

**MOSS LANDING
HARBOR DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010

AND INDEPENDENT AUDITORS' REPORT

MOSS LANDING HARBOR DISTRICT

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INDEPENDENT AUDITORS' REPORT

**Board of Commissioners
Moss Landing Harbor District
Moss Landing, California**

We have audited the accompanying statements of financial position of the *Moss Landing Harbor District* (a California non-taxable government entity) as of June 30, 2011 and 2010, and the related statements of revenues, expenses, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Management's discussion and analysis and the budgetary comparison information on pages 2 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 8, 2011

**MOSS LANDING HARBOR DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010**

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, 2011 and 2010. 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 were \$2,597,646 in 2011, \$2,435,058 in 2010 and \$2,346,754 in 2009. Operating revenues were above budget by \$283,562, or 12.2%, in 2011. Berthing income increased by \$126,813 in 2011, due primarily to an increase in assigned, temporary and transient berthing occupancy. Berthing and related revenues were above budget by \$167,772, or 9.4%. Rent, concessions and other income increased by \$24,512, which was primarily due to an increase in the Cannery building lease income.

In the year ended June 30, 2011, the District's property tax revenues decreased by \$7,989 and grant revenues decreased by \$19,998 due to a one time only grant received in the prior year to facilitate in the disposal of non-operating vessels.

Operating expenses (before depreciation) were \$1,538,894 in 2011, \$1,364,878 in 2010, and \$1,382,133 in 2009. The current year costs were up from the prior year by 12%, or \$174,016, and below budget by \$751,438, or 32.8%. The decrease in expenses as compared to budget was due to lower than anticipated costs for dredging of \$366,819, and for election costs of \$377,850, which were budgeted but were not necessary to expend in the current year. General and administrative expenses were above budgeted amounts primarily due to higher than anticipated professional services.

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, 2011 and 2010. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to a 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 net assets. Over time, increases or decreases in net assets 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 Assets – presents information showing how the District’s net assets changed during the fiscal year. All changes in net assets 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

A summary statement of financial position for the years ended June 30 is presented below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 3,902,463	\$ 3,131,077	\$ 2,854,495
Capital assets, net of depreciation	<u>15,045,869</u>	<u>15,728,497</u>	<u>16,054,246</u>
Total Assets	<u><u>\$ 18,948,332</u></u>	<u><u>\$ 18,859,574</u></u>	<u><u>\$ 18,908,741</u></u>
Current liabilities	\$ 831,920	\$ 786,883	\$ 915,395
Long-term debt	<u>5,429,352</u>	<u>5,698,243</u>	<u>5,953,524</u>
Total Liabilities	<u><u>6,261,272</u></u>	<u><u>6,485,126</u></u>	<u><u>6,868,919</u></u>
Investment in capital assets, net of related debt	7,776,699	8,225,007	8,212,957
Unrestricted	<u>4,910,361</u>	<u>4,149,441</u>	<u>3,826,865</u>
Total Net Assets	<u><u>\$ 12,687,060</u></u>	<u><u>\$ 12,374,448</u></u>	<u><u>\$ 12,039,822</u></u>

A statement of major revenues and expenses and changes in net assets for the years ended June 30 is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Berthing	\$ 1,865,371	\$ 1,738,558	\$ 1,718,096
Rents	552,847	538,409	493,379
District property taxes	224,883	232,872	256,742
Operations, concessions and other	179,428	158,091	135,279
Grant revenues	-	19,998	46,323
Interest income	36,931	35,279	28,669
	<u>36,931</u>	<u>35,279</u>	<u>28,669</u>
Total revenues	<u>\$ 2,859,460</u>	<u>\$ 2,723,207</u>	<u>\$ 2,678,488</u>
Expenses			
Depreciation	\$ 768,434	\$ 764,202	\$ 705,275
Personnel	660,888	635,452	664,583
Utilities	274,936	287,630	311,002
Interest	239,520	259,501	268,802
General and administrative	356,625	285,272	298,189
Repairs and maintenance	227,604	143,300	94,412
District	18,841	13,224	13,947
	<u>18,841</u>	<u>13,224</u>	<u>13,947</u>
Total expenses	<u>\$ 2,546,848</u>	<u>\$ 2,388,581</u>	<u>\$ 2,356,210</u>

A summary of changes in net assets for the years ended June 30 is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Changes in net assets			
Operating revenues	\$ 2,597,646	\$ 2,435,058	\$ 2,346,754
Operating expenses	(1,538,894)	(1,364,878)	(1,382,133)
Depreciation	(768,434)	(764,202)	(705,275)
	<u>(768,434)</u>	<u>(764,202)</u>	<u>(705,275)</u>
Net operating income	290,318	305,978	259,346
Non-operating revenues	261,814	288,149	331,734
Non-operating expenses - interest	(239,520)	(259,501)	(268,802)
	<u>(239,520)</u>	<u>(259,501)</u>	<u>(268,802)</u>
Increase in net assets	<u>\$ 312,612</u>	<u>\$ 334,626</u>	<u>\$ 322,278</u>

BUDGET HIGHLIGHTS

The District’s budget projected operating revenues of \$2,314,084. The District finished the budget year with operating revenues of \$2,597,646, which was \$283,562 or 12.2% more than budgeted. The difference was mostly attributable to berthing and related revenues being above budget by \$155,588 and rent and other income being above budget by \$97,753 primarily due to an increase in lease income from higher than anticipated occupancy rates and a greater return on contingency rents.

Actual operating expenditures (before depreciation) totaled \$1,538,894 compared to the budgeted amount of \$2,290,332, or 32.8% less than budget. The decrease in expenses as compared to budget was due to lower than anticipated costs for dredging of \$366,819, and for election costs of \$377,850 which were budgeted, but were not necessary to expend in the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District’s capital assets, net of accumulated depreciation, at June 30, 2011, 2010 and 2009, totaled \$15,045,869, \$15,728,497 and \$16,054,246, respectively, as shown below. The 2011 balance represents a net decrease, including additions and disposals, net of depreciation, of approximately \$682,628 or 4.8% from June 30, 2010.

**Capital Assets
(Net of Accumulated Depreciation)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 1,642,860	\$ 1,642,860	\$ 1,642,860
Buildings and improvements	16,713,049	16,665,470	16,644,042
Floating docks	6,864,618	6,830,634	6,416,882
Furniture, equipment and vehicles	732,615	728,372	725,099
Total	<u>25,953,142</u>	<u>25,867,336</u>	<u>25,428,883</u>
Less accumulated depreciation	<u>(10,907,273)</u>	<u>(10,138,839)</u>	<u>(9,374,637)</u>
 Total capital assets – net	 \$ 15,045,869	 \$ 15,728,497	 \$ 16,054,246

Debt Administration

All of the District’s debt is related to the North Harbor and South Harbor facilities expansion. The District’s debt at June 30, 2011, 2010 and 2009 totaled \$5,626,310, \$5,860,630 and \$6,198,429, respectively. The balance at June 30, 2011, represents a decrease of \$234,320 or 3.9%, from 2010 due to principal payments made during the year.

Future Plans

The District is pleased that it continued to maintain its certified California Clean Marina status during the last year, which is a standard that it intends to maintain for the benefit of its tenants as well as to attract new tenants. Along this vein, the District is continuing with its piling replacement project to be completed by the 2012 fiscal year end. The electrical upgrade with dock refurbishing is now a completed project that is resulting in positive feedback and customer satisfaction. Damage from the Tsunami in 2011 escalated this project to replace 200 pilings during this fiscal year, rather than phasing in replacement of fewer pilings over several fiscal years. Dredging and shoreline erosion repairs were also slated for future years but have been escalated to the 2011–2012 fiscal year because of Tsunami damage. FEMA is slated to cover 75% of the projected costs of these three projects, and the District will contribute the remaining 25%. A lease for construction and operation of a new restaurant at the North Harbor is currently in negotiations. The Architectural/Engineering Services Agreements have been approved to prepare the rendering and engineering plans for construction of the restaurant. This will complete the first phase of the North Harbor Improvement Project. Installations of some lighting at North Harbor, as well as paving the utility pit, are projects that have been completed during this fiscal year. A project including grading, landscaping, adding new picnic tables and beautifying the Community Park next to A Dock was completed, as well as beautifying the walkway between the maintenance dock and B dock with compacted decomposed granite and flowers. The District's webpage has been upgraded and continues to receive compliments on its thoroughness and attractiveness. Key words are being added to the webpage that will cause "Moss Landing Harbor" to pop up whenever someone enters a particular word in their search engine. It is hopeful that all of these efforts will increase revenue by attracting new tenants.

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 finances. If you have questions about this report or need additional financial information, contact the Moss Landing Harbor District at 7881 Sandholdt Road, Moss Landing, CA 95039, by calling (831) 633-5417 or by visiting the District's internet page at www.mosslandingharbor.dst.ca.us.

FINANCIAL STATEMENTS

MOSS LANDING HARBOR DISTRICT
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,240,282	\$ 1,235,638
Accounts receivable, net	92,897	75,680
Prepaid expenses and other current assets	69,284	69,759
Investments	<u>1,500,000</u>	<u>1,750,000</u>
Total current assets	<u>3,902,463</u>	<u>3,131,077</u>
CAPITAL ASSETS:		
Land	1,642,860	1,642,860
Depreciable property and equipment, net	<u>13,403,009</u>	<u>14,085,637</u>
Total capital assets	<u>15,045,869</u>	<u>15,728,497</u>
TOTAL ASSETS	<u>\$ 18,948,332</u>	<u>\$ 18,859,574</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 28,683	\$ 42,579
Accrued wages and vacation pay	78,394	77,113
Accrued interest	77,283	70,211
Current portion of long-term debt	196,958	162,387
Deferred revenue	195,422	208,859
Customer deposits	<u>255,180</u>	<u>225,734</u>
Total current liabilities	<u>831,920</u>	<u>786,883</u>
LONG-TERM LIABILITIES –		
Long-term debt, net of current portion	<u>5,429,352</u>	<u>5,698,243</u>
Total liabilities	<u>6,261,272</u>	<u>6,485,126</u>
NET ASSETS:		
Invested in capital assets, net of related debt	7,776,699	8,225,007
Unrestricted	<u>4,910,361</u>	<u>4,149,441</u>
Total net assets	<u>12,687,060</u>	<u>12,374,448</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,948,332</u>	<u>\$ 18,859,574</u>

See Notes to Basic Financial Statements.

**MOSS LANDING HARBOR DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Berthing	\$ 1,865,371	\$ 1,738,558
Rent	552,847	538,409
Operations	73,000	61,737
Concessions and other revenues	<u>106,428</u>	<u>96,354</u>
Total operating revenues	<u>2,597,646</u>	<u>2,435,058</u>
OPERATING EXPENSES:		
Depreciation	768,434	764,202
Personnel	660,888	635,452
Utilities	274,936	287,630
General and administrative	182,933	124,824
Insurance	100,493	102,920
Repairs and maintenance	227,604	143,300
Operating supplies	16,123	25,710
Bad debt	46,516	25,500
Commissioner	18,841	13,224
Miscellaneous	<u>10,560</u>	<u>6,318</u>
Total operating expenses	<u>2,307,328</u>	<u>2,129,080</u>
NET OPERATING INCOME	<u>290,318</u>	<u>305,978</u>
NON-OPERATING REVENUES (EXPENSES):		
Grant revenues	-	19,998
District taxes	224,883	232,872
Interest income	36,931	35,279
Interest expense	<u>(239,520)</u>	<u>(259,501)</u>
Total non-operating revenues (expenses)	<u>22,294</u>	<u>28,648</u>
CHANGE IN NET ASSETS	312,612	334,626
NET ASSETS –		
Beginning of year	<u>12,374,448</u>	<u>12,039,822</u>
End of year	<u>\$ 12,687,060</u>	<u>\$ 12,374,448</u>

See Notes to Basic Financial Statements.

**MOSS LANDING HARBOR DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,580,904	\$ 2,405,592
Cash paid to suppliers	(875,893)	(716,779)
Cash paid to employees	(659,607)	(626,531)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,045,404</u>	<u>1,062,282</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	36,931	35,279
Purchases of investments	-	(1,750,000)
Maturities of investments	250,000	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>286,931</u>	<u>(1,714,721)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received from grants	-	19,998
Cash received from district taxes	224,883	232,872
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>224,883</u>	<u>252,870</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	(234,320)	(337,799)
Interest paid on long-term debt	(232,448)	(327,063)
Purchases of property and equipment	(85,806)	(438,453)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(552,574)</u>	<u>(1,103,315)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,004,644	(1,502,884)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,235,638</u>	<u>2,738,522</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,240,282</u>	<u>\$ 1,235,638</u>

MOSS LANDING HARBOR DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(Continued)

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 290,318	\$ 305,978
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	768,434	764,202
CHANGES IN ASSETS AND LIABILITIES:		
Accounts receivable	(17,217)	(27,474)
Prepaid expenses and other current assets	475	(1,992)
Accounts payable	(13,896)	(38,773)
Accrued wages and vacation pay	1,281	8,921
Deferred revenue	(13,437)	31,360
Customer deposits	<u>29,446</u>	<u>20,060</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,045,404</u>	<u>\$ 1,062,282</u>

See Notes to Basic Financial Statements.

**MOSS LANDING HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1. ORGANIZATION

The Moss Landing Harbor District (the "District") was formed in 1947 as a non-taxable government entity under 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 the 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus – The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Operating revenues are generated by the berthing, rental, concessions and other operations of the harbor facilities; operating expenses include the maintenance of the facilities. Management, administration, bad debts and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Investment earnings are accrued. Earned but unbilled revenues are accrued and reported in the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Included in cash and cash equivalents, is restricted cash that is kept in a separate bank account to be used for capital projects. Restricted cash at June 30, 2011 and 2010 totaled \$ –0– and \$1,269, respectively.

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

Accounts Receivables – 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 \$25,486 and \$30,000 at June 30, 2011 and 2010, respectively.

Capital Assets – Capital assets are stated at cost. Gifts or contributions of such assets are stated at their estimated fair market value at the date received.

Depreciation has been computed over the following estimated useful lives using the straight-line method:

Land improvements	10 to 40 Years
Buildings and improvements	10 to 40 Years
Furniture, equipment and vehicles	3 to 20 Years

Depreciation of assets is recorded as an expense in the statements of revenues, expenses and changes in net assets. Land and construction in progress are not depreciated.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital 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.

Revenues and Expenses – Revenues are recognized when earned. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for rent. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions. When an expense is incurred for which there are both restricted and unrestricted net assets available, it is the District’s policy to apply these expenses to restricted net assets to the extent that such are available and then to unrestricted net assets.

Compensated Absences – The District’s personnel policy provides full-time employees with vacation and sick leave in varying amounts. At termination, unrepresented employees are paid for accumulated (vested) vacation and one-half of their sick leave. Accordingly, compensation for vacation and sick leave is charged to expense as earned by the employee and accumulated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue – Deferred revenue represents amounts collected before year-end which were not earned as of June 30, 2011 and 2010. All deferred revenue is expected to be earned within the following year.

Budget Policy – The District adopts an annual budget. The budget includes expenditures and the means of financing them and is used for planning purposes. The budget is prepared on the accrual basis.

Net Assets – The District’s net assets are required to be classified for accounting and reporting purposes into the following net asset categories:

Invested in Capital Assets, Net of Related Debt – This component of net assets, includes restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.

Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – Provisions for income taxes are not recorded since Moss Landing Harbor District is a special district in Monterey County and is not subject to income taxes.

Subsequent Events – Subsequent events have been evaluated through December 8, 2011, which is the date the financial statements were available to be issued.

NOTE 3. CONCENTRATION OF CREDIT RISK

The District maintains its cash account in commercial banks. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, a State regulation requires the Bank to place collateral on public funds deposits. The regulation stipulates that all deposits made by public entities made to accounts held at FDIC insured institutions must be collateralized at a rate of 110% by securities, which are held for the benefit of the entity. Therefore, no balances as of June 30, 2011 and 2010 are uninsured.

NOTE 4. CAPITAL ASSETS

Capital assets experienced the following changes for the year ended June 30, 2011:

	<u>Balance Beginning of Year</u>	<u>Current Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Land	\$ 1,642,860	\$ —	\$ —	\$ 1,642,860
Buildings and improvements	23,496,104	81,563	—	23,577,667
Furniture, equipment, and vehicles	<u>728,372</u>	<u>4,243</u>	<u>—</u>	<u>732,615</u>
Total capital assets	25,867,336	85,806	—	25,953,142
Less accumulated depreciation	<u>(10,138,839)</u>	<u>(768,434)</u>	<u>—</u>	<u>(10,907,273)</u>
Capital assets – net	<u>\$15,728,497</u>	<u>\$ (682,628)</u>	<u>\$ —</u>	<u>\$15,045,869</u>

Capital assets experienced the following changes for the year ended June 30, 2010:

	<u>Balance Beginning of Year</u>	<u>Current Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Land	\$ 1,642,860	\$ —	\$ —	\$ 1,642,860
Buildings and improvements	23,060,924	435,180	—	23,496,104
Furniture, equipment, and vehicles	<u>725,099</u>	<u>3,273</u>	<u>—</u>	<u>728,372</u>
Total capital assets	25,428,883	438,453	—	25,867,336
Less accumulated depreciation	<u>(9,374,637)</u>	<u>(764,202)</u>	<u>—</u>	<u>(10,138,839)</u>
Capital assets – net	<u>\$16,054,246</u>	<u>\$ (325,749)</u>	<u>\$ —</u>	<u>\$15,728,497</u>

Depreciation expense was \$768,434 and \$764,202 for the years ended June 30, 2011 and 2010, respectively.

NOTE 5. LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Loans payable to State of California Department of Boating and Waterways (DBAW) with maximum commitment of \$2,850,000, for the purpose of funding the North Harbor Expansion project. 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.	\$ 1,005,584	\$ 1,077,305
Installment sale payable to the 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 balance accrues 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.	3,643,376	3,764,668
Unsecured term note payable to Santa Barbara Bank & Trust, formerly First National Bank of Central California, with a maximum commitment of \$750,000. Principal and interest payments of \$71,515 are due annually. Outstanding balance accrues interest at 5% per annum. This note matures on November 2021.	577,521	618,828
Lease payments to Municipal Finance Corporation totaling \$500,000 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 balance accrues interest at 4.95% per annum. This agreement matures in December 2021.	<u>399,829</u>	<u>399,829</u>
Total long-term debt	\$ 5,626,310	\$ 5,860,630
Less current portion	<u>196,958</u>	<u>162,387</u>
Long-term debt, non-current portion	<u>\$ 5,429,352</u>	<u>\$ 5,698,243</u>

NOTE 5. LONG-TERM DEBT (Continued)

Total interest expense incurred in the years ended June 30, 2011 and 2010 was \$239,520 and \$259,501, respectively, all of which was charged to operations.

First National Bank of Central California and The California Infrastructure and Economic Development Bank require the District to meet certain financial statement covenants.

Aggregate maturities or payments of principal and interest under long-term debt as of June 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 196,958	\$ 181,917	\$ 378,875
2013	277,268	218,489	495,757
2014	289,344	206,471	495,815
2015	301,761	193,925	495,686
2016	315,537	180,816	496,353
2017 – 2021	1,793,102	683,019	2,476,121
2022 – 2026	1,265,780	329,185	1,594,965
2027 – 2031	1,115,000	98,659	1,213,659
Thereafter	<u>71,560</u>	<u>–</u>	<u>71,560</u>
Total	<u>\$ 5,626,310</u>	<u>\$ 2,092,481</u>	<u>\$ 7,718,791</u>

NOTE 6. GRANT REVENUES

Grant revenues received during the years ended June 30, were comprised of grant awards received for the removal of abandoned watercraft and the North Harbor Expansion project from the following sources:

	<u>2011</u>	<u>2010</u>
Department of Boating and Waterways	\$ –	\$ 19,998
	<u>\$ –</u>	<u>\$ 19,998</u>

NOTE 7. RENTAL INCOME

The District is the lessor of land and improvements under operating leases expiring in various years through 2053. Future minimum lease payments to be received on non-cancelable operating leases as of June 30, 2011, for each of the next five years and thereafter are as follows:

2012	\$ 384,642
2013	371,153
2014	363,216
2015	363,216
2016	346,947
Thereafter	<u>6,253,522</u>
	<u>\$ 8,082,696</u>

Future minimum rentals do not include contingent rentals that may be received under certain leases based on the volume of business conducted by the lessee. Total contingent rentals for the years ended June 30, 2011 and 2010 were \$31,161 and \$18,690, respectively.

NOTE 8. RETIREMENT PLANS

Moss Landing Harbor District provides benefits to all of its employees through a defined contribution plan (SEP-IRA). The plan covers all full-time employees including those working under collective bargaining agreements.

In July 2000, the District established a 457/401(a) defined 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 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%. The District's plans include contributions to California Public Employees' Retirement System (PERS), Variable Annuity Life Insurance Company (VALIC), and Principal Financial Group. For the years ended June 30, 2011 and 2010, the District's contributions to the SEP-IRA, 401(a), and 457 plans were \$104,163 and \$98,850, respectively.

NOTE 9. RISK MANAGEMENT

The District covers its liability for significant claims by purchasing workers' compensation, property and liability insurance. There have been no significant reductions in insurance coverage in the current year. Settlement amounts have not materially exceeded insurance coverage for the years ended June 30, 2011 and 2010.

NOTE 10. SUBSEQUENT EVENTS

In July 2011, the District applied for Federal Emergency Management Agency (FEMA) funding to assist with North and South Harbor pilings replacement and dredging expenses caused by the March 2011 tsunami. FEMA has approved the \$2,792,421 request, but the District has not received any federal funds as of December 8, 2011.