SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Year ended March 31, 2016

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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 statement of net position as of March 31, 2016, and the related statements of revenues, expenses, and change in net position and cash flows for the year 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 audit. We conducted our audit 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 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 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 District'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, 2016, and the respective changes in its financial position and its cash flows for the year 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.

Emphasis of Matter

As discussed in Notes 1 and 7 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, and Amendment of GASB Statement No. 68*". The adoption of these standards required restrospective application resulting in a $2,188,306 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions – defined benefit pension plans, and the schedule of funding progress – other postemployment healthcare benefits, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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 RSI 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 RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of the 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 District's internal control over financial reporting and compliance.

Hutchinson and Bloodgood LLP

September 27, 2016

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, 2016 and 2015. Please read in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

During FY16, the Port Commission adopted a Reserve Policy and an annual contribution goal to the Capital Improvement Program (CIP) fund. The Reserve Policy is intended to strengthen the financial stability of the District against economic uncertainty, unexpected situations such as natural or man-made disasters, unanticipated drop in revenues, and other unforeseen emergencies or extraordinary circumstances that the Port District may face that are infrequent in occurrence.

The policy provides that the Port District will strive to hold in reserve an amount equal to 25 percent of the District's annual operating expenses in the current fiscal year's adopted general fund budget. The District recognizes that reserve fund amounts may fluctuate and may need to be rebuilt over time as needed. The reserve fund will generally come from one-time revenue and from excess revenues over expenditures. Examples of one-time revenue include infrequent sales of Port District assets, infrequent revenues from development and grants, or other sources that are typically non-recurring in nature. The use of reserves shall generally be limited to unanticipated, non-recurring needs, not for normal or recurring annual operating expenditures.

The CIP fund contribution goal was set at $500,000 annually to fund current and future infrastructure maintenance and improvements.

The Port District finalized a Memorandum of Agreement (MOA) with the US Army Corps of Engineers (Corps) in FY16. The District had taken over responsibility for maintenance dredging from the Corps in 1986. That agreement provided funding for the purchase of the dredge *Seabright*, and a small annual contribution for operations and maintenance costs through July 2013. The District began work on a successor agreement in 2008. The agreement provides that the Corps will contribute up to $385,000 per year toward the dredging operation, provided funding is available in either the President's Budget or the Corps' annual work plan. Delays by the Corps resulted in the District being eligible for funding in the Corps' 2014 work plan once the MOA was executed. The District received $591,000 in unanticipated revenue from the Corps during FY16.

The District awarded a contract to Dredge Supply Company (DSC) of Reserve, Louisiana, in April 2015 to construct and deliver a new 16-inch suction dredge to replace the 30-year old dredge *Seabright.* Funding for the purchase (estimated at $4.8 million including California use tax) was primarily derived from the refinancing effort (described below). Funds received from the Corps under the MOA were also appropriated for the purchase.

A number of factors influenced District operations and had the potential to cause revenue losses in FY16. The El Niño winter of 2015/16 brought a continual series of southerly swells and a high volume of sand directly into the harbor entrance. In spite of the District's annual dredging program, the harbor entrance shoaled to extremely shallow depths in December and remained nearly impassable until mid-March 2016. Throughout that time, the Department of Fish and Wildlife closed the Dungeness crab fishery due to high levels of domoic acid which can be toxic to consumers.

FINANCIAL HIGHLIGHTS (Continued)

The harbor's commercial fishing fleet was severely impacted by the crab fishery closure, and to a lesser extent by the shoaling. The closures resulted in reduced activity at the launch ramp and impacts to boater-serving businesses at the harbor. Through careful management of its resources, the District did not sustain financial losses as a result of these events.

The winter conditions, shoaling and high surf also contributed to a partial failure of a seawall on the harbor's west side. The seawall was constructed of steel sheet piles in 1964, and had an expected lifespan of approximately 30 years. The District has conducted frequent periodic inspections, corrosion testing and repairs to the seawall as early as the 1980's. Aldo's Harbor Restaurant was constructed on top of the seawall.

Temporary repairs were performed on the seawall in November 2015, in partnership between the District and Aldo's. The temporary repairs allowed the restaurant to continue to operate while long-term plans could be developed for a replacement seawall and restaurant building.

FY16 was the fifth year of the District's program-based budget. Expenses are budgeted and tracked within 21 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.

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 continued 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 and providing upgraded FuelMaster software to the District's fuel service operation. These upgrades continue to streamline data management, improve budgeting and reporting tools, and improve employee efficiency.

A separate, secure wireless link was created during FY15 to serve 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 included funding to expand the system to include all of the locked restroom facilities. Additional funding in the FY17 budget will add the dock gates to the project.

In FY13, the District adopted its first 5-Year Capital Improvement Plan (CIP). The CIP lists projects for the current year (FY16) in detail, and provided capital needs forecasts extending out through FY21. The CIP includes six projects in FY16 estimated at $117,000, and 50 other projects estimated to cost $2.4 million collectively identified for future years. In FY14 the Condition Survey was updated, providing a planning document for future maintenance and capital project expenditures. The CIP was updated again for FY17.

Funding for the CIP has been 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.

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 list of registered contractors authorized to work in the yard. 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 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.

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 completed an additional compensation and classification study for Santa Cruz Harbor Boatyard positions in FY16. Two positions at the Boatyard were reclassified as a result of that study.

Fiscal Year Ended March 31, 2016

Operating Revenues

Operating revenues were $8,630,922; $66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at $8,564,378, or about 106% of budgeted revenues, and were $219,367, or 3% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were $1,009,196, approximately $30,061, or 3% over the prior year. Parking and RV park revenue increased in FY16, while launch and visitor berthing revenue decreased from FY15. Slip rent, at $4,204,249, was $105,249, or 3% over budget, and approximately $161,690, or 4% more than the prior year. FY16 operating revenues exceeded FY15 levels by 3%. The increase is attributable to a 2.7% slip rent increase, parking and concession revenue.

Operating Expenses

Operating expenses (before depreciation and amortization) were $5,683,447, $836,511, or 10% under budget (net of Capital Project budget and expenditures), and approximately $134,956, or 2% higher than the prior year. Non-dredging expenses of $4,653,891 were about 9% under budget, and were $42,080 or 1% lower than the prior year. Dredging expenses of $1,029,556 were 2% under budget, and approximately $177,036, or 21% higher than the prior year.

Net Position

The District's net position at March 31, 2016, is $26,883,297. This is a decrease of $721,366 or 3% from the March 31, 2015, net position of $27,604,663.

The District's FY15 net position was restated due to implementation of GASB No. 68 "Accounting and Financial Reporting for Pensions." GASB No. 68 is discussed in more detail in Notes 1 and 7 of the financial statements. This implementation resulted in a $2,188,306 reduction in the March 31, 2015, net position, resulting in a restated net position of $25,416,357. The District's FY16 net position increased $1,466,940 over the restated FY 15 net position, for an ending net position of $26,883,297.

Other key changes in the statement of net position are as follows:

Current Assets decreased $1,799,114 in FY16 due to reductions in cash and cash equivalents from FY15 levels. The decrease is also attributable to tsunami-related receivables, which have been collected. The disaster recovery grant is in the final close-out process.

Deferred outflows of resources are $656,139. This deferred outflow was the net effect of implementation of GASB Statement No. 68 regarding reporting for pensions as discussed in more detail in Note 1 and Note 7 of the financial statements and the Consolidated GASB 68 Reporting Information prepared by Bartel and Associates as of March 31, 2016.

The Current and Other Liabilities increased by $2,298,752 in FY16, to $5,678,165. This is due primarily to the recording of pension liability as a result of the implementation of GASB Statement No. 68 as noted above.

Fiscal Year Ended March 31, 2016 (continued)

Long term debt obligations decreased by $982,016 in FY16 to $13,981,522. This is primarily due to principal reductions in the Port District's taxable and non-taxable bond financing with BBVA Compass Bank.

Deferred inflows of resources are $283,642. This was primarily due to the implementation of GASB Statement No. 68 regarding reporting for pensions as discussed in more detail in Notes 1 and 7, and the Consolidated GASB 68 Reporting Information prepared by Bartel and Associates as of March 31, 2016.

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.

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, 2016. 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 *Statement of Net Position* presents information on all of the District's assets, deferred outflows, liabilities and deferred inflows, with the difference 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 *Statement of Revenues, Expenses, and Change in Net Position* presents information showing how the District's net position changed during the most recent 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 related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.

- The *Statement of Cash Flows* presents information showing how the District's cash changed during the most recent fiscal year. It shows the sources and uses of cash.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2016 and 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net position:

	2016	2015	2014
Assets			
Current and other assets	$ 9,519,013	$ 11,318,127	$ 11,931,297
Capital assets net of depreciation	35,926,090	33,938,430	32,777,897
Other assets	725,384	706,444	3,350,140
Total Assets	46,170,487	45,963,001	48,059,334
Deferred outflows	656,139	--	56,292
	$ 46,826,626	$ 45,963,001	$ 48,115,626
% change over prior year	2%	-4%	
Liabilities			
Current liabilities	$ 2,217,766	$ 2,597,521	$ 5,975,241
Long-term debt	13,981,522	14,963,538	16,478,578
Unearned revenue	715,348	781,892	848,436
Net pension liability	2,745,051	--	--
Total Liabilities	19,659,687	18,342,951	23,302,255
Deferred inflows	283,642	15,387	42,778
	$ 19,943,329	$ 18,358,338	$ 23,345,033
% change over prior year	9%	-21%	
Net position			
Net investment in capital assets	$ 20,180,661	$ 17,177,211	$ 12,737,146
Restricted for debt service	725,384	706,444	3,350,140
Unrestricted	5,977,252	9,721,008	8,683,307
Total net position	$ 26,883,297	$ 27,604,663	$ 24,770,593
% change over prior year	-3%	11%	

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Fiscal Year Ended March 31, 2016

Capital Assets

Priorities for capital investment in FY16 focused on completing engineering assessments and temporary repairs of Aldo's seawall and preliminary engineering for a permanent fix of the seawall, which deteriorated rapidly in 2015-16 reaching the end of its useful life; repairing a sinkhole undermining the harbor's east access road; and, adding parking pay stations on the harbor's west side. The final recovery project related to the March 11, 2011, tsunami disaster, to replace the south harbor electrical service at an approximate cost of $2,619,000, was completed in April 2015. Final close-out of all tsunami projects was submitted to CalOES. 41 tsunami repair projects were completed between 2011-15, at a cost of 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.

Investments in equipment and construction in progress related to the District's dredging operations, were construction of a new dredge from Dredge Supply Company of Reserve, Louisiana; acquisition of a 75 hp Toyo pump. Other investments in equipment included acquisition of a used LinkBelt 50-ton crane; and purchase of a new Ford F150 for the harbor patrol.

As consideration for ongoing impacts and anticipated damages from a County road and pedestrian improvement project on and adjoining District property on East Cliff Drive at Harbor Beach, the County of Santa Cruz deeded abandoned right-of-way property at 7th and Brommer Street Extension to the Port District for no cost in FY16. The unimproved land is approximately 16,000 square feet with a 10' wide easement for the County sanitary sewer pipeline. It is south of and adjacent to District property at 7th and Brommer Street Extension, APN 026-211-56. Since the property was acquired at zero cost and no market appraisal was obtained, the property has been added to the Port District's fixed asset schedule with no ascribed value.

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, 2016, totaled $14,963,537. This represents a decrease of $949,246 or 6%, from FY15's total debt of $15,912,783.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

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.

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 5th Avenue, Santa Cruz, California, 95062.

SANTA CRUZ PORT DISTRICT

STATEMENT OF NET POSITION
March 31, 2016

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	7,969,968
Trade receivables		177,408
Grants receivable		9,356
CalEMA receivable (Note 11)		1,328,812
Prepaid expenses		33,469
Total current assets		9,519,013
RESTRICTED ASSETS		
Cash and cash equivalents (Note 2)		725,384
CAPITAL ASSETS (Note 3)		
Nondepreciable assets:		
Land		1,349,360
Construction in progress		3,581,567
Depreciable assets:		
Structures and improvements		29,244,137
Docks		21,562,506
Equipment		6,999,115
Office equipment		134,833
		62,871,518
Less accumulated depreciation		26,945,428
		35,926,090
Total Assets		46,170,487
DEFERRED OUTFLOW OF RESOURCES		
Deferred amounts from pension plans (Note 7)		656,139
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$	46,826,626

The notes to financial statements are an integral part of this statement.

SANTA CRUZ PORT DISTRICT

STATEMENT OF NET POSITION
March 31, 2016

LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 247,820
Accrued interest	106,610
Payroll liabilities	259,146
Current portion of long-term debt (Note 4)	982,015
Current portion of unearned revenue (Note 6)	66,544
Prepaid slip rents	167,629
Deposits	388,002
Total current liabilities	2,217,766
LONG-TERM DEBT, less current portion (Note 4)	13,981,522
OTHER LONG-TERM LIABILITIES	
Unearned revenue, less current portion (Note 6)	715,348
Net pension liability (Note 7)	2,745,051
	3,460,399
Total Liabilities	19,659,687
DEFERRED INFLOW OF RESOURCES	
Tsunami CalEMA deferred admin allowance (Note 11)	10,419
Deferred rent	56,250
Deferred amounts from pension plans (Note 7)	216,973
Total Deferred Inflow of Resources	283,642
NET POSITION	
Net investment in capital assets	20,180,661
Restricted for:	
Debt service	725,384
Unrestricted	5,977,252
Total Net Position	26,883,297
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 46,826,626

The notes to financial statements are an integral part of this statement.

SANTA CRUZ PORT DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
Year Ended March 31, 2016

Operating revenues:	
Charges for berthing and services	$ 6,898,905
Rent and concessions	1,732,017
	8,630,922
Operating expenses:	
Depreciation and amortization	1,647,651
Dredging operations	1,029,556
Administrative services	784,443
Grounds	590,664
Harbor patrol	581,583
Fuel services	342,096
Property management	430,550
Marina management	366,449
Parking services	294,859
Boatyard operations	216,665
Buildings	223,292
Docks, piers, marine structures	206,915
Finance & purchasing	170,536
Environmental & permitting	162,413
Utilities	104,864
Aeration	39,944
Rescue services	67,005
Events	26,359
Port commission support	39,306
Capital projects	2,453
Ice production	3,495
	7,331,098
Operating income	1,299,824
Non-operating revenues (expenses):	
County revenues for public services	24,985
Grants	11,164
Dredging reimbursement	591,000
Interest income	30,007
Other income (expense)	46,760
Interest expense	(508,936)
	194,980
Increase in net position	1,494,804
Extraordinary Items	
Tsunami expense (Note 11)	(27,864)
Increase in net position	1,466,940
Net position, beginning, as previously reported	27,604,663
Cumulative effect of change in accounting principle	(2,188,306)
Net position, beginning as restated	25,416,357
Net position, ending	$ 26,883,297

The notes to financial statements are an integral part of this statement.

SANTA CRUZ PORT DISTRICT

STATEMENT OF CASH FLOWS
Year Ended March 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 8,613,966
Cash paid to suppliers and employees	(5,512,961)
Net cash provided by operating activities	3,101,005
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
County revenues received for public services	24,985
Government revenues received for dredge operations	591,000
Cash received from other nonoperating activities	54,822
Cash paid related to tsunami damage	(3,304)
Net cash provided by noncapital financing activities	667,503
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital expenditures	(3,678,680)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	622,328
Interest paid on long-term debt	(516,232)
Principal paid on long-term debt	(949,246)
Net cash used by capital and related financing activities	(4,521,830)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	30,007
Net decrease in cash and cash equivalents	(723,315)
CASH AND CASH EQUIVALENTS, BEGINNING	9,418,667
CASH AND CASH EQUIVALENTS, ENDING	$ 8,695,352

The notes to financial statements are an integral part of this statement.

SANTA CRUZ PORT DISTRICT

STATEMENT OF CASH FLOWS
Year Ended March 31, 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income	$	1,299,824
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		1,647,651
Cumulative effect on change in accounting principle		117,579
(Increase) decrease in:		
Trade receivables		(1,390)
Prepaid expenses		(4,993)
Increase (decrease) in:		
Accounts payable and accrued expenses		57,900
Deferred revenue		(66,544)
Prepaid slip rents		8,155
Deposits		(13,427)
Deferred rent		56,250
Net cash provided by operating activities	$	3,101,005

SUPPLEMENTAL DISCLOSURES

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Capital asset additions	$	3,643,373
Additions financed/included in accounts payable		35,307
Cash paid to purchase capital assets	$	3,678,680

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION

		Current Assets		Restricted Assets		Statements of Cash Flows Total
Year ended March 31, 2016						
Cash and cash equivalents, beginning	$	8,712,223	$	706,444	$	9,418,667
Net increase (decrease)		(742,255)		18,940		(723,315)
Cash and cash equivalents, ending	$	7,969,968	$	725,384	$	8,695,352

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.

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, 2016, included in payroll liabilities on the Statement of Net Position, was $67,087.

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.

The District's policy is to capitalize all assets that cost $5,000 or more, and to charge to current operations all additions under that 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.

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.

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 its lenders.

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”.

New Accounting Pronouncements:

Current Year Standards: In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*” and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*”. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at April 1, 2015 by $2,188,306.

GASB Statement No. 69 - “*Government Combinations and Disposals of Government Operations*” was required to be implemented in the current fiscal year and did not impact the District.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued):

Pending Accounting Standards: GASB has issued the following statements which may impact the District's financial reporting requirement in the future:

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

Deferred Outflows/Inflows 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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District had only one item that qualified for reporting in this category, related to pensions as detailed in Note 7.

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, *deferred inflows of resources*, 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 three items that qualify for reporting in this category. The first item is related to deferred administrative allowance, as discussed in Note 11. The second item is related to rental income received from a tenant for future periods. The third item is related to pensions as detailed in Note 7.

NOTE 2. CASH AND CASH EQUIVALENTS

The District is a voluntary 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, 2016.

Restricted Cash: Restricted cash consists of the following as of March 31, 2016:

Restricted cash and cash equivalents for debt service:	
Money market funds / government obligations	$ 725,384

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended March 31, 2016:

	March 31, 2015	Additions	Deletions and Transfers	March 31, 2016
Nondepreciable assets:				
Land	$ 1,349,360	$ --	$ --	$ 1,349,360
Construction in progress	3,152,161	3,091,592	(2,662,186)	3,581,567
Depreciable assets:				
Structures and improvements	26,546,747	70,101	2,627,289	29,244,137
Docks	21,562,506	--	--	21,562,506
Equipment	6,518,939	468,199	11,977	6,999,115
Office equipment	138,565	21,528	(25,260)	134,833
	59,268,278	3,651,420	(48,180)	62,871,518
Accumulated depreciation	(25,329,848)	(1,647,651)	32,071	(26,945,428)
	$ 33,938,430	$ 2,003,769	$ (16,109)	$ 35,926,090

In January of 2015 the District accepted a 16,000 square foot vacated right of way along Brommer Street Extension, adjacent to lands owned by the District. Due to the very limited marketability of subject property, and the time and expense involved in getting a market appraisal, the District has opted to record the asset at zero value.

NOTE 4. LONG-TERM DEBT

Long-term debt and related current portions as of March 31, 2016, is presented below:

	March 31, 2015	Additions	Reductions	March 31, 2016
Compass Bank taxable loan	$ 2,233,963	$ --	$ (171,148)	$ 2,062,815
Compass Bank tax-exempt loan	13,550,505	--	(760,433)	12,790,072
PG&E loan	112,266	--	(13,889)	98,377
Phone system	16,049	--	(3,776)	12,273
	15,912,783	--	(949,246)	14,963,537
Less current portion	(949,245)	(32,770)	--	(982,015)
	$ 14,963,538	$ (32,770)	$ (949,246)	$ 13,981,522

Total interest incurred and charged to expense during the year ended March 31, 2016, was $508,936.

NOTE 4. LONG-TERM DEBT (Continued)

During the fiscal year ended March 31, 2014, the District refinanced its outstanding debt with loans privately placed with BBVA Compass Bank. 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. The new dredge was placed in service in July 2016.

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.

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, 2016, the District was in compliance with the covenant.

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.

NOTE 4. LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
2017	$ 982,015	$ 484,798	$ 1,466,813
2018	1,015,120	451,733	1,466,853
2019	1,048,560	417,503	1,466,063
2020	1,079,511	382,101	1,461,612
2021	1,117,541	345,468	1,463,009
2022-2026	5,576,906	1,154,952	6,731,858
2027-2029	4,143,884	284,481	4,428,365
	$ 14,963,537	$ 3,521,036	$ 18,484,573

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, 2016 was 3.75%. There was no outstanding balance at March 31, 2016.

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 $776,347 of the unearned revenue as rental income. Of the remaining $781,892, $66,544 is considered current and $715,348 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:

Plan Description: Effective April 1, 2003, the District adopted a cost-sharing multiple employer defined benefit pension plan (the Plan) that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All qualified employees are eligible to participate in the District's Plan administered by the California Public Employees' Retirement System (CalPERS).

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, or on their website.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire· at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

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.

NOTE 7. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

General Information (Continued)

Funding Policy (Continued): 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 15.135% for April 2015 – June 2015 and 9.067% from July 2015 – March 2016. For the 2% @ 60 tier, the employer rate was 8.005% from April 2015 – June 2015 and 6.709% from July 2015 – March 2016. For the 2% @ 62 tier, the employer rate was 6.25% from April 2015 – June 2015 and 6.237% from July 2015 - March 2016. 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.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions:

As of March 31, 2016, the District reported a $2,745,051 net pension liability for its proportionate share of the net pension liability of the Plan.

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of March 31, 2015 and 2016 was as follows:

Proportion - March 31, 2015	0.0370%
Proportion - March 31, 2016	0.0400%
Change - Increase (Decrease)	0.0030%

NOTE 7. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

For the year ended March 31, 2016, the District recognized pension expense of $408,729. At March 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	$ 13,137	$ --
Change in assumptions	--	124,286
Net differences between projected and actual earnings on plan investments	318,569	--
Change in employer's proportion	136,391	--
Differences between the employer's contributions and the employer's proportionate share of contributions	--	92,687
Pension contributions subsequent to measurement date	188,042	--
Total	$ 656,139	$ 216,973

The $188,042 reported as deferred outflows of resources relates to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending March 31,	Amount
2017	$ 55,554
2018	55,554
2019	60,373
2020	79,643
	$ 251,124

NOTE 7. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions: The March 31, 2016 total pension liability was determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase	3.30 to 14.2% (1)
Investment rate of return	7.50% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE 7. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued): The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset class	New strategic allocation	Real return years 1-10 (a)	Real return years 11+ (b)
Global equity	51.00%	5.25%	5.75%
Global debt securities	19.00%	0.99%	2.43%
Inflation assets	6.00%	0.45%	3.36%
Private equity	10.00%	6.83%	6.95%
Real estate	10.00%	4.50%	5.13%
Infrastructure and forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

NOTE 7. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		6.65%
Net Pension Liability	$	4,470,408
Current Discount Rate		7.65%
Net Pension Liability	$	2,745,051
1% Increase		8.65%
Net Pension Liability	$	1,320,570

Pension Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan: At March 31, 2016, the District had no outstanding contributions payable to the pension plan required for the year ended March 31, 2016.

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, 2016:

Land	$ 1,224,703
Structures and improvements	27,435,887
Docks	21,526,256
	50,186,846
Less accumulated depreciation	19,998,609
	$ 30,188,237

Minimum future lease income to be received on non-cancelable leases as of March 31, 2016, for each of the next 5 years and in the aggregate is:

2017	$ 628,910
2018	600,140
2019	506,620
2020	493,728
2021	493,728
Thereafter	1,793,805
	$ 4,516,931

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 year ended March 31, 2016, totaled approximately $647,909.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 18 active employees participating in the Plan.

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 $125 for 2016 for each participant in the PEMCHA plan.

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year ended March 31, 2016, 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)	$ 25,700
Interest on net OPEB obligation	900
Adjustment to ARC	(900)
Annual OPEB cost (expense)	25,700
Actual contributions made (pay-as-you-go)	--
Increase in net OPEB obligation	25,700
Net OPEB Obligation - April 1, 2015	23,900
Net OPEB Obligation - March 31, 2016	$ 49,600

Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
3/31/2015	$ 24,000	0.00%	$ 24,000
3/31/2016	$ 25,700	0.00%	$ 49,600

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)	$ 227,800
Funded ratio	0.00%
Covered payroll (active plan members)	$ 1,525,400
UAAL as a percentage of covered payroll	14.93%

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.

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 reimbursed approximately 93.75% of the damage costs, all of which are being reimbursed through CalEMA. In addition, CalEMA reimbursed 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.

During the year ended March, 31, 2016, all tsunami related projects were completed, and the District is now in the closeout process. As the final projects are being closed out, there have been some adjustments to previously reported expenditures, resulting in a net expense in the current year of $27,864.

Through March 31, 2016, the District incurred a total of $19,536,959 of reimbursable expenses related to the tsunami damage, and has recognized revenue of $18,682,218. $1,328,812 of the recognized revenue has not yet been collected and, accordingly, is included in the CalEMA receivable on the Statement of Net Position at March 31, 2016. As of March 31, 2016, $10,419 in administrative funding has 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, 2016.

NOTE 12. DREDGING REIMBURSEMENT

During the year ended March, 31, 2016, the District received a $591,000 payment from Department of the Army Corps of Engineers (Corps) for dredging operations that have occurred over the past several years. In November, 2015, the District entered into an agreement with Corps to reimburse the District for a portion of expected dredging costs, only if funds are specifically appropriated for that purpose. The agreement terminates on April 1, 2025. Due to the uncertainty of the availability of funds, revenue will be recorded when the funds are ultimately received.

NOTE 13. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 27, 2016, the date the financial statements were available to be issued.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Fiscal Years*

	March 31, 2016
Plan's proportion of the net pension liability	0.0400%
Plan's proportionate share of the net pension liability	$ 2,745,051
Plan's covered - employee payroll	$ 1,680,148
Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll	163.38%
Plan's proportionate share of the fiduciary net position as a percentage of the proportionate share of the Plan's total pension liability	78.40%
Plan's proporationate share of aggregate employer contributions	$ 343,279

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
None

* - Fiscal year 2016 was the first year of implementation, therefore only one year is shown.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS
Last 10 Fiscal Years*

	March 31, 2016
Actuarially determined contribution	$ 188,042
Contributions in relation to the actuarially determined contribution	(188,042)
Contribution deficiency (excess)	$ --
Covered-employee payroll	$ 1,680,148
Contributions as a percentage of covered-employee payroll	11.19%

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
None

* - Fiscal year 2016 was the first year of implementation, therefore only one year is shown.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS
Year Ended March 31, 2016

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%	$ 1,525,400	14.93%

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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 (the District), as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 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 District'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 the 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 Distric'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hutchinson and Bloodgood LLP

September 27, 2016

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

Our report on our audit of the basic financial statements of the Santa Cruz Port District as of and for the year ended March 31, 2016, appears on pages 1-2. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Insurance Coverage on page 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

Hutchinson and Bloodgood LLP

September 27, 2016

SANTA CRUZ PORT DISTRICT

SCHEDULE OF INSURANCE COVERAGE
March 31, 2016

At March 31, 2016, the District's insurance coverage was as follows:

	Limits	Deductible
UMBRELLA LIABILITY		
Each occurrence, excess of $1,000,000 primary	$ 14,000,000	$ 10,000
PROPERTY		
Building, personal property, mobile equipment (Loss limits and deductibles given as total, subject to sublimits described in policy)	$ 34,919,808	Per schedule
MARINA OPERATORS' LIABILITY		
Each occurrence	$ 1,000,000	$ 1,000
BUSINESS AUTO		
Liability	$ 1,000,000	$ 1,000
Auto medical payments	$ 5,000	$ 1,000
Uninsured motorist	$ 1,000,000	$ 1,000
HULL & MACHINERY, AND PROTECTION & INDEMNITY		
Hull values	$ 1,260,600	Per schedule
Protection and indemnity	$ 1,000,000	$ 1,000
PUBLIC OFFICIALS		
Each occurrence and aggregate	$ 2,000,000	$ 15,000
Each employment practices liability	$ 2,000,000	$ 25,000
UNDERGROUND STORAGE TANKS		
Each incident and aggregate	$ 1,000,000	$ 10,000
GENERAL LIABILITY		
General aggregate limit	$ 2,000,000	$ 1,000
FLOOD		
Each incident and aggregate	$ 500,000	$ 2,000