

MOSS LANDING HARBOR DISTRICT

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2013

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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 statement of net position as of June 30, 2013, 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. The comparative financial information as of June 30, 2012, was audited by other auditors whose report dated November 26, 2012, expressed an unqualified opinion on those 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, 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, 2012, from which such summarized information was derived.

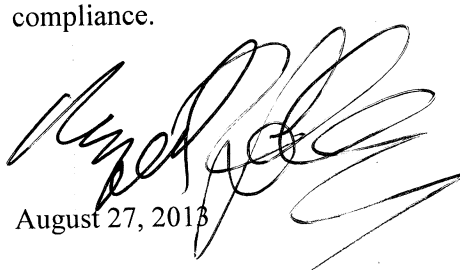
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2013 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.

August 27, 2013



**MOSS LANDING HARBOR DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

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, 2013 and 2012. 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 \$2,700,904 in 2013, \$2,631,868 in 2012 and \$2,597,646 in 2011. Operating revenues were above budget by \$266,174, or 10.9%, in 2013. Berthing income and related revenues increased by \$59,902 in 2013, due primarily to an increase in temporary and transient berthing occupancy. Berthing and related revenues were above budget by \$55,265, or 2.7%. Rent, concessions and other income increased by \$9,134, or 1.2%.

The District's property tax revenues increased by \$12,022. Grant revenues increased by \$996,377, due to proceeds from the Federal Emergency Management Agency (FEMA) in response to damage incurred from the tsunami in March 2011.

Operating expenses (before depreciation) were \$2,678,959 in 2013, \$1,623,765 in 2012, and \$1,538,894 in 2011. The current year costs were up from the prior year by \$1,055,194, or 65.0%, and above budget by \$597,100, or 28.7%. The increase in expenses as compared to budget was due to a combination of higher dredge expenses of \$1,176,651, offset by election costs of \$300,000, while budgeted were not incurred. In regard to the dredge costs, the District had provided in the budget in the previous three fiscal years a total of \$1,100,000, but only had expenses of \$242,235. 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 years ended June 30, 2013 and 2012. 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>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 2,650,196	\$ 4,494,506	\$ 3,902,463
Non-current assets	757,389	257,389	-
Capital assets, net of depreciation	<u>16,350,095</u>	<u>14,656,697</u>	<u>15,045,869</u>
 Total assets	 <u>\$ 19,757,680</u>	 <u>\$ 19,408,592</u>	 <u>\$ 18,948,332</u>
 Current liabilities	 \$ 1,057,109	 \$ 1,000,226	 \$ 831,920
Long-term debt	<u>4,861,561</u>	<u>5,152,083</u>	<u>5,429,352</u>
	-	-	-
 Total liabilities	 <u>\$ 5,918,670</u>	 <u>\$ 6,152,309</u>	 <u>\$ 6,261,272</u>
 Investment in capital assets, net of related debt	 \$ 11,198,810	 \$ 7,256,078	 \$ 7,776,699
Unrestricted	<u>2,640,200</u>	<u>6,000,205</u>	<u>4,910,361</u>
 Total net position	 <u>\$ 13,839,010</u>	 <u>\$ 13,256,283</u>	 <u>\$ 12,687,060</u>

A summary of changes in net position is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Changes in net position			
Operating revenues	\$ 2,700,904	\$ 2,631,868	\$ 2,597,646
Operating expenses	(2,678,959)	(1,623,765)	(1,538,894)
Depreciation	<u>(766,841)</u>	<u>(762,708)</u>	<u>(768,434)</u>
 Net operating income	 (744,896)	 245,395	 290,318
 Non-operating revenues	 1,537,350	 548,712	 261,814
Non-operating expenses - interest	<u>(209,728)</u>	<u>(224,712)</u>	<u>(239,520)</u>
 Increase in net position	 <u>\$ 582,726</u>	 <u>\$ 569,395</u>	 <u>\$ 312,612</u>

Financial Analysis of the District as a Whole (Continued)

A statement of major revenues and expenses is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues			
Berthing	\$ 1,932,573	\$ 1,872,671	\$ 1,865,371
Rents	552,424	524,356	552,847
District property taxes	233,341	221,319	224,883
Operations, concessions and other	215,907	234,841	176,968
Grant revenues	1,290,481	294,104	-
Interest income	13,528	33,289	39,391
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 4,238,254</u>	<u>\$ 3,180,580</u>	<u>\$ 2,859,460</u>
Expenses			
Depreciation	\$ 766,841	\$ 762,708	\$ 768,434
Personnel	693,996	686,038	660,888
Utilities	297,850	304,077	274,936
Interest	209,728	224,712	239,520
General and administrative	303,398	401,523	356,625
Repairs and maintenance	1,366,382	215,667	227,604
District	17,333	16,631	18,841
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 3,655,528</u>	<u>\$ 2,611,356</u>	<u>\$ 2,546,848</u>

Future Plans

The District is pleased that it has been 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 and ongoing dock refurbishing that are resulting in positive feedback and customer satisfaction. Damage from the Tsunami escalated the pile replacement project to replace 208 piles over the past fiscal year, rather than phasing in replacement of fewer piles over several fiscal years. Shoreline erosion repairs were also slated for future years but had been escalated because of Tsunami damage. FEMA is slated to cover 75% of the projected costs of these projects, and the District will contribute the remaining 25%. A lease for construction and operation of a new restaurant at the North Harbor has been executed; the Architectural /Engineering Services Agreement had been approved to prepare the rendering and engineering plans for construction of the restaurant and the project is in design review with Monterey County. A new entrance sign at south harbor was installed, giving greater visibility to the facilities. 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. All of these efforts should maintain revenue and attract tenants. The use of "air dancers" to deter sea lions has worked well in managing them and has been well received by our tenants and the general public.

Budget Highlights

The District's budget projected operating revenues of \$2,641,002. The District finished the budget year with operating revenues of \$2,700,904, which was \$59,902 or 2.3% more than budgeted. The difference was mostly attributable to berthing and related revenues being above budget by \$55,265 and rents, concessions and other income being above budget by \$9,134.

Actual operating expenditures (before depreciation) totaled \$1,623,765 compared to the budget amount of \$1,551,773, or 4.6% higher than budgeted. The increase in expenses as compared to budget was due to higher than anticipated costs for utilities of \$28,076, and for salaries and related costs of \$43,906, which is associated with the significant increase in berthing revenues due to a strong fishing season.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2013, 2012 and 2011, totaled \$16,350,095, \$14,656,697, and \$15,045,869, respectively, as shown below. This amount represents a net increase, including additions and disposals, net of depreciation, of approximately \$1,693,398 or 13.0% from June 30, 2012.

Capital Assets (Net of Depreciation)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,642,860	\$ 1,642,860	\$ 1,642,860
Buildings and improvements	16,726,970	16,716,548	16,713,047
Floating docks	9,592,114	6,864,618	6,864,618
Equipment	751,113	744,631	732,617
Construction in progress	73,860	358,021	-
	<u>28,786,917</u>	<u>26,326,678</u>	<u>25,953,142</u>
Less depreciation	<u>(12,436,822)</u>	<u>(11,669,981)</u>	<u>(10,907,273)</u>
	<u>\$ 16,350,095</u>	<u>\$ 14,656,697</u>	<u>\$ 15,045,869</u>

Debt Administration

All of the District's debt is related to the North Harbor facilities expansion. The District's debt at June 30, 2013, 2012 and 2011, totaled \$5,151,285, \$5,399,738, and \$5,626,310, respectively. This represents a decrease of \$248,453 or 4.6%, from 2012.

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,142,729	\$ 3,295,618
Investments	250,000	750,000
Accounts receivable, net	71,109	96,747
Grant receivable	149,858	294,104
Prepaid expenses and other current assets	36,500	58,038
Total current assets	<u>2,650,196</u>	<u>4,494,507</u>
Non-current assets		
Investments	757,389	257,389
Capital assets, net of allowance for depreciation	16,350,095	14,656,697
Total non-current assets	<u>17,107,484</u>	<u>14,914,086</u>
Total assets	<u>19,757,680</u>	<u>19,408,593</u>
LIABILITIES		
Current liabilities		
Accounts payable	32,405	35,952
Accrued wages and vacation	102,598	97,879
Accrued interest	101,016	108,714
Deposits	316,292	270,662
Current portion of long-term debt	289,724	247,655
Total current liabilities	<u>842,035</u>	<u>760,862</u>
Non-current liabilities		
Long-term debt	4,861,561	5,152,083
Total non-current liabilities	<u>4,861,561</u>	<u>5,152,083</u>
Total liabilities	<u>5,703,596</u>	<u>5,912,945</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred berth fees and lease receipts	215,074	239,364
Total deferred inflow of resources	<u>215,074</u>	<u>239,364</u>
NET POSITION		
Invested in capital assets, net of related debt	11,198,810	7,256,078
Unrestricted	2,640,200	6,000,206
Total net position	<u>\$ 13,839,010</u>	<u>\$ 13,256,284</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Berthing	\$ 1,932,573	\$ 1,872,671
Rent	552,424	524,356
Operations	76,507	86,694
Concessions and other revenues	139,400	148,147
Total operating revenues	<u>2,700,904</u>	<u>2,631,868</u>
Operating Expenses		
Personnel	693,996	686,038
Utilities	297,850	304,077
General and administrative	150,312	174,463
Insurance	109,211	108,474
Repairs and maintenance	1,366,382	215,667
Operating supplies	27,015	24,398
Bad debt	7,174	41,521
Commissioner	17,333	16,631
Miscellaneous	9,686	52,667
Depreciation	766,841	762,708
Total operating expenses	<u>3,445,800</u>	<u>2,386,644</u>
Operating income/(loss)	<u>(744,896)</u>	<u>245,224</u>
Nonoperating Revenues/(Expenses)		
Grant revenues	1,290,481	294,104
Property taxes	233,341	221,319
Interest income	13,528	33,289
Interest expense	(209,728)	(224,712)
Total non-operating revenues/(expenses)	<u>1,327,622</u>	<u>324,000</u>
Change in Net Position	582,726	569,224
Net Position		
Beginning of year	13,256,284	12,687,060
End of year	<u>\$ 13,839,010</u>	<u>\$ 13,256,284</u>

MOSS LANDING HARBOR DISTRICT

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from customers and users	\$ 2,747,882	\$ 2,687,442
Payments to suppliers for goods and services	(1,966,972)	(919,383)
Payments to employees for services	(689,277)	(666,553)
Net cash provided by operating activities	<u>91,633</u>	<u>1,101,506</u>
Noncapital Financing Activities		
Property taxes received	<u>233,341</u>	<u>221,319</u>
Net cash provided by noncapital financing activities	<u>233,341</u>	<u>221,319</u>
Capital and Related Financing Activities		
Acquisition of capital assets	(2,460,239)	(373,535)
Receipts from capital grants	1,434,727	-
Principal paid on long-term debt	(248,453)	(226,572)
Interest paid on long-term debt	(217,426)	(193,282)
Net cash used in capital and related financing activities	<u>(1,491,391)</u>	<u>(793,389)</u>
Investing Activities		
Purchases of investments	(750,000)	(1,000,000)
Maturities of investments	750,000	1,500,000
Interest received	<u>13,528</u>	<u>25,900</u>
Net cash provided by investing activities	<u>13,528</u>	<u>525,900</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,152,889)	1,055,336
Cash and Cash Equivalents		
Beginning of year	<u>3,295,618</u>	<u>2,240,282</u>
End of year	<u>\$ 2,142,729</u>	<u>\$ 3,295,618</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ (744,896)	\$ 245,224
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	766,841	762,708
(Increase) Decrease in accounts receivable	25,638	(3,850)
(Increase) Decrease in prepaid expenses	21,538	11,246
Increase (Decrease) in accounts payable	(3,547)	7,269
Increase (Decrease) in accrued wages and vacation	4,719	19,485
Increase (Decrease) in customer deposits	45,630	15,482
Increase (Decrease) in deferred inflows	<u>(24,290)</u>	<u>43,942</u>
Net Cash Provided by Operating Activities	<u>\$ 91,633</u>	<u>\$ 1,101,506</u>

See accompanying notes

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. 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.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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, 2013

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, 2013.

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, 2013

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, 2013. 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 invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - 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, 2013

Note 2 – Cash and Investments (Continued)

Cash and Investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 2,142,729
Investments	<u>1,007,389</u>
	<u>\$ 3,150,118</u>

Cash and Investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	2,142,229
Certificates of Deposit	1,000,000
Principal Financial Common Stock	<u>7,389</u>
Total Cash and Investments	<u>\$ 3,150,118</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, 2013

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	\$ 250,000	\$ 750,000	\$ -	\$ 1,000,000
Common Stock	7,389	-	-	7,389
Total Investments	<u>\$ 257,389</u>	<u>\$ 750,000</u>	<u>\$ -</u>	1,007,389
Cash in bank and on hand				2,142,729
Total Cash and Investments				<u>\$ 3,150,118</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, 2013, 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, 2013

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Capital assets, not being depreciated				
Land	\$ 1,642,860	\$ -	\$ -	\$ 1,642,860
Construction in progress	358,021	-	(284,161)	73,860
Total capital assets, not being depreciated	<u>2,000,881</u>	<u>-</u>	<u>(284,161)</u>	<u>1,716,720</u>
Capital assets, being depreciated				
Buildings and improvements	23,581,166	2,737,918	-	26,319,084
Equipment and machinery	744,631	6,482	-	751,113
Total capital assets, being depreciated	<u>24,325,797</u>	<u>2,744,400</u>	<u>-</u>	<u>27,070,197</u>
Less accumulated depreciation for				
Buildings and improvements	(10,984,748)	(743,825)	-	(11,728,573)
Equipment and machinery	(685,233)	(23,016)	-	(708,249)
Total accumulated depreciation	<u>(11,669,981)</u>	<u>(766,841)</u>	<u>-</u>	<u>(12,436,822)</u>
Total capital assets, being depreciated, net	<u>12,655,816</u>	<u>1,977,559</u>	<u>-</u>	<u>14,633,375</u>
Total capital assets, net	<u>\$ 14,656,697</u>	<u>\$ 1,977,559</u>	<u>\$ (284,161)</u>	<u>\$ 16,350,095</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.

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Department of Boating and Waterways Loan	\$ 1,005,584	\$ -	\$ (72,224)	\$ 933,360	\$ 75,474
CIEDB Installment Sale Loan	3,517,558	-	(130,511)	3,387,047	135,379
Union Bank Note Payable	534,598	-	(45,718)	488,880	47,791
Municipal Finance Corporation Lease	341,998	-	-	341,998	31,080
Total Long-term Debt	<u>\$ 5,399,738</u>	<u>\$ -</u>	<u>\$ (248,453)</u>	<u>\$ 5,151,285</u>	<u>\$ 289,724</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013 were as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 289,724	\$ 206,434	\$ 496,158
2015	302,222	193,874	496,096
2016	315,184	180,814	495,998
2017	328,814	167,082	495,896
2018	342,993	152,799	495,792
2019 - 2023	1,649,328	534,223	2,183,551
2024 - 2028	1,192,998	249,994	1,442,992
2029 - 2031	730,022	41,509	771,531
	<u>\$ 5,151,285</u>	<u>\$ 1,726,729</u>	<u>\$ 6,878,014</u>

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 5 – Grant Revenues

Grant revenues recognized during the year ended June 30, 2013 and 2012, 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, 2013, the District had submitted reimbursements for \$1,554,585. 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 \$149,858 as of June 30, 2013 for reimbursement of grant expenditures to CalEMA.

Note 6 – Budgetary Variance – Dredge Expense

During the fiscal year the District incurred a total of \$1,176,651 in dredge related costs partially paid with FEMA grant funds. The District budgeted for dredge costs of \$50,000. Dredging costs are periodic and the timing for budget purposes can create variances. During the three year periods ended June 30, 2012, 2011 and 2010, the District budgeted a total of \$1,100,000 for dredge costs, but only incurred \$242,345. The budget variance for those prior three years was used to offset the current year costs.

Note 7 – 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 8 – 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.

MOSS LANDING HARBOR DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 9 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through August 27, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 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, 2013, 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 August 27, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to be 'Audrey', written in a cursive style.

August 27, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners
Moss Landing Harbor District

Report on Compliance for Each Major Federal Program

We have audited Moss Landing Harbor District's (the "District") compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

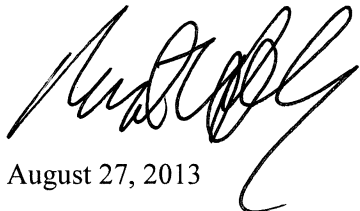
Report on Internal Control over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to be "Audrey", written in a cursive style.

August 27, 2013

MOSS LANDING HARBOR DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Homeland Security Passed through California Emergency Management Agency Public Assistance Grants	97.036	FEMA-1968-DR-CA	<u>\$ 1,260,481</u>
<i>Total Federal Expenditures</i>			<u>\$ 1,260,481</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards reports expenditures on the accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

MOSS LANDING HARBOR DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2013

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
97.036	Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Findings – Financial Statements Audit

None noted.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

MOSS LANDING HARBOR DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013**

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.