

MOSS LANDING HARBOR DISTRICT

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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

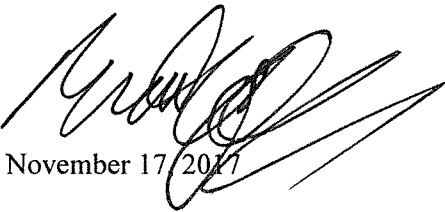
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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, 2017, 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 November 17, 2017 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.



November 17, 2017

**MOSS LANDING HARBOR DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

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, 2017 and 2016. 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 \$3,178,192 in 2017, \$3,042,887 in 2016 and \$3,158,567 in 2015. Operating revenues were above budget by \$135,305, or 4.45%, in 2017. Berthing income and related revenues increased by \$79,638, or 4%, in 2017. Berthing and related revenues were above budget by \$20,644, or .92%. Rent, concessions and other income increased by \$56,667, or 6.65%, over the prior year. The increase in revenue over the prior year is primarily due to higher triple net and percentage rent income in the current year. Rent, concessions and other income were above budget by \$23,027, or 2.61%.

The District's property tax revenues increased by \$10,138. Grant revenues increased by \$587,412, due to completion of grant related projects and the final amounts to be received from the Federal Emergency Management Agency (FEMA) for those projects which was in response to damage incurred from the tsunami in March 2011.

Operating expenses (before depreciation) were \$2,571,077 in 2017, \$1,676,999 in 2016, and \$1,840,125 in 2015. The current year costs were higher than the prior year by \$894,078, or 53.31%, and below budget by \$273,125 or 9.60%. The increase in expenses as compared to the prior year was due tsunami shoreline repairs in the current 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.

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, 2017. 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 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 net position 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 net position for years ended June 30, are presented below.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 7,732,167	\$ 6,935,488	\$ 6,074,144
Non-current assets	7,389	7,389	7,389
Capital assets, net of depreciation	<u>13,683,203</u>	<u>14,208,983</u>	<u>14,821,489</u>
 Total assets	 <u>\$ 21,422,759</u>	 <u>\$ 21,151,860</u>	 <u>\$ 20,903,022</u>
Current liabilities	\$ 1,159,670	\$ 1,231,245	\$ 1,218,638
Long-term debt	<u>3,820,304</u>	<u>4,046,718</u>	<u>4,406,076</u>
 Total liabilities	 <u>\$ 4,979,974</u>	 <u>\$ 5,277,963</u>	 <u>\$ 5,624,714</u>
Net investment in capital assets	\$ 9,636,485	\$ 9,802,907	\$ 10,065,588
Net position	<u>6,810,456</u>	<u>6,070,990</u>	<u>5,212,720</u>
 Total net position	 <u>\$ 16,446,941</u>	 <u>\$ 15,873,897</u>	 <u>\$ 15,278,308</u>

A summary of changes in net position is presented below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Changes in net position			
Operating revenues	\$ 3,178,192	\$ 3,042,887	\$ 3,158,567
Operating expenses	(2,575,132)	(1,676,999)	(1,840,125)
Depreciation	<u>(924,813)</u>	<u>(920,234)</u>	<u>(945,417)</u>
 Net operating income	 (321,753)	 445,654	 373,025
Non-operating revenues	1,006,826	276,337	771,436
Non-operating expenses - interest	<u>(116,185)</u>	<u>(126,402)</u>	<u>(179,486)</u>
 Increase in net position	 <u>\$ 568,888</u>	 <u>\$ 595,589</u>	 <u>\$ 964,975</u>

Financial Analysis of the District as a Whole (Continued)

A statement of major revenues and expenses is presented below,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Berthing	\$ 2,271,650	\$ 2,192,012	\$ 2,182,094
Rents	592,297	544,426	598,525
District property taxes	279,193	269,055	258,407
Operations, concessions and other	449,487	306,449	377,948
Grant revenues	587,412	-	506,041
Interest income	4,979	7,282	6,988
	<u>4,185,018</u>	<u>3,319,224</u>	<u>3,930,003</u>
Total revenues	<u>\$ 4,185,018</u>	<u>\$ 3,319,224</u>	<u>\$ 3,930,003</u>
Expenses			
Depreciation	\$ 924,813	\$ 920,234	\$ 945,417
Personnel	692,184	687,422	711,905
Utilities	343,239	339,780	335,274
Interest	116,185	126,402	179,486
General and administrative	291,852	356,589	441,045
Repairs and maintenance	1,040,292	279,224	175,069
District	203,410	13,984	176,832
	<u>3,611,975</u>	<u>2,723,635</u>	<u>2,965,028</u>
Total expenses	<u>\$ 3,611,975</u>	<u>\$ 2,723,635</u>	<u>\$ 2,965,028</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 sea lion deterrent fencing where appropriate. Plans for further development at North Harbor have been undertaken. The District is seeking FEMA assistance to conduct dredging in North and South Harbors necessitated by the Atmospheric River Storm event that occurred in early 2017. Tsunami-related shoreline erosion repairs in 3 locations were completed with FEMA paying 75% of the costs and the District paying the remaining 25%. Shoreline erosion repairs at the Maintenance Dock, which houses our vessel pump-out facilities, are underway. A new building at the North Harbor is under construction and efforts to secure a lease for the new building will be undertaken during the 2017/2018 fiscal year. New replacement slips and dock were installed on B Dock where our largest slips are located. Slip occupancy has been at or near 100% as we continue to welcome numerous permanent and temporary slip holders who had previously been in other harbors but chose Moss Landing because of its reasonable prices and overall improvements. All of these efforts should maintain revenue and attract tenants.

Budget Highlights

The District's budget projected operating revenues of \$3,134,522. The District finished the budget year with operating revenues of \$3,178,192, which was \$43,671 or 1.39% more than budgeted.

The District's budget projected expenditures (before depreciation) of \$2,844,100. The District finished the budget year with expenditures of \$2,575,132, which was \$268,968 or 9.46% less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2017, 2016 and 2015, totaled \$13,683,203, \$14,208,983, and \$13,178,629, respectively, as shown below. This amount represents a net decrease, including additions and disposals, net of depreciation, of \$525,780, or 3.7% from June 30, 2016. This change is largely due to depreciation expense.

Capital Assets (Net of Depreciation)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,642,860	\$ 1,642,860	\$ 1,642,860
Buildings and improvements	16,777,554	17,011,483	16,793,849
Floating docks	9,893,752	9,659,823	9,623,001
Construction in progress	765,451	366,418	319,505
Equipment	<u>779,968</u>	<u>779,968</u>	<u>773,609</u>
	29,859,585	29,460,552	29,152,824
Less depreciation	<u>16,176,382</u>	<u>15,251,569</u>	<u>14,331,335</u>
	<u>\$ 13,683,203</u>	<u>\$ 14,208,983</u>	<u>\$ 14,821,489</u>

Debt Administration

All of the District's debt is related to the North Harbor facilities expansion, Cannery building improvements and the development of the K-Pier. The District's debt at June 30, 2017, 2016 and 2015, totaled \$4,046,718, \$4,406,076, and \$4,755,901, respectively. This represents a decrease of \$359,358, or 8.2%, from 2016. 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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,886,065	\$ 5,314,544
Restricted cash and cash equivalents	1,131,077	1,518,502
Accounts receivable, net	90,063	64,260
Grant receivable	587,412	-
Prepaid expenses and other current assets	37,550	38,182
Total current assets	<u>7,732,167</u>	<u>6,935,488</u>
Non-current assets		
Investments	7,389	7,389
Capital assets, net of allowance for depreciation	13,683,203	14,208,983
Total non-current assets	<u>13,690,592</u>	<u>14,216,372</u>
Total assets	<u>21,422,759</u>	<u>21,151,860</u>
LIABILITIES		
Current liabilities		
Accounts payable	161,846	58,275
Accrued wages and vacation	100,356	101,371
Accrued interest	48,055	52,322
Deposits	480,266	412,261
Current portion of long-term debt	369,147	359,358
Total current liabilities	<u>1,159,670</u>	<u>983,587</u>
Non-current liabilities		
Long-term debt	3,677,571	4,046,718
Total non-current liabilities	<u>3,677,571</u>	<u>4,046,718</u>
Total liabilities	<u>4,837,241</u>	<u>5,030,305</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned berth fees and lease receipts	142,733	247,658
Total deferred inflow of resources	<u>142,733</u>	<u>247,658</u>
NET POSITION		
Net investment in capital assets	9,636,485	9,802,907
Restricted for public land use	121,468	510,407
Restricted for debt service	1,009,609	1,008,096
Unrestricted	5,675,223	4,552,487
Total net position	<u>\$ 16,442,785</u>	<u>\$ 15,873,897</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Berthing	\$ 2,271,650	\$ 2,192,012
Rent	592,297	544,426
Operations	153,368	143,581
Concessions and other revenues	160,877	162,868
Total operating revenues	<u>3,178,192</u>	<u>3,042,887</u>
Operating Expenses		
Personnel	692,184	687,422
Utilities	347,394	339,780
General and administrative	291,852	171,641
Insurance	124,653	115,426
Repairs and maintenance	1,040,292	279,224
Operating supplies	28,666	28,328
Bad debt	21,250	25,500
Commissioner	13,043	13,984
Miscellaneous	15,798	15,694
Depreciation	924,813	920,234
Total operating expenses	<u>3,499,945</u>	<u>2,597,233</u>
Operating income/(loss)	<u>(321,753)</u>	<u>445,654</u>
Nonoperating Revenues/(Expenses)		
Grant revenues	587,412	-
Property taxes	279,193	269,055
Other income	135,242	-
Interest income	4,979	7,282
Interest expense	(116,185)	(126,402)
Total non-operating revenues/(expenses)	<u>890,641</u>	<u>149,935</u>
Change in Net Position	568,888	595,589
Net Position		
Beginning of year	15,873,897	15,278,308
End of year	<u>\$ 16,442,785</u>	<u>\$ 15,873,897</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from customers and users	\$ 3,115,469	\$ 3,135,312
Payments to suppliers for goods and services	(1,778,745)	(1,029,219)
Payments to employees for services	(693,199)	(690,674)
Net cash provided by operating activities	<u>643,525</u>	<u>1,415,419</u>
Noncapital Financing Activities		
Property taxes received	<u>279,193</u>	<u>269,055</u>
Net cash provided by noncapital financing activities	<u>279,193</u>	<u>269,055</u>
Capital and Related Financing Activities		
Acquisition of capital assets	(399,033)	(307,728)
Payments received from insurance proceeds	135,242	-
Principal paid on long-term debt	(359,358)	(349,825)
Interest paid on long-term debt	(120,452)	(130,558)
Net cash provided by (used in) capital and related financing activities	<u>(743,601)</u>	<u>(788,111)</u>
Investing Activities		
Interest received	<u>4,979</u>	<u>7,282</u>
Net cash provided by investing activities	<u>4,979</u>	<u>7,282</u>
Net Increase in Cash and Cash Equivalents	184,096	903,645
Cash and Cash Equivalents		
Beginning of year	<u>6,833,046</u>	<u>5,929,401</u>
End of year	<u>\$ 7,017,142</u>	<u>\$ 6,833,046</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ (321,753)	\$ 445,654
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	924,813	920,234
(Increase) Decrease in accounts receivable	(25,803)	(43,357)
(Increase) Decrease in prepaid expenses	632	151,956
Increase (Decrease) in accounts payable	103,571	(46,918)
Increase (Decrease) in accrued wages and vacation	(1,015)	1,935
Increase (Decrease) in customer deposits	68,005	(3,227)
Increase (Decrease) in deferred inflows	<u>(104,925)</u>	<u>1,086</u>
Net Cash Provided by Operating Activities	<u>\$ 643,525</u>	<u>\$ 1,427,363</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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, 2017

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 Principal Financial common stock. Investments are stated at fair value. This investment is a Level 1 Input as the valuation methodology is based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

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 \$25,395 at June 30, 2017.

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, 2017

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. Currently, there are only two employees who qualify for payout of sick leave 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, 2017. 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, 2017

Note 2 – Cash and Investments (Continued)

Cash and Investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 5,886,065
Restricted cash and cash equivalents	1,131,077
Investments	<u>7,389</u>
	<u>\$ 7,024,531</u>

Cash and Investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	7,016,642
Principal Financial Common Stock	<u>7,389</u>
Total Cash and Investments	<u>\$ 7,024,531</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, 2017

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				7,017,142
Total Cash and Investments				<u>\$ 7,024,531</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, 2017, 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, 2017

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets, not being depreciated				
Land	\$ 1,642,860	\$ -	\$ -	\$ 1,642,860
Construction in progress	366,418	399,033	-	765,451
Total capital assets, not being depreciated	<u>2,009,278</u>	<u>399,033</u>	<u>-</u>	<u>2,408,311</u>
Capital assets, being depreciated				
Buildings and improvements	26,671,306	-	-	26,671,306
Equipment and machinery	779,968	-	-	779,968
Total capital assets, being depreciated	<u>27,451,274</u>	<u>-</u>	<u>-</u>	<u>27,451,274</u>
Less accumulated depreciation for				
Buildings and improvements	(14,492,880)	(918,636)	-	(15,411,516)
Equipment and machinery	(758,689)	(6,177)	-	(764,866)
Total accumulated depreciation	<u>(15,251,569)</u>	<u>(924,813)</u>	<u>-</u>	<u>(16,176,382)</u>
Total capital assets, being depreciated, net	<u>12,199,705</u>	<u>(924,813)</u>	<u>-</u>	<u>11,274,892</u>
Total capital assets, net	<u>\$ 14,208,983</u>	<u>\$ (525,780)</u>	<u>\$ -</u>	<u>\$ 13,683,203</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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, 2016	Additions	Retirements	Balance June 30, 2017	Current Portion
2014 Harbor Enterprise Revenue Refunding Loan	\$ 4,406,076	\$ -	\$ (359,358)	\$ 4,046,718	\$ 369,147
Total Long-term Debt	<u>\$ 4,406,076</u>	<u>\$ -</u>	<u>\$ (359,358)</u>	<u>\$ 4,046,718</u>	<u>\$ 369,147</u>

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 2016 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 ending June 30, 2017. The District is also in compliance with the deposit requirement and the funded debt limitation requirement noted above.

Debt Service Requirements

The annual requirement to amortize the principal and interest on the above long-term debt at June 30, 2017 were as follows:

Years ending June 30,	Principal	Interest	Total
2018	\$ 369,147	\$ 110,071	\$ 479,218
2019	379,197	99,407	478,604
2020	389,516	88,453	477,969
2021	400,107	77,201	477,308
2022	344,871	66,585	411,456
2023 - 2027	1,265,119	213,132	1,478,251
2028 - 2031	898,761	52,031	950,792
	<u>\$ 4,046,718</u>	<u>\$ 706,880</u>	<u>\$ 4,753,598</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Note 5 – 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 salary for one union employee, 8% of base salary for all other 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 6 – 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 7 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through October 20, 2017, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 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, 2017, 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 November 17, 2017.

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.

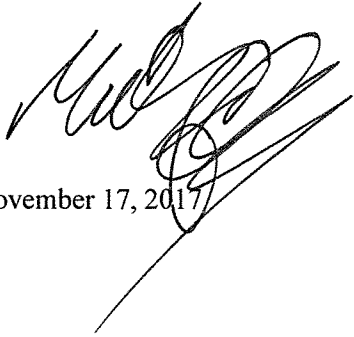
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

November 17, 2017