

MOSS LANDING HARBOR DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2014

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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, 2014 and 2013, 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, 2014 and 2013, 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, 2013, from which such summarized information was derived.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statement of trust revenues, expenses and changes in net position is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of trust revenues, expenses and changes in net position has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014 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 'Auditor', written over a horizontal line.

September 23, 2014

**MOSS LANDING HARBOR DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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, 2014 and 2013. 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 \$2,797,728 in 2014, \$2,700,904 in 2013 and \$2,631,868 in 2012. Operating revenues were above budget by \$11,236, or .4%, in 2014. Berthing income and related revenues increased by \$74,078, or 3.88%, in 2014, due primarily to an increase in temporary and transient berthing occupancy. Berthing and related revenues were above budget by \$21,709 or 1.23%. Rent, concessions and other income increased by \$537.

The District's property tax revenues increased by \$22,352. Grant revenues decreased by \$1,102,539, due to a decrease in proceeds from the Federal Emergency Management Agency (FEMA) in which was in response to damage incurred from the tsunami in March 2011.

Operating expenses (before depreciation) were \$1,620,836 in 2014, \$2,678,959 in 2013, and \$1,623,765 in 2012. The current year costs were down from the prior year by \$1,058,123, or 39.50%, and above budget by \$27,532, or 1.73%. The decrease in expenses as compared to the prior year was due to higher dredging costs of \$1,165,117 in the prior year. 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. The increase in expenses as compared to budget was due to a combination of higher derelict disposal expenses of \$103,078, offset by budgeted dredging costs of \$50,000, while budgeted had not entirely been incurred.

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 years ended June 30, 2014 and 2013. 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 Net Position – presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Net Position – presents information showing how the District's net position changed during the fiscal year. All changes in net position 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>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 4,470,227	\$ 2,650,196	\$ 4,494,506
Non-current assets	7,389	757,389	257,389
Capital assets, net of depreciation	<u>15,651,639</u>	<u>16,350,095</u>	<u>14,656,697</u>
 Total assets	 <u>\$ 20,129,255</u>	 <u>\$ 19,757,680</u>	 <u>\$ 19,408,592</u>
 Current liabilities	 \$ 1,256,551	 \$ 1,057,109	 \$ 1,000,226
Long-term debt	<u>4,559,371</u>	<u>4,861,561</u>	<u>5,152,083</u>
 Total liabilities	 <u>\$ 5,815,922</u>	 <u>\$ 5,918,670</u>	 <u>\$ 6,152,309</u>
 Investment in capital assets, net of related debt	 \$ 10,790,078	 \$ 11,198,810	 \$ 7,256,078
Retained earnings	<u>3,523,255</u>	<u>2,640,200</u>	<u>6,000,205</u>
 Total fund equity	 <u>\$ 14,313,333</u>	 <u>\$ 13,839,010</u>	 <u>\$ 13,256,283</u>

A summary of changes in retained earnings is presented below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Changes in retained earnings			
Operating revenues	\$ 2,797,728	\$ 2,700,904	\$ 2,631,868
Operating expenses	(1,620,836)	(2,678,959)	(1,623,765)
Depreciation	<u>(949,096)</u>	<u>(766,841)</u>	<u>(762,708)</u>
 Net operating income	 227,796	 (744,896)	 245,395
 Non-operating revenues	 457,040	 1,537,350	 548,712
Non-operating expenses - interest	<u>(210,513)</u>	<u>(209,728)</u>	<u>(224,712)</u>
 Increase in retained earnings	 <u>\$ 474,323</u>	 <u>\$ 582,726</u>	 <u>\$ 569,395</u>

Financial Analysis of the District as a Whole (Continued)

A statement of major revenues and expenses is presented below,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues			
Berthing	\$ 2,007,651	\$ 1,932,573	\$ 1,872,671
Rents	546,068	552,424	524,356
District property taxes	255,693	233,341	221,319
Operations, concessions and other	244,009	215,907	148,106
Grant revenues	187,942	1,290,481	294,104
Interest income	13,405	13,528	33,289
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 3,254,768</u>	<u>\$ 4,238,254</u>	<u>\$ 3,093,845</u>
Expenses			
Depreciation	\$ 949,096	\$ 766,841	\$ 762,708
Personnel	715,933	693,996	686,038
Utilities	290,924	297,850	304,077
Interest	210,513	209,728	224,712
General and administrative	271,535	303,398	387,181
Repairs and maintenance	279,930	1,366,382	215,667
District	62,514	17,333	16,631
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 2,780,445</u>	<u>\$ 3,655,528</u>	<u>\$ 2,597,014</u>

Future Plans

The District is pleased that it is re-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 that are resulting in positive feedback. Shoreline erosion repairs slated for future years in 3 locations were escalated because of Tsunami damage in 2011. FEMA is slated to cover 75% of the projected costs of these projects, and the District will contribute the remaining 25%. Last year a lease for construction and operation of a new restaurant at the North Harbor was executed; the Architectural/Engineering firm prepared a rendering and the project was approved by the Monterey County Planning Commission in February 2014. The construction drawings are under review by various County departments in October 2014. Our web page continues to receive compliments. We have welcomed 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 \$2,786,492. The District finished the budget year with operating revenues of \$2,797,728, which was \$11,236 or .4% more than budgeted.

Actual operating expenditures (before depreciation) totaled \$1,620,836 compared to the budget amount of \$1,593,305, or 1.73% higher than budgeted. The increase in expenses as compared to budget was due to higher than anticipated costs for derelict disposals.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2014, 2013 and 2012, totaled \$14,008,779, \$14,707,235, and \$13,013,837, respectively, as shown below. This amount represents a net decrease, including additions and disposals, net of depreciation, of \$698,456 or 4.7% from June 30, 2014.

Capital Assets (Net of Depreciation)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Buildings and improvements	\$ 16,747,651	\$ 16,726,970	\$ 16,716,548
Floating docks	9,623,001	9,592,114	6,864,618
Construction in progress	257,374	73,860	358,021
Equipment	766,671	751,113	744,631
	<u>27,394,697</u>	<u>27,144,057</u>	<u>24,683,818</u>
Less depreciation	<u>13,385,918</u>	<u>12,436,822</u>	<u>11,669,981</u>
	<u>\$ 14,008,779</u>	<u>\$ 14,707,235</u>	<u>\$ 13,013,837</u>

Debt Administration

All of the District's debt is related to the North Harbor facilities expansion. The District's debt at June 30, 2014, 2013 and 2012, totaled \$4,861,561, \$5,151,285, and \$5,399,738, respectively. This represents a decrease of \$289,724 or 5.6%, from 2013.

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,112,201	\$ 2,142,729
Restricted cash and cash equivalents	68,340	-
Investments	750,000	250,000
Accounts receivable, net	90,926	71,109
Grant receivable	286,344	149,858
Prepaid expenses and other current assets	162,416	36,500
Total current assets	<u>4,470,227</u>	<u>2,650,196</u>
Non-current assets		
Investments	7,389	757,389
Capital assets, net of allowance for depreciation	15,651,639	16,350,095
Total non-current assets	<u>15,659,028</u>	<u>17,107,484</u>
Total assets	<u>20,129,255</u>	<u>19,757,680</u>
LIABILITIES		
Current liabilities		
Accounts payable	117,113	32,405
Accrued wages and vacation	102,688	102,598
Accrued interest	94,902	101,016
Deposits	400,872	316,292
Current portion of long-term debt	302,190	289,724
Total current liabilities	<u>1,017,765</u>	<u>842,035</u>
Non-current liabilities		
Long-term debt	4,559,371	4,861,561
Total non-current liabilities	<u>4,559,371</u>	<u>4,861,561</u>
Total liabilities	<u>5,577,136</u>	<u>5,703,596</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned berth fees and lease receipts	238,786	215,074
Total deferred inflow of resources	<u>238,786</u>	<u>215,074</u>
NET POSITION		
Net investment in capital assets	10,790,078	11,198,810
Restricted for public land use	68,340	-
Unrestricted	3,454,915	2,640,200
Total net position	<u>\$ 14,313,333</u>	<u>\$ 13,839,010</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Berthing	\$ 2,007,651	\$ 1,932,573
Rent	546,068	552,424
Operations	106,982	76,507
Concessions and other revenues	137,027	139,400
Total operating revenues	<u>2,797,728</u>	<u>2,700,904</u>
Operating Expenses		
Personnel	715,933	693,996
Utilities	290,924	297,850
General and administrative	155,716	150,312
Insurance	115,819	109,211
Repairs and maintenance	279,930	1,366,382
Operating supplies	22,371	27,015
Bad debt	14,870	7,174
Commissioner	13,620	17,333
Miscellaneous	11,653	9,686
Depreciation	949,096	766,841
Total operating expenses	<u>2,569,932</u>	<u>3,445,800</u>
Operating income/(loss)	<u>227,796</u>	<u>(744,896)</u>
Nonoperating Revenues/(Expenses)		
Grant revenues	187,942	1,290,481
Property taxes	255,693	233,341
Interest income	13,405	13,528
Interest expense	(210,513)	(209,728)
Total non-operating revenues/(expenses)	<u>246,527</u>	<u>1,327,622</u>
Change in Net Position	474,323	582,726
Net Position		
Beginning of year	13,839,010	13,256,284
End of year	<u>\$ 14,313,333</u>	<u>\$ 13,839,010</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Receipts from customers and users	\$ 2,886,203	\$ 2,747,882
Payments to suppliers for goods and services	(946,111)	(1,966,972)
Payments to employees for services	(715,843)	(689,277)
Net cash provided by operating activities	<u>1,224,249</u>	<u>91,633</u>
Noncapital Financing Activities		
Property taxes received	<u>255,693</u>	<u>233,341</u>
Net cash provided by noncapital financing activities	<u>255,693</u>	<u>233,341</u>
Capital and Related Financing Activities		
Acquisition of capital assets	(250,640)	(2,460,239)
Receipts from capital grants	51,456	1,434,727
Principal paid on long-term debt	(289,724)	(248,453)
Interest paid on long-term debt	(216,627)	(217,426)
Net cash used in capital and related financing activities	<u>(705,535)</u>	<u>(1,491,391)</u>
Investing Activities		
Purchases of investments	-	(750,000)
Maturities of investments	250,000	750,000
Interest received	13,405	13,528
Net cash provided by investing activities	<u>263,405</u>	<u>13,528</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,037,812	(1,152,889)
Cash and Cash Equivalents		
Beginning of year	<u>2,142,729</u>	<u>3,295,618</u>
End of year	<u>\$ 3,180,541</u>	<u>\$ 2,142,729</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ 227,796	\$ (744,896)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	949,096	766,841
(Increase) Decrease in accounts receivable	(19,817)	25,638
(Increase) Decrease in prepaid expenses	(125,916)	21,538
Increase (Decrease) in accounts payable	84,708	(3,547)
Increase (Decrease) in accrued wages and vacation	90	4,719
Increase (Decrease) in customer deposits	84,580	45,630
Increase (Decrease) in deferred inflows	23,712	(24,290)
Net Cash Provided by Operating Activities	<u>\$ 1,224,249</u>	<u>\$ 91,633</u>

See accompanying notes

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014

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 \$10,000 at June 30, 2014.

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, 2014

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, 2014. 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, 2014

Note 2 – Cash and Investments (Continued)

Cash and Investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 3,112,201
Restricted cash and cash equivalents	68,340
Investments	757,389
	<u>\$ 3,937,930</u>

Cash and Investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	3,180,041
Certificates of Deposit	750,000
Principal Financial Common Stock	7,389
Total Cash and Investments	<u>\$ 3,937,930</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, 2014

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>
Certificates of Deposit	\$ 750,000	\$ -	\$ -	\$ 750,000
Common Stock	7,389	-	-	7,389
Total Investments	<u>\$ 757,389</u>	<u>\$ -</u>	<u>\$ -</u>	757,389
Cash in bank and on hand				3,180,541
Total Cash and Investments				<u>\$ 3,937,930</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, 2014, 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, 2014

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 1,642,860	\$ -	\$ -	\$ 1,642,860
Construction in progress	73,860	183,514	-	257,374
Total capital assets, not being depreciated	<u>1,716,720</u>	<u>183,514</u>	<u>-</u>	<u>1,900,234</u>
Capital assets, being depreciated				
Buildings and improvements	26,319,084	51,568	-	26,370,652
Equipment and machinery	751,113	15,558	-	766,671
Total capital assets, being depreciated	<u>27,070,197</u>	<u>67,126</u>	<u>-</u>	<u>27,137,323</u>
Less accumulated depreciation for				
Buildings and improvements	(11,728,573)	(925,104)	-	(12,653,677)
Equipment and machinery	(708,249)	(23,992)	-	(732,241)
Total accumulated depreciation	<u>(12,436,822)</u>	<u>(949,096)</u>	<u>-</u>	<u>(13,385,918)</u>
Total capital assets, being depreciated, net	<u>14,633,375</u>	<u>(881,970)</u>	<u>-</u>	<u>13,751,405</u>
Total capital assets, net	<u>\$ 16,350,095</u>	<u>\$ (698,456)</u>	<u>\$ -</u>	<u>\$ 15,651,639</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, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Department of Boating and Waterways Loan	\$ 933,360	\$ -	\$ (75,474)	\$ 857,886	\$ 78,869
CIEDB Installment Sale Loan	3,387,047	-	(135,379)	3,251,668	140,429
Union Bank Note Payable	488,880	-	(47,791)	441,089	50,274
Municipal Finance Corporation Lease	341,998	-	(31,080)	310,918	32,618
Total Long-term Debt	<u>\$ 5,151,285</u>	<u>\$ -</u>	<u>\$ (289,724)</u>	<u>\$ 4,861,561</u>	<u>\$ 302,190</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Note 4 – Long-Term Debt (Continued)

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. Outstanding balances accrue interest at 4.5% per annum. Principal and interest payments of \$117,475 are due annually. These loans mature between August 2020 and August 2025.

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. Outstanding balances accrue interest at 3.73% per annum. Fluctuating principal and interest payments are due in February and August each year. All amounts outstanding are due by August 2030.

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. Principal and interest payments of \$71,515 are due annually. Outstanding balances accrue interest at 5% per annum. This note matures in November 2016.

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. Principal and interest payments of \$48,008 are due annually. Outstanding balances accrue interest at 4.95% per annum. This agreement matures in December 2021.

Debt Service Requirements

The annual requirement to amortize the principal and interest on the above long-term debt at June 30, 2014 were as follows:

Years ending June 30,	Principal	Interest	Total
2015	\$ 302,190	\$ 193,874	\$ 496,064
2016	315,184	180,814	495,998
2017	328,814	167,082	495,896
2018	342,993	152,799	495,792
2019	357,793	137,889	495,682
2020 - 2024	1,531,792	465,508	1,997,300
2025 - 2029	1,187,227	203,677	1,390,904
2030 - 2031	495,568	18,652	514,220
	<u>\$ 4,861,561</u>	<u>\$ 1,520,295</u>	<u>\$ 6,381,856</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 5 – Grant Revenues

Grant revenues recognized during the year ended June 30, 2014 and 2013, 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. Total estimated project cost is \$2,668,834 of which the District has been granted reimbursement approval for \$2,001,626 or 75%. As of the year ended June 30, 2014, the District had submitted reimbursements for \$1,742,527. As of the date of the report, the District had received reimbursement for the majority of this amount. The District has recorded a receivable for \$286,344 as of June 30, 2014 for reimbursement of grant expenditures to CalEMA.

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%.

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

Subsequent to the fiscal year ending June 30, 2014, the District refinanced all of its outstanding debt. The new financing involves the Series 2014 Harbor Enterprise Revenue Refunding Loan issued in the amount of \$4,727,861. The refinancing reduces the District's interest rate to 2.85% from existing rates ranging from 3.73% to 5%.

SUPPLEMENTAL ONLY INFORMATION

MOSS LANDING HARBOR DISTRICT

STATEMENT OF TRUST REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

Operating Revenues

Assigned Berthing	\$ 1,427,124
Temporary Berthing	177,190
Transient Berthing	64,865
Quarterly/Annual Discount	(4,472)
Commercial Vessel Discount	(14,596)
Away (1 month) Discount	(2,489)
Towing - Intra Harbor	1,800
Pumpouts	950
Total operating revenues	<u>1,650,371</u>

Operating Expenses

Personnel	715,933
General and administrative	152,666
Repairs and maintenance	251,034
Operating supplies	22,371
Commissioner	13,620
Total operating expenses	<u>1,155,624</u>

Operating income/(loss) 494,747

Change in Net Position

494,747

Net Position

Beginning of year	-
End of year	<u>\$ 494,747</u>

**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, 2014, 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 23, 2014.

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.

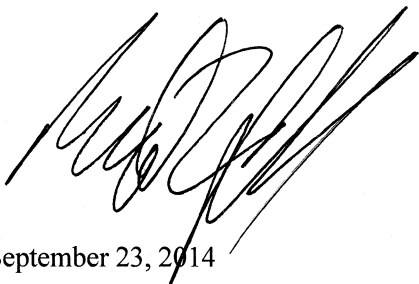
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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, consisting of several loops and strokes, positioned above the date.

September 23, 2014

MOSS LANDING HARBOR DISTRICT

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

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Board of Commissioners
Moss Landing Harbor District
Moss Landing, California

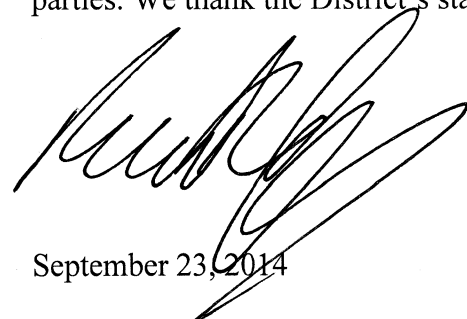
In planning and performing our audit, we considered the Moss Landing Harbor District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. 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.

We previously reported on the District's internal control in our report dated September 23, 2014. This letter does not affect our report dated September 23, 2014 on the financial statements of the Moss Landing Harbor District.

This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the District's staff for its cooperation during our audit.



September 23, 2014

Board of Commissioners
Moss Landing Harbor District
Moss Landing, California

We have audited the financial statements of the Moss Landing Harbor District (District) for the year ended June 30, 2014, and have issued our report thereon dated September 23, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in the notes to the financial statements.

We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

Disagreements with Management

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

Consultation with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

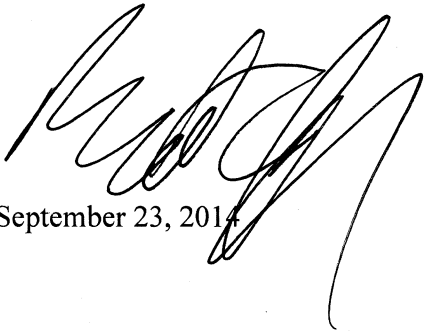
Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

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

This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.



September 23, 2014