of long-term debt	349,825	302,190
Total current liabilities	<u>978,766</u>	<u>1,017,765</u>
Non-current liabilities		
Long-term debt	4,406,076	4,559,371
Total non-current liabilities	<u>4,406,076</u>	<u>4,559,371</u>
Total liabilities	<u>5,384,842</u>	<u>5,577,136</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned berth fees and lease receipts	239,872	238,786
Total deferred inflow of resources	<u>239,872</u>	<u>238,786</u>
NET POSITION		
Net investment in capital assets	10,065,588	10,790,078
Restricted for public land use	431,095	68,340
Restricted for debt service	1,006,580	-
Unrestricted	3,775,045	3,454,915
Total net position	<u>\$ 15,278,308</u>	<u>\$ 14,313,333</u>

See accompanying notes

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Berthing	\$ 2,182,094	\$ 2,007,651
Rent	598,525	546,068
Operations	227,177	106,982
Concessions and other revenues	150,771	137,027
Total operating revenues	<u>3,158,567</u>	<u>2,797,728</u>
Operating Expenses		
Personnel	711,905	715,933
Utilities	335,274	290,924
General and administrative	196,079	155,716
Insurance	114,425	115,819
Repairs and maintenance	175,069	279,930
Operating supplies	23,121	22,371
Bad debt	21,250	14,870
Commissioner	176,832	13,620
Miscellaneous	86,170	11,653
Depreciation	945,417	949,096
Total operating expenses	<u>2,785,542</u>	<u>2,569,932</u>
Operating income/(loss)	<u>373,025</u>	<u>227,796</u>
Nonoperating Revenues/(Expenses)		
Grant revenues	506,041	187,942
Property taxes	258,407	255,693
Interest income	6,988	13,405
Interest expense	(179,486)	(210,513)
Total non-operating revenues/(expenses)	<u>591,950</u>	<u>246,527</u>
Change in Net Position	964,975	474,323
Net Position		
Beginning of year	14,313,333	13,839,010
End of year	<u>\$ 15,278,308</u>	<u>\$ 14,313,333</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Receipts from customers and users	\$ 3,113,069	\$ 2,886,203
Payments to suppliers for goods and services	(1,023,182)	(946,111)
Payments to employees for services	(709,970)	(715,843)
Net cash provided by operating activities	<u>1,379,917</u>	<u>1,224,249</u>
Noncapital Financing Activities		
Property taxes received	<u>258,407</u>	<u>255,693</u>
Net cash provided by noncapital financing activities	<u>258,407</u>	<u>255,693</u>
Capital and Related Financing Activities		
Acquisition of capital assets	(115,267)	(250,640)
Receipts from capital grants	792,385	51,456
Principal paid on long-term debt	(105,660)	(289,724)
Interest paid on long-term debt	(217,910)	(216,627)
Net cash provided by (used in) capital and related financing activities	<u>353,548</u>	<u>(705,535)</u>
Investing Activities		
Maturities of investments	750,000	250,000
Interest received	6,988	13,405
Net cash provided by investing activities	<u>756,988</u>	<u>263,405</u>
Net Increase in Cash and Cash Equivalents	2,748,860	1,037,812
Cash and Cash Equivalents		
Beginning of year	<u>3,180,541</u>	<u>2,142,729</u>
End of year	<u>\$ 5,929,401</u>	<u>\$ 3,180,541</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ 373,025	\$ 227,796
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	945,417	949,096
(Increase) Decrease in accounts receivable	(43,357)	(19,817)
(Increase) Decrease in prepaid expenses	151,956	(125,916)
Increase (Decrease) in accounts payable	(46,918)	84,708
Increase (Decrease) in accrued wages and vacation	1,935	90
Increase (Decrease) in customer deposits	(3,227)	84,580
Increase (Decrease) in deferred inflows	1,086	23,712
Net Cash Provided by Operating Activities	<u>\$ 1,379,917</u>	<u>\$ 1,224,249</u>

See accompanying notes

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Moss Landing Harbor District (the “District”) was formed in 1947 as a non-taxable government entity under the California Senate Bill 1116 to provide for harbor and port facilities. It was formed for the purpose of creating a legal entity to negotiate with various governmental agencies for the financing and construction of a small craft harbor and subsequent operation of the facility. The District is governed by an elected Board of five Commissioners. The District derives its revenues principally from fees charged to users of the harbor facilities, rent and concessions.

The accompanying financial statements include all the accounts of the District. There are no component units included in the District financial statements nor has the District been determined to be a component unit of any other entity.

Basis of Accounting and Measurement Focus

The District accounts for its operations in enterprise funds using the economic resources measurement focus and the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are generated by the berthing, rental, concessions and other operations of the harbor facilities. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of 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 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.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and cash equivalents – The District considers all highly liquid assets, which have a term of less than ninety days to maturity as cash equivalents.

Investments – Investments consist of certificates of deposit held at local financial institutions. Investments are stated at their original deposit amount. The investments are insured in full under FDIC and Certificates of Deposit Registry Service (CDARS) coverage.

Accounts Receivable – Accounts receivable are composed of amounts due from customers for berthing fees. Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is estimated from historical experience and management’s analysis of individual customer balances. The allowance for doubtful accounts was \$6,052 at June 30, 2015.

Capital Assets – Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Capital assets in service are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10 - 40
Buildings and improvements	10 - 40
Furniture, equipment and vehicles	3 - 20

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences – The District allows employees to accumulate unused vacation leave and sick leave. Upon termination, accumulated vacation that was not taken will be paid to the employee. One-half of the employee’s sick leave is paid upon termination.

Accumulated vacation leave that is expected to be paid with expendable available financial resources is recorded as an expense and liability as the benefits accrue.

Long-Term Obligations – Long-term debt and other obligations are reported as District liabilities. Loan fees are deferred and amortized over the life of the loan using the effective interest method.

Deferred Inflows of Resources – Deferred inflows of resources represents berth fees and lease payments collected before year-end which were not earned as of June 30, 2015. All deferred inflows of resources is expected to be earned within the following year.

Net Position/Fund Equity - The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, 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 the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the District not restricted for any project or other purpose.

Property Tax Revenue – Property tax revenue is composed of property taxes received from the County of Monterey. Property tax revenue is recognized when it is available from the County.

Note 2 – Cash and Investments

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District’s cash on deposits or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all public agency deposits. Under California law this collateral remains with the institution but is held in the District’s name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 2 – Cash and Investments (Continued)

Cash and Investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 4,491,726
Restricted cash and cash equivalents	1,437,675
Investments	<u>7,389</u>
	<u>\$ 5,936,790</u>

Cash and Investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	5,928,901
Principal Financial Common Stock	<u>7,389</u>
Total Cash and Investments	<u>\$ 5,936,790</u>

Investments Authorized by the District's Investment Policy

The District's Investment Policy and the California Government Code allows the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The District's Investment Policy authorizes the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Minimum Credit Quality</u>
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State of California Obligations	5 Years	None	None
California Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Bankers Acceptances	180 Days	40%	None
Commercial Paper	270 Days	25%	A-1
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Medium Term Notes	5 Years	30%	A or >
Money Market Mutual Funds	N/A	20%	A
Collateralized Bank Deposits	5 Years	None	None
Time Deposits	2 Years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 2 – Cash and Investments (Continued)

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.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the District's investments by maturity:

<u>Investment Type</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 84 Months</u>	<u>Total</u>
Common Stock	\$ 7,389	\$ -	\$ -	\$ 7,389
Total Investments	<u>\$ 7,389</u>	<u>\$ -</u>	<u>\$ -</u>	7,389
Cash in bank and on hand				<u>5,929,401</u>
Total Cash and Investments				<u>\$ 5,936,790</u>

Credit Risk

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 a rating by a nationally recognized statistical rating organization. Negotiable certificates of deposit do not have a minimum credit rating.

Concentration of Credit Risk

At June 30, 2015, in accordance with State law and the District's Investment Policy, the District did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

Custodial Credit Risk

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, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the District, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital assets, not being depreciated				
Land	\$ 1,642,860	\$ -	\$ -	\$ 1,642,860
Construction in progress	257,374	62,131	-	319,505
Total capital assets, not being depreciated	<u>1,900,234</u>	<u>62,131</u>	<u>-</u>	<u>1,962,365</u>
Capital assets, being depreciated				
Buildings and improvements	26,370,652	46,198	-	26,416,850
Equipment and machinery	766,671	6,938	-	773,609
Total capital assets, being depreciated	<u>27,137,323</u>	<u>53,136</u>	<u>-</u>	<u>27,190,459</u>
Less accumulated depreciation for				
Buildings and improvements	(12,653,677)	(927,545)	-	(13,581,222)
Equipment and machinery	(732,241)	(17,872)	-	(750,113)
Total accumulated depreciation	<u>(13,385,918)</u>	<u>(945,417)</u>	<u>-</u>	<u>(14,331,335)</u>
Total capital assets, being depreciated, net	<u>13,751,405</u>	<u>(892,281)</u>	<u>-</u>	<u>12,859,124</u>
Total capital assets, net	<u>\$ 15,651,639</u>	<u>\$ (830,150)</u>	<u>\$ -</u>	<u>\$ 14,821,489</u>

Note 4 – Long-Term Debt

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Department of Boating and Waterways Loan	\$ 857,886	\$ -	\$ (857,886)	\$ -	\$ -
CIEDB Installment Sale Loan	3,251,668	-	(3,251,668)	-	-
Union Bank Note Payable	441,089	-	(441,089)	-	-
Municipal Finance Corporation Lease	310,918	-	(310,918)	-	-
2014 Harbor Enterprise Revenue Refunding Loan	-	4,755,901	-	4,755,901	349,825
Total Long-term Debt	<u>\$ 4,861,561</u>	<u>\$ 4,755,901</u>	<u>\$ (4,861,561)</u>	<u>\$ 4,755,901</u>	<u>\$ 349,825</u>

State of California Department of Boating and Waterways (DBAW) Loans

The District obtained loans from the State of California Department of Boating and Waterways (DBAW) with a maximum commitment of \$2,850,000 for the purpose of funding the North Harbor Expansion project. The loans are secured by assignment of the District's berthing revenues and by its authority to levy taxes. The loan was retired in fiscal year ending June 30, 2015, in correlation with the refinancing agreement of the 2014 Harbor Enterprise Revenue Refunding Loan.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 4 – Long-Term Debt (Continued)

California Infrastructure and Economic Development Bank (CIEDB) Loan

The District obtained an installment sale loan from California Infrastructure and Economic Development Bank with a maximum commitment of project funds totaling \$4,500,000, for the purposes of funding K-dock Renovation, North Harbor, and Elkhorn Slough Shoreline Protection Project. The loan was retired in fiscal year ending June 30, 2015, in correlation with the agreement of the 2014 Harbor Enterprise Revenue Refunding Loan.

Union Bank Note Payable

In November 2006, the District obtained an unsecured term note payable from Union Bank, formerly Santa Barbara Bank & Trust, with a maximum commitment of \$750,000. The note was retired in fiscal year ending June 30, 2015, in correlation with the refinancing agreement of the 2014 Harbor Enterprise Revenue Refunding Loan.

Municipal Finance Corporation Lease

In November 2006, the District entered into a lease agreement totaling \$500,000 from Municipal Finance Corporation, to provide additional funding for the North Harbor Expansion project. The agreement is secured by a site lease covering an undeveloped 5-acre parcel. The lease was retired in fiscal year ending June 30, 2015, in correlation with the refinancing agreement of the 2014 Harbor Enterprise Revenue Refunding Loan.

2014 Harbor Enterprise Revenue Refunding Loan

In July 2014, the District refinanced all of its outstanding debt and obtained a loan agreement from Umpqua Bank for the amount of \$4,755,901. The principal payments are made each August 1 beginning in 2015 through 2030. Interest is to be paid semi-annually on February 1 and August 1 through 2030 and has a stated interest rate of 2.85 percent. The District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the harbor which shall produce revenues sufficient in each fiscal year to provide net revenues equal to at least 1.25 times debt service coming due and payable during such fiscal year. In addition, the District covenants and agrees to maintain during the term of the Loan Agreement a ratio of Funded Debt to Net Position of the District not greater than 2.0:1.0 for each fiscal year. The loan also requires that the District shall maintain a deposit relationship with Umpqua Bank in an amount not less than \$1,000,000.

Deposit and Loan Covenant Requirements

As noted above the District has pledged future revenues, net of specified operating expenses, to repay debt in the original amount of \$4,755,901. Net Revenues, defined as all revenues less all maintenance and operating costs, were equal to at least 1.25 times the Debt Service for the fiscal year endings June 30, 2015. The District is also in compliance with the deposit requirement and the funded debt limitation requirement noted above.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 4 – Long-Term Debt (Continued)

Debt Service Requirements

The annual requirement to amortize the principal and interest on the above long-term debt at June 30, 2015 were as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	349,825	130,559	480,384
2017	359,358	120,453	479,811
2018	369,147	110,071	479,218
2019	379,197	99,407	478,604
2020	389,516	88,453	477,969
2021 - 2025	1,543,499	293,027	1,836,526
2026 - 2030	1,132,174	112,599	1,244,773
2031	233,185	3,323	236,508
	<u>\$ 4,755,901</u>	<u>\$ 957,892</u>	<u>\$ 5,713,793</u>

Note 5 – Grant Revenues

Grant revenues recognized during the year ended June 30, 2015 and 2014, were comprised of grant awards received for the repair of tsunami damage. The District sustained damages as a result of the March 2011 tsunami. In July 2011, the District received an Approval of Request for Public Assistance from the Federal Emergency Management Agency (FEMA) through its state agency the California Emergency Management Agency (CalEMA). In April 2012, the District received a Notification of Obligation and Public Assistance Grant Summary from CalEMA stating that six of the District's seven project applications for damage repairs had been approved. As of the year ended June 30, 2015, the District had submitted reimbursements for \$2,248,568. As of the date of the report, the District had received all reimbursements obligated under the grant.

Note 6 – Retirement Plans

Moss Landing Harbor District provides benefits to full time employees hired prior to January 1, 2013 through defined contribution plans. The plans cover full-time employees including those working under the collective bargaining agreements.

In July 2000, the District established a 457/401(a) define contribution plan for its non-union employees and continued the SEP-IRA for its union employees. The Plan offers each participating employee the ability to select various investment options. Employees are eligible to participate upon the completion of six months of employment. Participants are vested in the District contributions of 20% per year after the first year of service and are fully vested after five years of service.

The District makes contributions based on 11% of base salaries for union employees and 6% of base salaries for non-union employees. Also, if the non-union employees elect to contribute to the 457 plan, the District contributes up to an additional 6%.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 7 – Risk Management

The District is exposed to various risks of loss to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for its general insurance coverage. The District continues to carry commercial insurance for all other risks of loss, including workers' compensation, and employee health and accident insurance. There have been no significant reductions in insurance coverage in the current year.

Note 8 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through September 22, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2015 that required recognition or disclosure in such financial statements.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Moss Landing Harbor District

We have audited, 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, the financial statements of the Moss Landing Harbor District (District), which comprise the statement of net position as of June 30, 2015, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Moss Landing Harbor District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

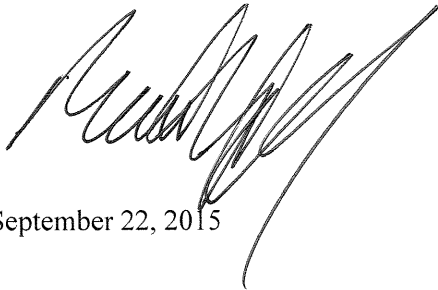
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Moss Landing Harbor District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to be 'A. M. ...', written over the date.

September 22, 2015