

**SANTA CRUZ PORT DISTRICT**

**FINANCIAL REPORT**

Years ended March 31, 2015 and 2014

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## **INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Santa Cruz Port District  
Santa Cruz, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Santa Cruz Port District (the District), which comprise the statements of net position as of March 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 Santa Cruz Port District as of March 31, 2015 and 2014, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

## **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 3-12 and the *schedule of funding progress for other postemployment healthcare benefits* on page 33 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*

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 is 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 September 22, 2015 on our consideration of the Santa Cruz Port 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 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 Santa Cruz Port District's internal control over financial reporting and compliance.

*Hutchinson and Bloodgood LLP*

September 22, 2015

## **SANTA CRUZ PORT DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** Years Ended March 31, 2015 and 2014

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Our discussion and analysis of the Santa Cruz Port District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended March 31, 2015 and 2014. Please read in conjunction with the District's basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

The March 11, 2011, tsunami impacted the Santa Cruz Port District with significant damage to infrastructure, a reduction in services available to visitors, resultant revenue losses and the District's local share of disaster recovery costs. The Port District was very successful in rapidly rebuilding damaged docks, and in maintaining service to its slip renters in spite of the disruption caused by construction throughout the harbor. All dock reconstruction was completed in early 2015. The final construction project to complete all tsunami recovery work involved replacement of PG&E electrical facilities in the south harbor.

FY15 was the fourth year of the District's program based budget. Expenses are budgeted and tracked within 20 different programs, enabling managers to accurately monitor effort and expenses within their areas of responsibility, as well as provide rate payers with an understanding of how District resources are allocated. Santa Cruz Harbor Boatyard was added as a program during FY15 (see discussion below).

As part of the District's ongoing project (started in FY12) to upgrade and replace its antiquated computers and software systems, new computers and software were acquired for the boatyard in 2014, with server access provided by a secure wireless connection. The project will continue into FY16 as the District's oldest computers and software systems are replaced and options for providing a secure wireless link between the boatyard, maintenance building and office server are explored. These upgrades continue to streamline data management, improve budgeting and reporting tools, and improve employee efficiency.

The secure wireless link created during FY15 is serving a new electronic card key system the District installed to serve all of its shower rooms. The system was funded to enhance security and reduce unauthorized use of the shower rooms. The FY16 budget includes funding to expand the system to include all of the locked restroom facilities. A future expansion will add electronic locks to the dock gates and potentially other facilities around the harbor.

In FY13, the District adopted its first 5-Year Capital Improvement Plan (CIP). The CIP lists projects for the current year (FY15) in detail, and provided capital needs forecasts extending out through FY18. The CIP includes 10 projects in FY15 estimated at \$155,000, and six other projects identified but unfunded. In FY14 the Condition Survey was updated, providing a planning document for future maintenance and capital project expenditures. The CIP will be updated again for FY16.

Funding for the CIP is derived primarily from the operating budget. Prior years' budgets included large line items for infrastructure needs such as building maintenance, dock maintenance, parking lot maintenance, etc. CIP projects are now budgeted and reported within the Capital Improvement Fund. The vast majority of expenses within the Capital Improvement Fund are capitalized upon project completion and include force account labor where applicable. As a result, salary and overhead amounts in the operating budget are decreased.

## SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended March 31, 2015 and 2014

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### FINANCIAL HIGHLIGHTS (Continued)

The Port District assumed operations of its boatyard in February 2014. The boatyard was originally developed and operated under a ground lease awarded to a private entity. The lease was terminated in 2013 and the facility was vacated as of February 2014. The Port District acquired a new 50-metric ton Marine Travelift boat hoist and various other equipment and supplies to outfit the new "Santa Cruz Harbor Boatyard" (SCHB). Staffing for SCHB was recruited and retained to manage the facility and oversee part-time employees. The Port Commission approved an amendment to the FY14 budget on December 17, 2013, allocating \$460,000 to fund acquisition of a mobile boat hoist from Marine Travelift, Inc. On January 28, 2014, the Commission approved a budget modification for Boatyard start-up and staffing costs (\$107,690 for FY14).

The Boatyard opened for business April 7, 2014, as a Do-It-Yourself facility. Boaters may perform their own work or hire contractors from an approved list. The Port District obtained all the necessary permits and manages and documents the work of boat owners and contractors for reporting to various regulatory agencies.

The Port District refinanced the majority of its debt during FY14, obtaining new loans from BBVA Compass Bank at significantly lower interest rates. Existing loans from the California Department of Boating and Waterways (DBW) were paid off in September 2013, and bonds issued through the California Maritime Infrastructure Authority (CMIA) were paid off in May 2014. The Port District obtained additional funds to provide up-front financing to replace its aging dredge vessel *Seabright*, and to pay off a portion of its remaining pension withdrawal liability (see discussion below). The new loans are scheduled for payoff in 2029 (13 years earlier than the previous debts) at an estimated net savings of \$3.8 million to the Port District.

The District saw a reduction in its costs for its Tier One employee pensions in FY15 as a result of paying off its side fund with CalPERS. In FY15, the District contracted with CalPERS for employee medical coverage under the Public Employees' Medical and Hospital Care Act (PEMHCA).

In January and February 2015, the Port District entered into three-year Memoranda of Understanding (MOUs) with the Harbor Employees Association and the Operating Engineers Union (Local 3) on salaries and benefits. The MOUs reflect comparable labor market findings from the Classification and Compensation Study completed by Public Sector Personnel Consultants (PSPC) in 2014. PSPC is undergoing an additional compensation and classification study for Santa Cruz Harbor Boatyard positions. That study will be completed in FY16.

## SANTA CRUZ PORT DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2015 and 2014

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#### *Fiscal Year Ended March 31, 2015*

#### **Operating Revenues**

Operating revenues were \$8,411,555; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$8,345,011, or about 106% of budgeted revenues, and were \$445,369, or 6% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$979,135, approximately \$107,124, or 11% over the prior year. All visitor-related income sources increased in FY15. Slip rent, at \$4,042,559, was \$88,559, or 2% over budget, and approximately \$180,001, or 4% more than the prior year. FY15 operating revenues exceeded FY14 levels by 5%. The increase is attributable to a 2.6% slip rent increase, boatyard revenue, and general visitorship to the harbor, its concessions and neighboring beaches.

#### **Operating Expenses**

- Operating expenses (before depreciation and amortization) were \$5,548,491, \$531,454, or 9% under budget (net of Capital Project budget and expenditures), and approximately \$105,970, or 2% lower than the prior year. Non-dredging expenses of \$4,695,971 were about 8% under budget, and were \$54,829 or 1% higher than the prior year. Dredging expenses of \$852,520 were 14% under budget, and approximately \$32,769, or 4% higher than the prior year.

#### **Net Position**

- Overall assets have decreased approximately 4%, with overall long-term debt and other liabilities decreasing approximately 21%, resulting in total net position (equity) exceeding the prior year by 11%. FY15 investment in property, plant and equipment exceeded depreciation by 149% primarily due to tsunami-related reconstruction.
- In comparison with the prior year, overall assets reported in FY14 increased approximately 39%, with overall long-term debt and other liabilities decreasing approximately 41%, resulting in total net position (equity) exceeding the prior year by 37%. FY14 investment in property, plant and equipment exceeded depreciation by 239% primarily due to tsunami-related reconstruction.

#### **Special and Extraordinary Items**

- On March 11, 2011, the District sustained significant damage due to a tsunami. As of January 2015, all tsunami recovery work has been completed. FY15 reimbursable expenditures for tsunami recovery totaled approximately \$2,184,374. The total reimbursable expenditures for tsunami recovery from 2011 to FY15 were approximately \$19,562,642. The District recognized revenues of \$2,088,808 in FY15 and approximately \$18,706,777 from inception to FY15. The District has initiated close-out processes with FEMA and CalEMA for all but 4 of the 42 tsunami projects. The remaining 4 projects will be closed out in FY16.

## SANTA CRUZ PORT DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2015 and 2014

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#### ***Fiscal Year Ended March 31, 2015 (continued)***

- The District borrowed \$4,000,000 to fund the purchase of a new dredge to maintain the Santa Cruz Harbor's entrance channel. Funds were borrowed as part of the FY14 refinancing effort. The District contracted with a consulting firm with expertise in dredge procurement, and awarded a contract for the construction of the new dredge in FY16. The total cost of the new dredge is anticipated to be approximately \$4,900,000 including sales tax, shipping, consulting fees and related costs.

#### ***Fiscal Year Ended March 31, 2014***

##### **Operating Revenues**

- Operating revenues were \$7,966,186; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$7,899,642, or about 110% of budgeted revenues, and were \$453,647, or 6% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$872,011, approximately \$60,295, or 7% over the prior year primarily due to increased parking revenues. Slip rent, at \$3,862,558, was \$27,237, or 1% over budget, and approximately \$107,608, or 3% more than the prior year. Operating revenues were impacted by the March 2011 tsunami disaster as fewer boat slips were available throughout the year due to damage and reconstruction, resulting in reduced capacity for licensed and visitor berthing. Nonetheless, FY14 operating revenues exceeded FY13 levels by 6%. The increase was attributable to a 2.6% slip rent increase, launch fees and fuel sales for FY14's productive salmon and groundfish fishing seasons, and increased revenues from dry storage fees, parking fees, waitlist fees and citations.
- Operating expenses (before depreciation and amortization) were \$5,654,461, \$48,333, or .1% under budget, and approximately \$520,409, or 10% higher than the prior year. Non-dredging expenses of \$4,834,710 were about 1% under budget, and were \$539,422, or 13% higher than the prior year. Dredging expenses of \$819,751 were 20% under budget, and were approximately \$19,013, or 2.3% less than the prior year.



## **SANTA CRUZ PORT DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended March 31, 2015 and 2014

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### ***Fiscal Year Ended March 31, 2014 (continued)***

#### **Net Position**

- Overall assets have increased approximately 39%, with overall long-term debt and other liabilities increasing approximately 41%, resulting in total net position (equity) exceeding the prior year by 37%. FY14 investment in property, plant and equipment exceeded depreciation by 239% primarily due to tsunami-related reconstruction.
- In comparison with the prior year, overall assets reported in FY13 increased approximately 23%, with overall long-term debt and other liabilities decreasing approximately 2%, resulting in total net position (equity) exceeding the prior year by 62%. FY13 investment in property, plant and equipment exceeded depreciation by 422% primarily due to tsunami-related reconstruction.

#### **Special and Extraordinary Items**

- On March 11, 2011, the District sustained significant damage due to a tsunami. Expenses incurred for the damage repairs were \$6,339,741 in FY14. The District recognized revenues of \$6,062,377 for FY14. As of August 29, 2014, future costs for the remaining repairs were estimated to be \$847,000 of which approximately \$794,062 was expected to be covered by federal and state disaster assistance.

#### **Operating Expenses**

- In August of 2011, the District received a notice from OE3 Trust Fund that there was a withdrawal liability assessed under ERISA for \$913,315. The District paid \$97,765 in principal and interest against the liability in FY14. The District negotiated a settlement with the OE3 Trust Fund and paid off the remaining liability during FY15.

## SANTA CRUZ PORT DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2015 and 2014

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#### USING THIS ANNUAL REPORT

This annual report consists of management's discussion and analysis, the basic financial statements, and notes to the financial statements. Management's discussion and analysis provides a narrative of the District's financial performance and activities for the year ended March 31, 2015. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

- The *Statements of Net Position* present 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.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information showing how the District's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.
- The *Statements of Cash Flows* presents information showing how the District's cash changed during the two most recent fiscal years. It shows the sources and uses of cash.

## SANTA CRUZ PORT DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2015 and 2014

#### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net position:

	2015	2014	2013
<b>Assets</b>			
Current and other assets	\$ 11,318,127	\$ 11,931,297	\$ 7,418,540
Capital assets net of depreciation	33,938,430	32,777,897	26,806,223
Other assets	706,444	3,350,140	381,351
Total Assets	<u>45,963,001</u>	<u>48,059,334</u>	<u>34,606,114</u>
<b>Deferred outflows</b>	<u>--</u>	<u>56,292</u>	<u>62,017</u>
	<u>\$ 45,963,001</u>	<u>\$ 48,115,626</u>	<u>\$ 34,668,131</u>
% change over prior year	-4%	39%	
<b>Liabilities</b>			
Current liabilities	\$ 2,597,521	\$ 5,975,241	\$ 3,093,752
Long-term debt	14,963,538	16,478,578	12,400,473
Unearned revenue	781,892	848,436	914,980
Total Liabilities	<u>18,342,951</u>	<u>23,302,255</u>	<u>16,409,205</u>
<b>Deferred inflows</b>	<u>15,387</u>	<u>42,778</u>	<u>122,227</u>
	<u>\$ 18,358,338</u>	<u>\$ 23,345,033</u>	<u>\$ 16,531,432</u>
% change over prior year	-21%	41%	
<b>Net position</b>			
Net investment in capital assets	\$ 17,177,211	\$ 12,737,146	\$ 12,765,976
Restricted for debt service	706,444	3,350,140	381,351
Unrestricted	<u>9,721,008</u>	<u>8,683,307</u>	<u>4,989,372</u>
<b>Total net position</b>	<u>\$ 27,604,663</u>	<u>\$ 24,770,593</u>	<u>\$ 18,136,699</u>
% change over prior year	11%	37%	

Net investment in capital assets represents the District's long-term investment in capital assets, net of accumulated depreciation and related debt. The net investment in capital assets is not available for current operations.

## **SANTA CRUZ PORT DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended March 31, 2015 and 2014

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### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### ***Fiscal Year Ended March 31, 2015***

##### **Capital Assets**

Priorities for capital investment in FY15 focused on completing recovery efforts related to the March 11, 2011, tsunami disaster, which destroyed several docks and severely damaged others throughout the harbor, ensuring that new storm water treatment and boat hauling equipment at the Santa Cruz Harbor Boatyard were in full operation, and that replacement of the District's 29-year old dredge was underway. Tsunami recovery work completed during FY15 included replacing H and I docks in the north harbor and upgrading electrical service to the entire south harbor. Construction costs for H and I docks totaled \$2,045,673, and replacement of the south harbor electrical service cost approximately \$2,607,000. The estimated cost of repairing all tsunami related damage is approximately \$19.5 million, of which FEMA and CalEMA funding combined will reimburse approximately 94%. The District secured financing for its 6% share of the costs through a short-term line of credit with BBVA Compass Bank.

Other capital investments made during FY15 included installation of new parking pay stations on the harbor's west side, repairs to the building and asphalt lot at the Santa Cruz Harbor Boatyard, the addition of new aerators to assist in preventing fish kills in the harbor, and replacement of all of the harbor's parking lot and service road lighting with energy efficient LED lights.

Investments in equipment related to the District's dredging operations, in addition to the purchase of the new dredge, included completely rebuilding the D-5 dozer used on the beach; modifications to the offshore disposal pipeline; rebuilding the 8" dredge used in the north harbor; and maintenance of the floats supporting the disposal pipeline in the main channel.

##### **Debt Administration**

The District's debt is related to facilities modernization, up-front funding for replacement of the aging dredge vessel *Seabright*, and payoff of its pension withdrawal liability. The District's debt at March 31, 2015, totaled \$15,912,783. This represents a decrease of \$4,018,646 or 20%, from FY14's total debt of \$19,931,429.

## SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended March 31, 2015 and 2014

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### CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

#### *Fiscal Year Ended March 31, 2014*

##### Capital Assets

Priorities for capital investment in FY14 focused on completing recovery efforts related to the March 11, 2011, tsunami disaster, which destroyed several docks and severely damaged others throughout the harbor. Reconstruction work completed during FY14 included the rowing dock, boatyard dock, C, D, F, K, O, P, Q and R docks in the south harbor, and associated electrical service. The total cost for rebuilding those docks was approximately \$5.99 million, of which approximately \$4.5 million has been received from FEMA and CalEMA. In the north harbor, reconstruction of H and I docks commenced under a contract totaling \$1,785,824.

Other capital investments made during FY14 included repairs and upgrades to the commercial fishery facilities at 493 Lake Avenue to restore hoists to operability; removal of the failing Sunwell ice plant and replacement with a new ice plant; repairs to the fisheries refrigeration systems to prepare them for a new resident fish buyer; pavement repairs at the concession parking lot; paving of the West Jetty Walkway; installation of a new information kiosk at the entrance to the harbor's west side; improvements to the building and pier at 2210 East Cliff Drive to prepare them for a new tenant (Crow's Nest Beach market); purchase and installation of a new trash compactor and replacement of the harbor's entire inventory of dumpsters.

The District replaced its secondary patrol and rescue boat *HBI* with a new, rigid inflatable vessel named *Scout*. *Scout* and its engines, trailers and accessories were purchased with a grant from the California Division of Boating and Waterways (DBW). Decommissioning of *HBI* involves removal of engines purchased by the District in 2011. Those engines will be sold as surplus by the District in 2014, but are expected to generate only minimal return.

Investments in equipment related to the District's dredging operations included replacement of the suction pipe, rebuilding jets, rehabilitation of the hydraulics system and installation of a new auxiliary generator and Lowrance GPS system on the dredge vessel *Seabright*; rebuilding the second engine and replacing propellers and shafts on the workboat *Dauntless*; purchasing a rubber-tired Caterpillar 924G loader for beach operations; and replacement of the outboard motor on the dredge skiff.

In February 2014, the Port Commission adopted a 5-Year Capital Improvement Plan (CIP) for FY15. The 5-year CIP includes all planned projects and major maintenance to harbor infrastructure for FY15 through FY19.

## **SANTA CRUZ PORT DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended March 31, 2015 and 2014

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### **CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

#### **Debt Administration**

The District's debt is related to facilities modernization, up-front funding for replacement of the aging dredge vessel *Seabright*, and payoff of its pension withdrawal liability. The District's debt at March 31, 2014, totaled \$19,931,429, of which \$2,550,000 was held in escrow to pay off CMIA bond financing in May 2014. The net (\$17,381,429) represents an increase of \$4,322,706 or 25%, from FY13. The increased debt included \$4 million for the dredge replacement, and \$750,000 for the pension withdrawal liability, less pay down of existing debt.

The District refinanced its DBAW and CMIA debt during FY14. New loans obtained from BBVA Compass Bank carry interest rates of 3.09% (tax-exempt) and 4.74% (taxable), significantly lower than the previous loans which averaged 4.5% (tax-exempt) and 7.4% (taxable). The refinanced debt will be paid off in 2029, 13 years earlier than the existing loans and at a savings of approximately \$3.8 million.

#### **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 the Santa Cruz Port District office at 135 5<sup>th</sup> Avenue, Santa Cruz, California, 95062.

## SANTA CRUZ PORT DISTRICT

### STATEMENTS OF NET POSITION March 31, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 8,712,223	\$ 8,330,788
Trade receivables	176,018	132,762
Grants receivable	9,356	108,188
CalEMA receivable (Note 11)	2,392,054	3,331,369
Interest receivable	--	4,668
Prepaid expenses	28,476	23,522
	<u>11,318,127</u>	<u>11,931,297</u>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents (Note 2)	<u>706,444</u>	<u>3,350,140</u>
<b>CAPITAL ASSETS (Note 3)</b>		
Nondepreciable assets:		
Land	1,349,360	1,349,360
Construction in progress	3,152,161	2,775,421
Depreciable assets:		
Structures and improvements	26,546,747	26,401,652
Docks	21,562,506	19,502,369
Equipment	6,518,939	6,362,594
Office equipment	138,565	110,452
	<u>59,268,278</u>	<u>56,501,848</u>
Less accumulated depreciation	<u>25,329,848</u>	<u>23,723,951</u>
	<u>33,938,430</u>	<u>32,777,897</u>
Total Assets	<u>45,963,001</u>	<u>48,059,334</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred loss on debt refunding	--	56,292
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<u>\$ 45,963,001</u>	<u>\$ 48,115,626</u>

The notes to financial statements are an integral part of these statements.

## SANTA CRUZ PORT DISTRICT

### STATEMENTS OF NET POSITION March 31, 2015 and 2014

	2015	2014
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 296,249	\$ 656,922
Accrued interest	113,906	198,370
Payroll liabilities	188,124	174,606
Line of credit (Note 5)	--	511,629
Current portion of long-term debt (Note 4)	949,245	3,452,851
Current portion of unearned revenue (Note 6)	66,544	66,544
Tsunami CalEMA advance liability (Note 11)	422,550	422,550
Prepaid slip rents	159,474	137,377
Deposits	401,429	354,392
Total current liabilities	<u>2,597,521</u>	<u>5,975,241</u>
LONG-TERM DEBT, less current portion (Note 4)	<u>14,963,538</u>	<u>16,478,578</u>
<b>OTHER LONG-TERM LIABILITIES</b>		
Unearned revenue, less current portion (Note 6)	<u>781,892</u>	<u>848,436</u>
Total Liabilities	<u>18,342,951</u>	<u>23,302,255</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Tsunami CalEMA deferred admin allowance (Note 11)	<u>15,387</u>	<u>42,778</u>
<b>NET POSITION</b>		
Net investment in capital assets	17,177,211	11,931,488
Restricted for:		
Debt service	706,444	3,350,140
Unrestricted	<u>9,721,008</u>	<u>9,488,965</u>
Total Net Position	<u>27,604,663</u>	<u>24,770,593</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION</b>	<u>\$ 45,963,001</u>	<u>\$ 48,115,626</u>

The notes to financial statements are an integral part of these statements.



## SANTA CRUZ PORT DISTRICT

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION Years Ended March 31, 2015 and 2014

	2015	2014
Operating revenues:		
Charges for berthing and services	\$ 6,767,201	\$ 6,323,993
Rent and concessions	1,644,354	1,642,193
	<u>8,411,555</u>	<u>7,966,186</u>
Operating expenses:		
Depreciation and Amortization	1,722,204	1,430,269
Dredging Operations	852,520	819,751
Administrative Services	623,503	607,274
Grounds	584,124	578,337
Harbor Patrol	573,539	498,556
Fuel Services	472,246	554,830
Property Management	401,920	412,992
Marina Management	341,554	385,748
Parking Services	281,834	303,391
Boatyard Operations	280,911	64,561
Buildings	237,033	311,959
Docks, Piers, Marine Structures	208,181	219,302
Finance & Purchasing	178,125	180,263
Environmental & Permitting	147,984	116,999
Utilities	98,475	102,937
Aeration	80,991	99,678
Rescue Services	66,713	91,876
Events	64,171	26,392
Port Commission Support	39,303	36,029
Capital Projects	8,581	32,600
Ice Production	6,783	17,418
Debt issuance costs	--	193,568
	<u>7,270,695</u>	<u>7,084,730</u>
<b>Operating income</b>	<u>1,140,860</u>	<u>881,456</u>
Non-operating revenues (expenses):		
County revenues for public services	37,478	12,493
Grants	10,702	364,066
Interest income	18,360	31,681
Other income (expense)	(1,943)	53,188
Interest expense	(558,591)	(764,057)
	<u>(493,994)</u>	<u>(302,629)</u>
<b>Increase in net position before extraordinary items</b>	<b>646,866</b>	<b>578,827</b>
<b>Extraordinary Items</b>		
Grants recognized in excess of current expenses related to tsunami damage (Note 11)	2,086,757	6,055,067
OE3 pension liability settlement adjustment (Note 11)	100,447	--
	<u>2,187,204</u>	<u>6,055,067</u>
<b>Increase in net position</b>	<b>2,834,070</b>	<b>6,633,894</b>
<b>Net position, beginning</b>	<u>24,770,593</u>	<u>18,136,699</u>
<b>Net position, ending</b>	<u>\$ 27,604,663</u>	<u>\$ 24,770,593</u>

The notes to financial statements are an integral part of these statements.

## SANTA CRUZ PORT DISTRICT

### STATEMENTS OF CASH FLOWS

Years Ended March 31, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 8,370,889	\$ 7,977,928
Cash paid to suppliers and employees	<u>(5,394,587)</u>	<u>(5,645,210)</u>
Net cash provided by operating activities	<u>2,976,302</u>	<u>2,332,718</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County revenues received for public services	37,478	12,493
Grant monies received	9,374	88,528
Proceeds from issuance of long-term debt	--	750,000
Cash received from (paid for) other nonoperating activities	(1,943)	59,399
Interest paid on OE3 pension liability	--	(51,443)
Principal paid on OE3 pension liability	(700,000)	(46,322)
Cash paid related to tsunami damage	<u>(2,051)</u>	<u>(7,310)</u>
Net cash provided (used) by noncapital financing activities	<u>(657,142)</u>	<u>805,345</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(3,267,775)	(7,696,863)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	3,100,892	5,504,676
Net proceeds (repayments) on line of credit	(511,629)	511,629
Proceeds from issuance of long-term debt	139,234	16,053,406
Interest paid on long-term debt	(643,055)	(887,460)
Principal paid on long-term debt	<u>(3,417,448)</u>	<u>(9,890,478)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,599,781)</u>	<u>3,594,910</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received from investments	<u>18,360</u>	<u>31,681</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,262,261)</u>	<u>6,764,654</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>11,680,928</u>	<u>4,916,274</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 9,418,667</u>	<u>\$ 11,680,928</u>

## SANTA CRUZ PORT DISTRICT

### STATEMENTS OF CASH FLOWS

Years Ended March 31, 2015 and 2014

	2015	2014	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income	\$ 1,140,860	\$ 881,456	
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,722,204	1,430,269	
(Increase) decrease in:			
Trade receivables	(43,256)	23,116	
Prepaid expenses	(4,954)	13,499	
Other current assets	4,668	283	
Increase (decrease) in:			
Accounts payable and accrued expenses	154,190	(4,531)	
Deferred revenue	(66,544)	(66,544)	
Prepaid slip rents	22,097	19,496	
Deposits	47,037	35,674	
Net cash provided by operating activities	<u>\$ 2,976,302</u>	<u>\$ 2,332,718</u>	
<b>SUPPLEMENTAL DISCLOSURES</b>			
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Capital asset additions	\$ 2,766,430	\$ 7,396,329	
Additions financed/included in accounts payable	501,345	300,534	
Cash paid to purchase capital assets	<u>\$ 3,267,775</u>	<u>\$ 7,696,863</u>	
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>			
	Current Assets	Restricted Assets	Statements of Cash Flows Total
<b>Year ended March 31, 2015</b>			
Cash and cash equivalents, beginning	\$ 8,330,788	\$ 3,350,140	\$ 11,680,928
Net increase (decrease)	<u>381,435</u>	<u>(2,643,696)</u>	<u>(2,262,261)</u>
Cash and cash equivalents, ending	<u>\$ 8,712,223</u>	<u>\$ 706,444</u>	<u>\$ 9,418,667</u>
<b>Year ended March 31, 2014</b>			
Cash and cash equivalents, beginning	\$ 4,534,923	\$ 381,351	\$ 4,916,274
Net increase	<u>3,795,865</u>	<u>2,968,789</u>	<u>6,764,654</u>
Cash and cash equivalents, ending	<u>\$ 8,330,788</u>	<u>\$ 3,350,140</u>	<u>\$ 11,680,928</u>

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Business:** The Santa Cruz Port District (the District) is a political subdivision of the State of California. The District was organized on November 20, 1950, in conformity with Division 8, Part 4 of the Harbors and Navigation Code, Section 6200 et seq. The District was formed for the purpose of creating a legal entity to negotiate with various governmental agencies for the financing and construction of a small craft harbor and the subsequent operation of the facility. The District began the operation of the small craft harbor in January 1964.

**Accounting Policies:** The District is accounted for as an enterprise activity, and therefore follows the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Other significant accounting policies are:

**Basis of Accounting:** The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America as applied to governmental enterprise funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to certain limitations. The District has elected not to follow subsequent private-sector guidance.

The District distinguishes operating revenues and expense from non-operating items. Operating revenues and expenses generally result from fees charged to users of the harbor facilities and maintaining harbor facilities. Operating expenses include maintenance, security, dredging, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

**Use of Restricted/Unrestricted Net Assets:** When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

**Use of Estimates:** Preparing the District's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 expenses during the reporting period. Actual results could differ from those estimates.

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Accounts Receivable:** Accounts receivable consist of tenant and slipholder rents. The District believes its receivables to be fully collectible and, accordingly, no allowance for doubtful accounts is recorded.

**Federal and State Grants:** Federal and state grants for the construction, acquisition, improvement of capital assets, or assistance for dredging costs are recorded as capital contributions. Revenues for reimbursement grants are recorded when allowable expenditures are made.

**Liability for Compensated Absences:** The District is required to recognize a liability for employees' rights to receive compensation for future absences. This obligation consists of the vested portion of leave balances, including vacation and compensatory time off, which are payable upon retirement. The liability for compensated absences at March 31, 2015 and 2014, included in payroll liabilities on the Statement of Net Position, was \$55,496 and \$61,784, respectively.

**Revenues (Pledged):** By resolution of the Board of Directors, all District revenues are pledged to secure debt service. The District derives its revenue principally from fees charged to users of the harbor facilities, rents, and concession fees.

**Income Taxes:** The District is a government agency that falls under Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

**Capital Assets:** District capital assets, purchased or constructed, are recorded at cost. The cost of assets built by the District includes direct costs and eligible interest. Contributed assets are recorded at fair market value at the date of contribution.

The amount of interest capitalized as part of the District-constructed assets is the difference between the interest the District must pay on the bonds and loans issued to finance improvements, and the interest the District earns on bond and loan proceeds not yet expended. The interest as defined above is capitalized until the projects are placed in service at which time any remaining interest is expensed.

District policy is to capitalize all assets that cost \$5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period, even if greater than \$5,000.

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Depreciation and Amortization:** Depreciation expense is computed using the straight-line method over estimated useful lives ranging from three to fifty years.

Discounts and loss on refunding of bonds are included on the statements of net position as deferred outflow of resources, and are being amortized on a straight-line basis over the bond redemption period.

**Restricted Assets:** Certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District to the purchasers of its revenue bonds.

**Net Position:** Net position as shown in the Statement of Net Position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments, as reduced by related outstanding debt.

Unrestricted – This amount is all remaining net position that does not meet the definition of “net investment in capital assets” or “restricted”.

**Reclassifications:** Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

**Recent Accounting Pronouncements:** In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions. GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014, with early adoption permitted. The District has opted out of early adoption as it reviews the effects of this pronouncement.

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 2. CASH AND CASH EQUIVALENTS

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

The investment policy of the District requires that all funds not required for immediate use be invested in one of the following acceptable investment instruments:

- a) U.S. government securities and debt obligations;
- b) Certificates of deposit which are fully insured or fully collateralized to 110% of principal for government securities and 150% of principal for first mortgage collateral;
- c) California's Local Agency Investment Fund.

The District has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under this statement, disclosures of these risks are required for uninsured and unregistered investments and deposits collateralized with securities held by the broker or pledging financial institution's trust department or agent, but not in the District's name. The District did not hold any investments or deposits falling into this category of risk (generally known as Category 3) at March 31, 2015.

**Restricted Cash:** Restricted cash consists of the following:

	2015	2014
Restricted cash and cash equivalents for debt service:		
Money market funds / government obligations	<u>\$ 706,444</u>	<u>\$ 3,350,140</u>

## SANTA CRUZ PORT DISTRICT

### NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2015 and 2014

#### NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended March 31, 2015:

	March 31, 2014	Additions	Deletions and Transfers	March 31, 2015
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	2,775,421	2,436,877	(2,060,137)	3,152,161
Depreciable assets:				
Structures and improvements	26,401,652	145,095	--	26,546,747
Docks	19,502,369	--	2,060,137	21,562,506
Equipment	6,362,594	156,345	--	6,518,939
Office equipment	110,452	28,113	--	138,565
	<u>56,501,848</u>	<u>2,766,430</u>	<u>--</u>	<u>59,268,278</u>
Accumulated depreciation	<u>(23,723,951)</u>	<u>(1,605,897)</u>	<u>--</u>	<u>(25,329,848)</u>
	<u>\$ 32,777,897</u>	<u>\$ 1,160,533</u>	<u>\$ --</u>	<u>\$ 33,938,430</u>

The following is a summary of changes in capital assets for the year ended March 31, 2014:

	March 31, 2013	Additions	Deletions and Transfers	March 31, 2014
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	2,679,039	6,399,608	(6,303,226)	2,775,421
Depreciable assets:				
Structures and improvements	25,970,987	430,665	--	26,401,652
Docks	16,444,495	5,994,760	(2,936,886)	19,502,369
Equipment	6,508,230	874,522	(1,020,158)	6,362,594
Office equipment	110,452	--	--	110,452
	<u>53,062,563</u>	<u>13,699,555</u>	<u>(10,260,270)</u>	<u>56,501,848</u>
Accumulated depreciation	<u>(26,256,340)</u>	<u>(1,418,444)</u>	<u>3,950,833</u>	<u>(23,723,951)</u>
	<u>\$ 26,806,223</u>	<u>\$ 12,281,111</u>	<u>\$ (6,309,437)</u>	<u>\$ 32,777,897</u>



## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

### NOTE 4. LONG-TERM DEBT

Long-term debt and related current portions as of March 31, 2015 and 2014, is presented below:

	March 31, 2014	Additions	Reductions	March 31, 2015
OE3 Pension	\$ 800,446	\$ --	\$ (800,446)	\$ --
Compass Bank taxable loan	2,353,025	--	(119,062)	2,233,963
Compass Bank tax-exempt loan	14,287,973	--	(737,468)	13,550,505
PG&E loan	--	120,368	(8,102)	112,266
Phone system	--	18,866	(2,817)	16,049
	<u>17,441,444</u>	<u>139,234</u>	<u>(1,667,895)</u>	<u>15,912,783</u>
Revenue Bonds, California Maritime Infrastructure Authority:				
2004A, 2004B, 2004C	2,550,000	--	(2,550,000)	--
Less bond discount/deferred loss, net	<u>(60,015)</u>	<u>--</u>	<u>60,015</u>	<u>--</u>
	<u>2,489,985</u>	<u>--</u>	<u>(2,489,985)</u>	<u>--</u>
Total notes payable and bonds, net	19,931,429	139,234	(4,157,880)	15,912,783
Less current portion, notes	(902,851)	(46,394)	--	(949,245)
Less current portion, bonds	<u>(2,550,000)</u>	<u>2,550,000</u>	<u>--</u>	<u>--</u>
	<u>\$ 16,478,578</u>	<u>\$ 2,642,840</u>	<u>\$ (4,157,880)</u>	<u>\$ 14,963,538</u>

Total interest incurred and charged to expense during the years ended March 31, 2015 and 2014, was \$558,591 and \$764,057, respectively.

During the fiscal year ended March 31, 2014, the District refinanced its outstanding debt, including all revenue bonds and DBW loans, and the majority of the pension withdrawal liability. The new financing involved loans privately placed with BBVA Compass Bank. The refinancing reduced the District's interest rates to 3.09% on tax-exempt debt and 4.74% on its taxable debt. Before the refinance, rates ranged from 4.5% on DBW loans up to 7.4% on revenue bonds.

The borrowing agreements with BBVA Compass Bank for the taxable and tax-exempt loans and line of credit include a restrictive covenant requiring net revenues for the fiscal year to be equal to at least 1.25 times the debt service. At March 31, 2015, the District was in compliance with the covenant.

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 4. LONG-TERM DEBT (Continued)

The financing package included \$4,000,000 in new debt to be used to purchase a new dredge to replace the *Seabright*, which has reached the end of its useful life (See Note 13). The new loans also reduced the District's payback period, with payoff occurring in 2029 rather than 2042 under the old loans. Through this combined financing and new debt, the District will realize cash flow savings of approximately \$3.8 million over the 16-year life of the loans.

Refer to Note 11 for information regarding the OE3 Pension liability.

The Compass Bank taxable loan, in the amount of \$2,384,445 was part of the refinance package noted above. Proceeds of the loan were used to payoff the existing Series 2004C revenue bonds, as well as to provide funding to payoff the OE3 pension liability. Terms of the note call for semi-annual principal and interest payments in May and November, ranging from \$114,000 to \$229,000, with an average payment of \$140,000, including interest at 4.74% per annum. Final payment on the loan is due November 1, 2026.

The Compass Bank tax-exempt loan, in the amount of \$14,418,961 was part of the refinance package noted above. Proceeds of the loan were used to payoff the existing Series 2004A revenue bonds, all of the Department of Boating and Waterways loans, as well as providing funding for the new dredge. Terms of the note call for semi-annual principal and interest payments in February and August, ranging from \$547,000 to \$590,000, including interest at 3.09% per annum. Final payment on the loan is due August 1, 2029.

PG&E loan – In August 2014 the District entered into an on-bill financing loan agreement with PG&E, in the amount of \$120,368, for the purchase of energy efficient equipment. Terms of the loan call for monthly principal payments of \$1,157, to be included in the monthly utilities bill, over a period of 104 months.

Phone system - In September 2014 the District entered into a capital lease agreement with AVAYA Financial Services, in the amount of \$18,866, for new phone systems. Terms of the lease call for monthly principal payments of \$315 over a period of 60 months.

Debt service required under the notes for each of the succeeding five years and thereafter in five year increments are:

	Principal	Interest	Total
2016	\$ 949,245	\$ 509,403	\$ 1,458,648
2017	982,015	477,200	1,459,215
2018	1,015,120	443,838	1,458,958
2019	1,048,560	409,315	1,457,875
2020	1,079,510	373,625	1,453,135
2021-2025	5,655,974	1,609,876	7,265,850
2026-2030	<u>5,182,359</u>	<u>409,743</u>	<u>5,592,102</u>
	<u>\$ 15,912,783</u>	<u>\$ 4,233,000</u>	<u>\$ 20,145,783</u>

## **SANTA CRUZ PORT DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### **NOTE 5. LINE OF CREDIT**

In September 2013 the District entered into a line of credit borrowing agreement with Compass Bank, with an established limit of \$4,000,000. The line of credit was utilized to payoff the credit line with Comerica Bank, which was drawn on to cover short-term cash flow needs for operations and expenses related to the tsunami. The District's business assets are used as collateral to secure the line. During the year ended March 31, 2015, the credit line was reduced to \$2,000,000 at the request of the District. The rate of interest is the greater of the Prime Rate Floor or the Wall Street Journal Money Rate, plus .25%. The effective rate at March 31, 2015 was 3.5 %. There was an outstanding balance of \$0 and \$511,629 as of March 31, 2015 and 2014, respectively.

### **NOTE 6. UNEARNED REVENUE**

In 2002, the District entered into a joint venture agreement with a not-for-profit tenant to recapitalize and reconstruct the building at 2222 East Cliff Drive. The agreement stated the tenant would pay 47% of the cost of the construction project and the District would pay 53% of the cost of the project. Title for the building remains with the District. In return for the cost sharing agreement, the tenant received a 24-year lease with payment terms similar to a ground only lease which extends through December 31, 2028.

The tenant's total contribution to the project was \$1,558,239. That amount was established as unearned revenue and will be amortized to concession rental income over the term of the lease. Since inception of the lease agreement the District has recognized \$709,803 of the unearned revenue as rental income. Of the remaining \$848,436, \$66,544 is considered current and \$781,892 is considered long-term.

### **NOTE 7. PENSION PLANS**

#### **Deferred Compensation Plan (457(a)):**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to District employees based on eligibility, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

#### **Defined Benefit Pension Plan (CalPERS):**

##### **General Information**

Effective April 1, 2003, the District adopted a defined benefit plan (the Plan) that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 7. PENSION PLANS (Continued)

State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The District selected its optional benefit provisions from the benefit menu when it contracted with CalPERS and adopted those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

#### Funding Policy

Active plan members are required to contribute a percentage of their annual covered salary. The District has a 3-tiered CalPERS plan system for miscellaneous employees – 2.5% @ 55; 2% @ 60; and 2% @ 62. Plan placement is dependent on the eligible employee's status as an existing member or new member. Depending on plan placement, active members contribute between 6.25% and 8% of their annual covered salary: 8% contribution for 2.5% @ 55; 7% contribution for 2% @ 60; and 6.25% contribution for 2% @ 62.

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS' Board of Administration. The required employer contribution rate for the 2.5% @ 55 tier was 30.597% for April 2014 – June 2014 and 15.135% from July 2014 – March 2015. For the 2% @ 60 tier, the employer rate was 8.049% from April 2014 – June 2014 and 8.005% from July 2014 – March 2015. For the 2% @ 62 tier, the employer rate was 6.25% from April 2014 – March 2015. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

#### Annual Pension Cost

The required contribution for fiscal year 2014/15 was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.3% to 14.2%, and projected payroll growth at 3%. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses.

**SANTA CRUZ PORT DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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**NOTE 7. PENSION PLANS (Continued)**

The District’s employer contributions to CalPERS for the last three years are as follows:

<u>March 31,</u>	<u>Miscellaneous 2.5% at 55</u>	<u>Miscellaneous 2% at 60</u>	<u>Miscellaneous 2% at 62</u>	<u>Total</u>
2015	214,598	20,748	19,346	254,692
2014	357,642	22,169	8,980	388,791
2013	342,461	27,373	155	369,989

These contributions were equal to the required contributions for each year.

**NOTE 8. RISK MANAGEMENT**

The District covers its liability for significant claims by purchasing workers’ compensation, property, and liability insurance. There have been no significant reductions in insurance coverage in the current year. Settlement amounts have not materially exceeded insurance coverage for the current and prior year.

**NOTE 9. OPERATING LEASES**

The District is the lessor of land and improvements under operating leases expiring in various years through 2029. Following is a summary of property held for lease at March 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Land	\$ 1,224,703	\$ 1,224,703
Structures and improvements	24,738,497	24,593,402
Docks	<u>21,526,256</u>	<u>19,466,119</u>
	47,489,456	45,284,224
Less accumulated depreciation	<u>18,705,055</u>	<u>17,425,200</u>
	<u>\$ 28,784,401</u>	<u>\$ 27,859,024</u>

**SANTA CRUZ PORT DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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**NOTE 9. OPERATING LEASES (Continued)**

Minimum future lease income to be received on non-cancelable leases as of March 31, 2015, for each of the next 5 years and in the aggregate is:

2016	\$ 841,002
2017	762,233
2018	704,241
2019	613,621
2020	601,129
Thereafter	<u>3,623,055</u>
	<u>\$ 7,145,281</u>

Minimum future lease income does not include contingent rentals that may be received under certain leases based on the volume of business conducted by the lessee. Contingent rental income on non-cancelable leases for the years ended March 31, 2015 and 2014, totaled approximately \$402,925 and \$588,427, respectively.

**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

In addition to pension benefits described in Note 7, the District previously provided limited postemployment medical insurance premium assistance to employees who, at the time of retirement, were 1) over 60, and 2) had been employed by the District for more than 20 years. Assistance was limited to up to half the premium cost, to a maximum of \$2,000 per year, for a maximum of 5 years or attainment of Medicare age, whichever occurred first. This postemployment benefit was discontinued when the District contracted with CalPERS, effective April 1, 2014, to provide postemployment medical benefits under "Public Employees' Medical and Hospital Care Act" (PEMHCA).

**Public Employees' Medical and Hospital Care Act (PEMHCA):**

The District administers a multiple-employer defined benefit healthcare plan (the Plan). The Plan provides medical healthcare insurance for eligible retirees and their spouses through the California Public Employees' Retirement System (CalPERS) Health Benefits Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). No dental, vision, or life insurance benefits are provided by the Plan. Currently there is 1 retired employee and 16 active employees participating in the Plan.

**SANTA CRUZ PORT DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
 Years Ended March 31, 2015 and 2014

**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Funding Policy**

There is no statutory requirement for the District to pre-fund its OPEB obligation. The District has currently chosen to pay Plan benefits on a pay-as-you-go basis and does not maintain a trust fund for its OPEB obligation. The District’s fixed dollar benefit contribution cannot be less than the PEMHCA minimum for PEMHCA actives and retirees. The District accrued these benefits at the monthly statutory rates of \$119 for 2014 and \$122 for 2015 for each participant in the PEMCHA plan.

**Annual OPEB Cost and Net OPEB Obligation**

For the fiscal year ended March 31, 2015, the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan are as follows. The Alternative Measurement Method under GASB No. 45 was used to calculate the actuarial obligation since the District has fewer than 100 plan members.

Annual required contribution (ARC)	\$ 24,000
Interest on net OPEB obligation	--
Adjustment to ARC	--
Annual OPEB cost (expense)	<u>24,000</u>
Actual contributions made (pay-as-you-go)	<u>--</u>
Increase in net OPEB obligation	24,000
Net OPEB Obligation - April 1, 2014	<u>--</u>
Net OPEB Obligation - March 31, 2015	<u><u>\$ 24,000</u></u>

Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
3/31/2015	\$ 24,000	0.00%	\$ 24,000

**SANTA CRUZ PORT DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Funded Status**

The funded status of the plan as of April 1, 2014, the date of the latest actuarial review, was as follows:

Actuarial accrued liabilities (AAL)	\$ 227,800
Actuarial value of plan assets	--
Unfunded actuarial accrued liabilities (UAAL)	<u>\$ 227,800</u>
Funded ratio	0.00%
Covered payroll (active plan members)	<u>\$ 1,477,400</u>
UAAL as a percentage of covered payroll	15.42%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of the benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

In the April 1, 2014 actuarial valuation, the actuarial cost method used was Entry Age Normal (EAN). Under the EAN cost method, the normal cost for each participant is determined as a level percent of payroll throughout the participant's working career. The actuarial assumptions include a 4 percent discount rate, a 3 percent per year general inflation rate, aggregate payroll increases of 3.25 percent, and an annual healthcare cost trend rate of 5 to 8 percent. The UAAL is being amortized as a level percent of payroll over a fixed, closed thirty year period.



## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 11. EXTRAORDINARY ITEMS

#### *March 2011 Tsunami*

On March 11, 2011, the District sustained significant damage due to a tsunami. As a result of the tsunami, a Major Disaster Declaration was declared on April 18, 2011, by President Obama. The tsunami completely destroyed the District's "U" dock and severely damaged docks throughout the harbor. The estimated repair cost of all tsunami related damage to the District was approximately \$22 million. The Federal Emergency Management Agency ("FEMA") and the California Emergency Management Agency ("CalEMA") funding combined will reimburse approximately 93.75% of the damage costs, all of which will be reimbursed through CalEMA. In addition, CalEMA will reimburse 1.875% of total costs for administrative overhead.

The District secured financing for its 6.25% share of costs through a combination of a short-term line of credit through Comerica Bank and a long-term emergency loan from the State of California Department of Boating and Waterways.

Through March 31, 2015, the District has incurred \$19,562,642 of reimbursable expenses related to the tsunami damage, \$2,184,374 of which was incurred during the year ended March 31, 2015. Of the total expenses incurred during the year ended March 31, 2015, \$2,184,028 was capitalized as property and equipment and construction in progress, and \$347 was expensed. Through March 31, 2015 the District recognized \$18,706,777 in revenue, \$2,088,808 of which was recognized in the year ended March 31, 2015.

The table below shows the effect of the tsunami on the District's financial statements for the years ended March 31, 2015 and 2014:

	2015	2014
Restoration and replacement costs of District assets, which were capitalized	<u>\$ 2,184,028</u>	<u>\$ 6,324,506</u>
Noncapitalized costs:		
Labor costs	\$ 2,051	\$ 7,143
Administrative and legal costs	<u>          --</u>	<u>          167</u>
	2,051	7,310
FEMA/CalEMA reimbursements and insurance proceeds	<u>(2,088,808)</u>	<u>(6,062,377)</u>
Grants revenue recognized in excess of current expenses related to tsunami damage	<u>\$ (2,086,757)</u>	<u>\$ (6,055,067)</u>

## SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2015 and 2014

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### NOTE 11. EXTRAORDINARY ITEMS (Continued)

In April 2011 CalEMA provided the district with a funding advance of \$422,550 for emergency work. The amount has been reported as an advance liability on the Statement of Net Position at March 31, 2015. As of March 31, 2015, \$15,387 in administrative funding has also been received from CalEMA for expenses that were obligated but not yet incurred. The amount has been reported as a deferred inflow of resources on the Statement of Net Position at March 31, 2015.

#### *OE3 Trust Fund Withdrawal Liability*

As a result of the labor negotiations, the OE3 Trust Fund sent notice to the District in August 2011 that it had withdrawal liability under ERISA in the amount of \$913,315. The amount was to be paid in fifty-eight quarterly payments of \$24,441, with a final payment of \$9,277. The first quarterly payment was made on October 1, 2011. On September 2, 2014, the District negotiated a settlement on the OE3 pension liability in the amount of \$700,000, less the July 1, 2014 payment of \$24,441, for a net balance due of \$675,559. That amount was paid on September 17, 2014, with proceeds from the Compass Bank loan referenced in Note 4. Accordingly, the liability was reduced to zero and an extraordinary gain of \$100,447 was recognized in the current year.

### NOTE 12. DEFERRED OUTFLOW/INFLOW OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period and thus, will not be recognized as an outflow of resources (expense) until then. The District had only one item that qualified for reporting in this category in the prior year, which was the deferred loss on debt refunding. The associated debt was extinguished during the current fiscal year bringing the deferred outflow of resources to zero in the current year.

In addition to liabilities, the Statement of Net Position will sometimes report on a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category, which is the deferred administrative allowance, as discussed in Note 11.

### NOTE 13. SUBSEQUENT EVENTS

In April 2015, the Board of Commissioners approved a contract for the replacement of the current dredge. The total cost is anticipated to be approximately \$4,900,000 including sales tax, shipping, consulting fees and related costs. In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 22, 2015, the date the financial statements were available to be issued.

**SANTA CRUZ PORT DISTRICT**

REQUIRED SUPPLEMENTARY SCHEDULE  
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS  
 Year Ended March 31, 2015

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Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a)-(b)]/(c)
4/1/2014	\$ 227,800	\$ --	\$ 227,800	0.00%	\$ 1,477,400	15.42%

**SANTA CRUZ PORT DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended March 31, 2015

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<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Federal Expenditures</u>
United States Department of Homeland Security			
<i>Pass-Through Programs:</i>			
California Emergency Management Agency Disaster Grants - Public Assistance FEMA-1968-DR-CA	97.036	087-91039	<u>\$ 1,638,281</u>
Total Expenditures of Federal Awards			<u>\$ 1,638,281</u>

## **SANTA CRUZ PORT DISTRICT**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended March 31, 2015

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### **NOTE A. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes grant activity of the Santa Cruz Port District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**INDEPENDENT AUDITORS' 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***

Board of Commissioners  
Santa Cruz Port District  
Santa Cruz, California

We have audited, in accordance with the 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 Santa Cruz Port District, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Santa Cruz Port District's basic financial statements, and have issued our report thereon dated September 22, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Santa Cruz Port 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz Port District's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz Port 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. 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 Santa Cruz Port 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.

*Hutchinson and Bloodgood LLP*

September 22, 2015



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

Board of Commissioners  
Santa Cruz Port District  
Santa Cruz, California

***Report on Compliance for Each Major Federal Program***

We have audited the Santa Cruz Port District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Santa Cruz Port District's major federal programs for the year ended March 31, 2015. Santa Cruz Port District's major federal programs are identified in the summary of auditors' 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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Santa Cruz Port 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 Santa Cruz Port 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 Santa Cruz Port District's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, Santa Cruz Port 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 March 31, 2015.

### ***Report on Internal Control Over Compliance***

Management of Santa Cruz Port 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 Santa Cruz Port 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 Santa Cruz Port 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.

*Hutchinson and Bloodgood LLP*

September 22, 2015

**SANTA CRUZ PORT DISTRICT**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2015

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**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  No

Type of auditors’ report issued on compliance for major programs? Unmodified

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

Identification of major programs:

CFDA Numbers  
97.036

Name of Federal Program or Cluster  
United States Department of  
Homeland Security – Federal  
Emergency Management Agency –  
Disaster Grants – Public Assistance,  
FEMA-1968-DR-CA

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

Auditee qualified as low-risk auditee?  Yes  No

**SANTA CRUZ PORT DISTRICT**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2015

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Prior Year Findings**

None