

SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Years ended March 31, 2014 and 2013

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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 as of and for the years ended March 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Santa Cruz Port 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, 2014 and 2013, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3-11 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.

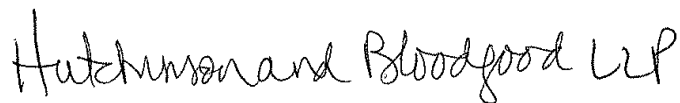
Other Information

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 October 7, 2014 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.



October 7, 2014

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2014 and 2013

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, 2014 and 2013. 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 has been 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 will be completed in calendar year 2014. The final construction project to complete all tsunami recovery work will involve replacement of PG&E electrical facilities in the south harbor. That work is anticipated for completion during FY15.

FY14 was the third 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. The new boatyard program was added during FY14 (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 FY 15 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.

In FY13, the District adopted its first 5-Year Capital Improvement Plan (CIP). The CIP lists projects for the current year (FY14) in detail, and provides capital needs forecasts extending out through FY18. The CIP includes projects in FY14 estimated at \$520,000, and 12 other projects identified but unfunded. In FY14 the Condition Survey was updated, providing a planning document for future maintenance and capital project expenditures.

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, 2014 and 2013

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 FY 14).

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.

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 is 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.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2014 and 2013

FINANCIAL HIGHLIGHTS (Continued)

Fiscal Year Ended March 31, 2014 (continued)

Operating Expenses

- 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 \$4,641,142 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.

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 and \$6,721,068, in FY14 and FY13, respectively. The District recognized revenues of \$6,062,377 and \$6,427,021, for FY14 and FY13, respectively. As of August 29, 2014, future costs for the remaining repairs were estimated to be \$847,000 of which approximately \$794,062 is expected to be covered by federal and state disaster assistance.
- 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 has negotiated a settlement with the OE3 Trust Fund and anticipates paying off the remaining liability during FY15.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2014 and 2013

FINANCIAL HIGHLIGHTS (Continued)

Prior Fiscal Year Ended March 31, 2013

Operating Revenues

- Operating revenues were \$7,512,539; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$7,445,995, or about 108% of budgeted revenues, and were \$633,448, or 9% higher than the prior year. Visitor-related income sources (visitor slip rent, launch fees, parking, and RV) were \$811,716, approximately \$87,567, or 12% over the prior year, primarily due to launch revenue boosted by a resurgence in sport salmon fishing. Slip rent, at \$3,754,950, was about \$17,913, or 0.5% under budget, and approximately \$285,667, or 8% 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, FY13 operating revenues exceeded FY12 levels by 9%. The increase is attributable to a 5% slip rent increase, launch fees and fuel sales for FY13's highly productive salmon, ground fish and albacore fishing seasons, and increased revenues from dry storage fees, waitlist fees and citations.

Operating Expenses

- Operating expenses (before depreciation and amortization) were \$5,134,052, \$300,736, or 5.5% under budget, and approximately \$315,083, or 6.5% higher than the prior year. Non-dredging expenses of \$4,295,288 were about 1% under budget, and were \$452,070, or 12% higher than the prior year. Dredging expenses of \$838,764 were 24% under budget, and were approximately \$136,987, or 14% less than the prior year.

Net Position

- Overall assets 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.
- In comparison with the prior year, overall assets reported in FY12 increased approximately 33%, with overall long-term debt and other liabilities increasing approximately 35%, resulting in total net position (equity) exceeding the prior year by 31%. FY12 investment in property, plant and equipment exceeded depreciation by 369% primarily due to tsunami-related reconstruction.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2014 and 2013

FINANCIAL HIGHLIGHTS *(Continued)*

Prior Fiscal Year Ended March 31, 2013 (continued)

Special and Extraordinary Items

- Expenses incurred for the damage repairs related to the March 11, 2011, tsunami were \$6,721,068 and \$4,211,184, in FY13 and FY12 respectively. The District recognized revenues of \$6,427,021 and \$4,028,938, for FY13 and FY12, respectively. As of February 13, 2013, future costs for the remaining repairs were estimated to be \$8,442,770, of which approximately \$7,915,097 is expected to be covered by federal and state disaster assistance.
- The District paid \$97,765 in principal and interest in FY13 against the OE3 Trust Fund withdrawal liability assessed under ERISA in August 2011 for \$913,315.

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, 2014. 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, 2014 and 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net position:

	2014	2013	2012
Assets			
Current and other assets	\$ 11,931,297	\$ 7,418,540	\$ 6,592,731
Capital assets net of depreciation	32,777,897	26,806,223	21,089,019
Other assets	3,350,140	381,351	381,491
Total Assets	<u>48,059,334</u>	<u>34,606,114</u>	<u>28,063,241</u>
Deferred outflows	<u>56,292</u>	<u>62,017</u>	<u>67,742</u>
	<u>\$ 48,115,626</u>	<u>\$ 34,668,131</u>	<u>\$ 28,130,983</u>
% change over prior year	39%	23%	
Liabilities			
Current liabilities	\$ 5,975,241	\$ 3,093,752	\$ 2,605,663
Long-term debt	16,478,578	12,400,473	13,095,948
Unearned revenue	848,436	914,980	981,524
Total Liabilities	<u>23,302,255</u>	<u>16,409,205</u>	<u>16,683,135</u>
Deferred inflows	<u>42,778</u>	<u>122,227</u>	<u>248,247</u>
	<u>\$ 23,345,033</u>	<u>\$ 16,531,432</u>	<u>\$ 16,931,382</u>
% change over prior year	41%	-2%	
Net position			
Net investment in capital assets	\$ 12,737,146	\$ 12,765,976	\$ 6,473,288
Restricted for debt service	3,350,140	381,351	381,491
Unrestricted	<u>8,683,307</u>	<u>4,989,372</u>	<u>4,344,822</u>
Total net position	<u>\$ 24,770,593</u>	<u>\$ 18,136,699</u>	<u>\$ 11,199,601</u>
% change over prior year	37%	62%	

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, 2014 and 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

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. The estimated cost of repairing all tsunami related damage is approximately \$19.7 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 FY 14 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 FY2015. The 5-year CIP includes all planned projects and major maintenance to harbor infrastructure for FY2015 through FY2019.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2014 and 2013

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 paydown 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.

Prior Fiscal Year Ended March 31, 2013

Capital Assets

Priorities for capital investment in FY13 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 FY13 included the commercial fishery dock, the fuel dock, and A, B, E, L, M, N, S and T docks in the south harbor, and associated electrical service. The total cost for rebuilding those docks was approximately \$5.26 million, of which approximately \$4.24 million has been received from FEMA and CalEMA. In the north harbor, repairs were made to G, J, and X docks totaling \$46,500. The estimated cost of repairing all tsunami related damage was approximately \$18 million, of which FEMA and CalEMA funding combined will reimburse the District approximately 94%. The District secured financing for its 6% share of the costs through a combination of a short-term line of credit through Comerica Bank and a long-term emergency loan from Cal Boating.

Other capital investments made during FY13 included repairs and upgrades to a commercial building at 2210 East Cliff Drive to prepare it for a new tenant, repairs of erosion on the west jetty, replacement of the electrical service to the Walton Lighthouse, repainting the Walton Lighthouse, repaving of the access road and parking lots in the north harbor, sealing and restriping the launch ramp parking lot, dredge 'Seabright' ladder rebuild and electrical panel upgrades, workboat 'Dauntless' engine overhaul, Lorain crane boom rebuild, network and server upgrades and landside fuel line repairs.

In February 2013, the Port Commission adopted a 5-Year Capital Improvement Plan (CIP) commencing with FY14. The 5-year CIP includes all planned projects and major maintenance to harbor infrastructure for FY14 through FY18.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2014 and 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Prior Fiscal Year Ended March 31, 2013

Debt Administration

All of the District's debt is related to facilities modernization. The District's long-term debt at March 31, 2013, totaled \$13,058,723. This represents a decrease of \$508,940, or 4%, from FY12.

The District is in the process of refinancing all of its debt to take advantage of current low interest rates. The new debt will have an accelerated payoff schedule shortening the composite life of the loans by 13 years (from 2042 to 2029). As of August 20, 2013, the anticipated savings that will result from the refinancing is estimated to be \$3,788,080.

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

STATEMENTS OF NET POSITION March 31, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 8,330,788	\$ 4,534,923
Trade receivables	132,762	155,878
Grants receivable	108,188	24,184
CalEMA receivable (Note 11)	3,331,369	2,661,583
Interest receivable	4,668	2,251
Prepaid expenses	23,522	37,021
Inventory	--	2,700
	<u>11,931,297</u>	<u>7,418,540</u>
RESTRICTED ASSETS		
Cash and cash equivalents (Note 2)	<u>3,350,140</u>	<u>381,351</u>
CAPITAL ASSETS (Note 3)		
Nondepreciable assets:		
Land	1,349,360	1,349,360
Construction in progress	2,775,421	2,679,039
Depreciable assets:		
Structures and improvements	26,401,652	25,970,987
Docks	19,502,369	16,444,495
Equipment	6,362,594	6,508,230
Office equipment	110,452	110,452
	<u>56,501,848</u>	<u>53,062,563</u>
Less accumulated depreciation	<u>23,723,951</u>	<u>26,256,340</u>
	<u>32,777,897</u>	<u>26,806,223</u>
Total Assets	<u>48,059,334</u>	<u>34,606,114</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on debt refunding	<u>56,292</u>	<u>62,017</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 48,115,626</u>	<u>\$ 34,668,131</u>

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

SANTA CRUZ PORT DISTRICT

STATEMENTS OF NET POSITION March 31, 2014 and 2013

	2014	2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 656,922	\$ 978,547
Accrued interest	198,370	373,216
Payroll liabilities	174,606	158,046
Line of credit (Note 5)	511,629	--
Current portion of long-term debt (Note 4)	3,452,851	658,250
Current portion of unearned revenue (Note 6)	66,544	66,544
Tsunami CalEMA advance liability (Note 11)	422,550	422,550
Prepaid slip rents	137,377	117,881
Deposits	354,392	318,718
	<u>5,975,241</u>	<u>3,093,752</u>
Total current liabilities	5,975,241	3,093,752
LONG-TERM DEBT, less current portion (Note 4)	<u>16,478,578</u>	<u>12,400,473</u>
OTHER LONG-TERM LIABILITIES		
Unearned revenue, less current portion (Note 6)	<u>848,436</u>	<u>914,980</u>
Total Liabilities	<u>23,302,255</u>	<u>16,409,205</u>
DEFERRED INFLOW OF RESOURCES		
Tsunami CalEMA deferred admin allowance (Note 11)	<u>42,778</u>	<u>122,227</u>
NET POSITION		
Net investment in capital assets	12,737,146	12,765,976
Restricted for:		
Debt service	3,350,140	381,351
Unrestricted	<u>8,683,307</u>	<u>4,989,372</u>
Total Net Position	<u>24,770,593</u>	<u>18,136,699</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	<u>\$ 48,115,626</u>	<u>\$ 34,668,131</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION Years Ended March 31, 2014 and 2013

	2014	2013
Operating revenues:		
Charges for berthing and services	\$ 6,323,993	\$ 6,056,456
Rent and concessions	1,642,193	1,456,083
	<u>7,966,186</u>	<u>7,512,539</u>
Operating expenses:		
Depreciation and Amortization	1,430,269	1,338,538
Dredging Operations	819,751	838,764
Administrative Services	607,274	507,595
Grounds	578,337	575,417
Fuel Services	554,830	556,269
Harbor Patrol	498,556	441,927
Property Management	412,992	419,124
Marina Management	385,748	414,325
Buildings	311,959	259,700
Parking Services	303,391	203,175
Docks, Piers, Marine Structures	219,302	219,408
Debt issuance costs	193,568	--
Finance & Purchasing	180,263	182,756
Environmental & Permitting	116,999	102,242
Utilities	102,937	116,531
Aeration	99,678	52,587
Rescue Services	91,876	73,509
Boatyard Operations	64,561	--
Port Commission Support	36,029	45,543
Capital Projects	32,600	29,406
Events	26,392	71,700
Ice Production	17,418	24,074
	<u>7,084,730</u>	<u>6,472,590</u>
Operating income	<u>881,456</u>	<u>1,039,949</u>
Non-operating revenues (expenses):		
County revenues for public services	12,493	13,742
Grants	364,066	21,447
Interest income	31,681	30,675
Other income	53,188	57,607
Interest expense	(764,057)	(629,784)
	<u>(302,629)</u>	<u>(506,313)</u>
Increase in net position before extraordinary items	578,827	533,636
Extraordinary Items		
Grants recognized in excess of current expenses related to tsunami damage (Note 11)	<u>6,055,067</u>	<u>6,403,462</u>
Increase in net position	6,633,894	6,937,098
Net position, beginning	<u>18,136,699</u>	<u>11,199,601</u>
Net position, ending	<u>\$ 24,770,593</u>	<u>\$ 18,136,699</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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 7,977,928	\$ 7,520,349
Cash paid to suppliers and employees	<u>(5,645,210)</u>	<u>(5,113,755)</u>
Net cash provided by operating activities	<u>2,332,718</u>	<u>2,406,594</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County revenues received for public services	12,493	13,742
Grant monies received	88,528	32,670
Proceeds from issuance of long-term debt	750,000	--
Cash received from other nonoperating activities	59,399	68,040
Interest paid on OE3 pension liability	(51,443)	(57,102)
Principal paid on OE3 pension liability	(46,322)	(40,664)
Cash paid related to tsunami damage	<u>(7,310)</u>	<u>(23,559)</u>
Net cash provided (used) by noncapital financing activities	<u>805,345</u>	<u>(6,873)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(7,696,863)	(6,895,422)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	5,504,676	4,893,933
Net proceeds on line of credit	511,629	--
Proceeds from issuance of long-term debt	16,053,406	--
Interest paid on long-term debt	(887,460)	(462,672)
Principal paid on long-term debt	<u>(9,890,478)</u>	<u>(474,376)</u>
Net cash provided (used) by capital and related financing activities	<u>3,594,910</u>	<u>(2,938,537)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	<u>31,681</u>	<u>30,675</u>
Net increase (decrease) in cash and cash equivalents	6,764,654	(508,141)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>4,916,274</u>	<u>5,424,415</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 11,680,928</u>	<u>\$ 4,916,274</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2014 and 2013

	2014	2013	
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ 881,456	\$ 1,039,949	
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,430,269	1,338,538	
(Increase) decrease in:			
Trade receivables	23,116	46,750	
Prepaid expenses	13,499	4,244	
Other current assets	283	608	
Other assets	--	--	
Increase (decrease) in:			
Accounts payable and accrued expenses	(4,531)	15,445	
Deferred revenue	(66,544)	(66,544)	
Prepaid slip rents	19,496	(8,577)	
Deposits	35,674	36,181	
Net cash provided by operating activities	<u>\$ 2,332,718</u>	<u>\$ 2,406,594</u>	
SUPPLEMENTAL DISCLOSURES			
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Capital asset additions	\$ 7,396,329	\$ 7,043,917	
Additions financed/included in accounts payable	300,534	(148,495)	
Cash paid to purchase capital assets	<u>\$ 7,696,863</u>	<u>\$ 6,895,422</u>	
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, 2014			
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>
Year ended March 31, 2013			
Cash and cash equivalents, beginning	\$ 5,042,924	\$ 381,491	\$ 5,424,415
Net decrease	<u>(508,001)</u>	<u>(140)</u>	<u>(508,141)</u>
Cash and cash equivalents, ending	<u>\$ 4,534,923</u>	<u>\$ 381,351</u>	<u>\$ 4,916,274</u>

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

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, 2014 and 2013

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 required.

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, 2014 and 2013, included in payroll liabilities on the Statement of Net Position, was \$61,784 and \$52,748, 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, 2014 and 2013

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 2013 financial statements to conform to the 2014 presentation.

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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 2. CASH AND CASH EQUIVALENTS (Continued)

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, 2014.

Restricted Cash: Restricted cash consists of the following:

	2014	2013
Restricted cash and cash equivalents for debt service:		
Money market funds / government obligations	<u>\$ 3,350,140</u>	<u>\$ 381,351</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 3. CAPITAL ASSETS

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>

The following is a summary of changes in capital assets for the year ended March 31, 2013:

	March 31, 2012	Additions	Deletions and Transfers	March 31, 2013
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	1,312,426	6,782,080	(5,415,467)	2,679,039
Depreciable assets:				
Structures and improvements	25,837,520	133,467	--	25,970,987
Docks	11,133,197	5,311,298	--	16,444,495
Equipment	6,320,343	212,927	(25,040)	6,508,230
Office equipment	90,840	19,612	--	110,452
	<u>46,043,686</u>	<u>12,459,384</u>	<u>(5,440,507)</u>	<u>53,062,563</u>
Accumulated depreciation	<u>(24,954,667)</u>	<u>(1,326,713)</u>	<u>25,040</u>	<u>(26,256,340)</u>
	<u>\$ 21,089,019</u>	<u>\$ 11,132,671</u>	<u>\$ (5,415,467)</u>	<u>\$ 26,806,223</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 4. LONG-TERM DEBT

Long-term debt and related current portions as of March 31, 2014 and 2013, is presented below:

	March 31, 2013	Additions	Reductions	March 31, 2014
State of California Department of Boating and Waterways:				
Loan 5	\$ 60,200	\$ --	\$ (60,200)	\$ --
Loan 6	105,589	--	(105,589)	--
Loan 7	170,471	--	(170,471)	--
Loan 8	906,624	--	(906,624)	--
Loan 9	1,537,455	--	(1,537,455)	--
Loan 10	1,456,566	--	(1,456,566)	--
Loan 11	1,853,897	--	(1,853,897)	--
Loan 12	3,450,189	--	(3,450,189)	--
OE3 Pension	843,847	--	(43,401)	800,446
Compass Bank taxable loan	--	2,384,445	(31,420)	2,353,025
Compass Bank tax-exempt loan	--	14,418,961	(130,988)	14,287,973
	<u>10,384,838</u>	<u>16,803,406</u>	<u>(9,746,800)</u>	<u>17,441,444</u>
Revenue Bonds, California Maritime Infrastructure Authority:				
2004A, 2004B, 2004C	2,740,000	--	(190,000)	2,550,000
Less bond discount/deferred loss, net	<u>(66,115)</u>	<u>6,100</u>	<u>--</u>	<u>(60,015)</u>
	<u>2,673,885</u>	<u>6,100</u>	<u>(190,000)</u>	<u>2,489,985</u>
Total notes payable and bonds, net	13,058,723	16,809,506	(9,936,800)	19,931,429
Less current portion, notes	(468,250)	(434,601)	--	(902,851)
Less current portion, bonds	<u>(190,000)</u>	<u>(2,360,000)</u>	<u>--</u>	<u>(2,550,000)</u>
	<u>\$ 12,400,473</u>	<u>\$ 14,014,905</u>	<u>\$ (9,936,800)</u>	<u>\$ 16,478,578</u>

Total interest incurred and charged to expense during the years ended March 31, 2014 and 2013, was \$764,057 and \$629,784, 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 involves loans privately placed with BBVA Compass Bank. The refinancing reduces the District's interest rates to 3.09% on tax-exempt debt and 4.74% on its taxable debt (existing rates ranged from 4.5% on DBW loans up to 7.4% on revenue current bonds).

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 4. LONG-TERM DEBT (Continued)

The financing package includes \$4,000,000 in new debt which will be used to purchase a new dredge to replace the *Seabright*, which has reached the end of its useful life. These new loans also reduce 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 State of California Department of Boating and Waterways loans were all unsecured, and were paid off in September 2013 with proceeds from new financing with Compass Bank.

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

In February 2004 the District issued \$3,905,000 in Revenue Bonds, California Maritime Infrastructure Authority (2004A, 2004B, and 2004C) with interest rates ranging from 4.436% to 7.503%. The District issued the bonds to fund capital projects and to advance refund the 1993 Series V Certificates of Participation with a 7.5% interest rate. The purpose of the advance refunding was to reduce the interest rate charged and extend the maturity date to May 2024. Due to the extended maturity date, the total debt service payments increased by \$438,000. The economic loss of \$18,657 was netted against the new debt and amortized over the life of the old Certificates of Participation.

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.

The Revenue Bond issue, California Maritime Infrastructure Authority (2004A, 2004B, and 2004C issue) was payable with annual principal payments of \$125,000 to \$320,000 and annual interest payments of \$24,010 to \$263,770. The bonds were secured by a pledge of revenues. The bonds were all paid off in May 2014 pursuant to the refinancing noted above, and, accordingly, the entire amount due has been included in current maturity of debt.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

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
2015	\$ 3,452,851	\$ 685,205	\$ 4,138,056
2016	981,018	557,729	1,538,747
2017	1,017,115	522,199	1,539,314
2018	1,053,772	485,286	1,539,058
2019	1,091,003	446,972	1,537,975
2020-2024	5,858,695	1,615,757	7,474,452
2025-2029	5,450,507	590,683	6,041,190
2030-2034	1,086,483	11,191	1,097,674
<i>Less bond discount</i>	<u>(60,015)</u>	<u>--</u>	<u>(60,015)</u>
	<u>\$ 19,931,429</u>	<u>\$ 4,915,022</u>	<u>\$ 24,846,451</u>

NOTE 5. LINE OF CREDIT

In September 2013 the District entered into a new line of credit borrowing agreement with Compass Bank, with an established limit of \$4,000,000. The new 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. 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, 2014 was 3.5%. There was \$511,629 outstanding on the line at year-end.

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 \$642,956 of the unearned revenue as rental income. Of the remaining \$914,980, \$66,544 is considered current and \$848,436 is considered long-term.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

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. 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 30.025% for April 2013 – June 2013 and 30.597% from July 2013 – March 2014. For the 2% @ 60 tier, the employer rate was 7.846% from April 2013 – June 2013 and 8.049% from July 2013 – March 2014. For the 2% @ 62 tier, the employer rate was 6.25% from April 2013 – March 2014. 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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 7. PENSION PLANS (Continued)

Annual Pension Cost

For fiscal year 2013/14, the District's annual pension cost of \$388,791 for CalPERS was equal to the District's required and actual contributions. The required contribution for fiscal year 2013/14 was determined as part of the June 30, 2011, 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.

At this time there is no three-year trend information for Santa Cruz Port District's Defined Benefit Pension Plan.

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, 2014 and 2013:

	2014	2013
Land	\$ 1,224,703	\$ 1,274,935
Structures and improvements	24,593,402	24,167,737
Docks	19,466,119	16,408,245
	<u>45,284,224</u>	<u>41,850,917</u>
Less accumulated depreciation	17,425,200	19,234,535
	<u>\$ 27,859,024</u>	<u>\$ 22,616,382</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 9. OPERATING LEASES (Continued)

Minimum future lease income to be received on non-cancelable leases as of March 31, 2014, for each of the next 5 years and in the aggregate is:

2015	\$	874,871
2016		893,983
2017		754,969
2018		676,252
2019		588,015
Thereafter		<u>2,462,268</u>
	\$	<u>6,250,358</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 year ended March 31, 2014 and 2013, totaled approximately \$588,427 and \$420,264, respectively.

NOTE 10. POST-EMPLOYMENT BENEFITS

In addition to pension benefits described in Note 7, the District provides limited post-employment medical insurance premium assistance to employees who, at the time of retirement, are 1) over 60, and 2) have been employed by the District for more than 20 years. Assistance is 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 occurs first.

Subsequent to year end, the District negotiated with its bargaining units and agreed to enroll in the CalPERS health benefit program, which includes retiree health benefits for members. The District's contribution to retiree medical was set at the minimum amount required under the Public Employees Medical and Hospital Care Act (PEMHCA).

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

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 has 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, 2014, the District has incurred \$17,378,268 of reimbursable expenses related to the tsunami damage, \$6,339,741 of which was incurred during the year ended March 31, 2014. Of the total expenses incurred during the year ended March 31, 2014, \$6,324,506 was capitalized as property and equipment and construction in progress, and \$15,235 was expensed. Through March 31, 2014 the District recognized \$16,617,969 in revenue, \$6,062,377 of which was recognized in the year ended March 31, 2014.

The table below shows the effect of the tsunami on the District's financial statements for the years ended March 31, 2014 and 2013:

	2014	2013
Restoration and replacement costs of District assets, which were capitalized	<u>\$ 6,324,506</u>	<u>\$ 6,709,859</u>
Noncapitalized costs:		
Labor costs	\$ 7,143	\$ 20,690
Administrative and legal costs	<u>167</u>	<u>2,869</u>
	7,310	23,559
FEMA/CalEMA reimbursements and insurance proceeds	<u>(6,062,377)</u>	<u>(6,427,021)</u>
Grants revenue recognized in excess of current expenses related to tsunami damage	<u>\$ (6,055,067)</u>	<u>\$ (6,403,462)</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2014 and 2013

NOTE 11. EXTRAORDINARY ITEMS (Continued)

March 2011 Tsunami (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, 2014. As of March 31, 2014, \$42,778 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, 2014.

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.

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 has only one item that qualifies for reporting in this category, which is the deferred loss on debt refunding. This amount is deferred and amortized over the term of the related debt.

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 preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 7, 2014, the date the financial statements were available to be issued.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2014

<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>\$ 4,754,806</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,754,806</u></u>

SANTA CRUZ PORT DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2014

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, 2014, 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 October 7, 2014.

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 Example Entity'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

October 7, 2014



**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, 2014. Santa Cruz Port District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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, 2014.

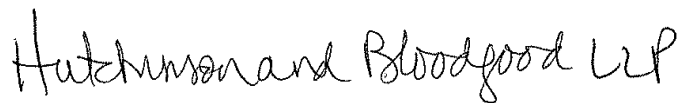
Report on Internal Control Over Compliance

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.



October 7, 2014

SANTA CRUZ PORT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2014

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, 2014

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Findings

None