

**HUMBOLDT BAY HARBOR, RECREATION
AND CONSERVATION DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2014 and 2013

DRAFT

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Humboldt Bay Harbor, Recreation and Conservation District
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Humboldt Bay Harbor, Recreation and Conservation District as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which 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 as well as accounting systems prescribed by the State of California Controller's Office and state regulations governing special districts; 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State of California Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. According, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Humboldt Bay Harbor, Recreation and Conservation District as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the

years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the District adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

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 through 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 opinions on the financial statements that collectively comprise the Humboldt Bay Harbor, Recreation and Conservation District's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, 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 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 supplementary information, as listed in the table of contents, 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 February 26, 2015, on our consideration of Humboldt Bay Harbor, Recreation and Conservation 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.

February 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAFT

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

This section of the Humboldt Bay Harbor, Recreation and Conservation District's annual financial report represents our discussion and analysis of the District's financial activities for the year ended June 30, 2014. Please read it in conjunction with the Independent Auditor's Report and the District's basic financial statements. The District's basic financial statements follow this section.

FINANCIAL HIGHLIGHTS

- The District's operating revenues increased by \$245,555, or 20 percent.
- The District's operating expenses increased by \$10,365, or 0.3 percent.
- The District's operating income increased by \$235,190, or 13 percent.
- The District's grants and other income increase by \$205,532, or 21 percent.
- General revenues from taxes, interest, and investments accounted for \$907,331 in revenues or 25 percent of all revenues. Revenues in the form of grants accounted for \$1,186,822 or 33 percent of all revenues.
- The District had total expenditures of \$3,858,314 and total revenue of \$3,577,674. The resulting decrease in net position of \$280,640 includes net grant income of \$614,548, depreciation expense in the amount of \$948,502, and expenses for repair of the Redwood Terminal 2 in the amount of \$178,652.
- The balance of long-term debt has decreased \$167,920 from the prior fiscal year due to scheduled principal payments.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: the government-wide financial statements and the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The basic financial statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents a section of required supplementary information that further explains and supports the information in the financial statements.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reporting the District as a Whole

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position reports all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net position and how they have changed. The District's financial health or position (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.

Additional non-financial factors such as the condition of buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

Reporting the District's Most Significant Funds

The District's financial statements provide detailed information about the District's one fund.

Enterprise Fund:

Because a large portion of the District's revenues are obtained from various charges to customers, all of the District's activities are accounted for in an enterprise fund, which is a proprietary fund type. Enterprise funds provide both long and short-term financial information.

THE DISTRICT AS A WHOLE

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's activities.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Table 1
Net Position
June 30, 2014 and 2013

	Business-Type Activities		
	2014	2013	Increase (Decrease)
<u>Assets:</u>			
Cash, unrestricted	\$ 1,420,713	\$ 1,906,768	\$ (486,055)
Receivables	273,885	514,025	(240,140)
Prepaid expenses	117,099	15,708	101,391
Restricted assets	1,746,983	277,981	1,469,002
Other assets	346,368	-	346,368
Capital assets, net	13,924,961	12,669,140	1,255,821
Total Assets	<u>\$ 17,830,009</u>	<u>\$ 15,383,622</u>	<u>\$ 2,446,387</u>
<u>Liabilities:</u>			
Payables and other liabilities	\$ 768,757	\$ 555,554	\$ 213,203
Unearned income	1,745,485	215,943	1,529,542
Environmental remediation liability	1,198,557	-	1,198,557
Current portion of long-term debt	176,428	167,523	8,905
Long-term debt outstanding	3,935,825	4,159,005	(223,180)
Total Liabilities	<u>7,825,052</u>	<u>5,098,025</u>	<u>2,727,027</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	11,320,093	11,184,908	135,185
Restricted	217,702	277,981	(60,279)
Unrestricted	(1,532,838)	(1,177,292)	(355,546)
Total Net Position	<u>\$ 10,004,957</u>	<u>\$ 10,285,597</u>	<u>\$ (280,640)</u>

Net position of the District decreased 2.7 percent, or \$280,640. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from a deficit balance of \$1,177,292 to a deficit balance of \$1,532,838.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Table 2 presents a comparative statement of revenues, expenses, and changes in net position.

Table 2
Comparative Statement of Revenues, Expenses, And Changes In Net Position
For The Years Ended June 30, 2014 and 2013

	Business-Type Activities		
	2014	2013	Increase (Decrease)
Operating Revenues:			
Rents and leases	\$ 536,424	\$ 450,461	\$ 85,963
Slip rentals	763,583	629,946	133,637
Pilotage services	63,300	59,430	3,870
Harbor improvement surcharge	63,162	57,696	5,466
Other	57,052	40,433	16,619
Total Operating Revenue	<u>1,483,521</u>	<u>1,237,966</u>	<u>245,555</u>
Operating Expenses:			
Salaries, wages, and benefits	1,149,851	1,217,421	(67,570)
Depreciation	948,502	953,720	(5,218)
Boat building and repair facility	71,756	47,681	24,075
Professional services	142,440	163,578	(21,138)
Redwood Terminal 2 expenses	178,652	-	178,652
Security services	35,399	90,418	(55,019)
Utilities	198,450	221,449	(22,999)
Other	367,436	387,854	(20,418)
Total Operating Expenses	<u>3,092,486</u>	<u>3,082,121</u>	<u>10,365</u>
Operating Income (Loss)	<u>(1,608,965)</u>	<u>(1,844,155)</u>	<u>235,190</u>
Non-Operating Revenue (Expense):			
Property taxes	911,862	932,115	(20,253)
Investment income (loss)	(4,531)	7,761	(12,292)
Grants and other income	1,186,822	981,290	205,532
Grant expense	(572,274)	(543,410)	(28,864)
Interest expense	(181,908)	(182,694)	786
Loss on disposal of capital asset	-	(509,000)	509,000
Other expenses	(11,646)	(4,539)	(7,107)
Total Non-Operating Revenue (Expense)	<u>1,328,325</u>	<u>681,523</u>	<u>646,802</u>
Increase (Decrease) In Net Position	<u>\$ (280,640)</u>	<u>\$ (1,162,632)</u>	<u>\$ 881,992</u>

Operating income increased \$235,190 over the prior year. The 2014 decrease in net position includes \$948,502 of depreciation expense.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NET POSITION OF THE DISTRICT'S ENTERPRISE FUND

Table 3 presents the net position of the District's one fund, the Enterprise Fund, and an analysis of significant changes in the fund's net position.

Table 3

Changes In Year-End Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Enterprise Fund	<u>10,004,957</u>	<u>10,285,597</u>	<u>-2.73%</u>

The 2.73 percent decrease can be attributed largely to a \$178,652 increase in Redwood Terminal 2 expenses and \$948,502 in depreciation.

Table 4 presents a summary of enterprise fund revenues for the year ended June 30, 2014 and the amounts and percentages of increases and decreases in relation to the prior year.

Table 4

Summary of Revenues

	<u>2013/14 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2012/13</u>	<u>Percent Increase (Decrease)</u>
Revenues:				
Rents and leases	\$ 536,424	14.99%	\$ 85,963	19.1%
Slip rentals	763,583	21.34%	133,637	21.2%
Pilotage services	63,300	1.77%	3,870	6.5%
Harbor improvement surcharge	63,162	1.77%	5,466	9.5%
Other operating income	57,052	1.59%	16,619	41.1%
Property taxes	911,862	25.49%	(20,253)	-2.2%
Interest income	(4,531)	-0.13%	(12,292)	-158.4%
Grants and other non-operating income	<u>1,186,822</u>	<u>33.17%</u>	<u>205,532</u>	<u>20.9%</u>
Total Revenues	<u>\$ 3,577,674</u>	<u>100.00%</u>	<u>\$ 418,542</u>	<u>13.2%</u>

The increase in rents and leases is due to new tidelands leases resulting in an increase in tidelands lease revenue of \$64,000, a \$19,600 increase in rents from the Fields Landing boat building and repair facility, and general increases in other rents. The increase in slip rentals is due to an increase in the Marina slip rent usage and a new marina slip rent surcharge to fund costs of marina float replacement. The increase in other operating income is due to increases in late fees and other miscellaneous income. The decrease in property taxes is due to a decrease in one-time 2012/13 revenue from the dissolution of redevelopment agencies. The negative balance in interest income and the decrease from the prior year is due to an adjustment to record the decrease in the fair market value of the District's pooled cash in the county treasury. The increase in grants and other non-operating income is due partly to a grant received from PG&E for the purchase and operation of a dredge.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Table 5 presents the variance between the District's budget and the actual results for the fiscal year. The district had no budget modifications during the year, so the final budget and the adopted budget were identical.

Table 5
Final Budget Versus Actual Results
For the Year Ended June 30, 2014

	Final Budget	Actual	Favorable (Unfavorable) Variance
Operating Revenues:			
Rents and leases	\$ 772,472	\$ 536,424	\$ (236,048)
Slip rentals	863,516	763,583	(99,933)
Harbor improvement surcharge	97,028	63,162	(33,866)
Pilotage services	61,294	63,300	2,006
Other	82,000	57,052	(24,948)
Total Operating Revenue	<u>1,876,310</u>	<u>1,483,521</u>	<u>(392,789)</u>
Operating Expenses			
Salaries, wages and benefits	1,120,824	1,124,651	(3,827)
Depreciation	-	948,502	(948,502)
Boat building and repair facility	35,000	71,756	(36,756)
Professional services	141,000	142,440	(1,440)
Redwood Terminal 2 expense	215,400	178,652	36,748
Security services	40,000	35,399	4,601
Utilities	125,000	198,450	(73,450)
Other operating expenses	435,265	392,636	42,629
Total Operating Expenses	<u>2,112,489</u>	<u>3,092,486</u>	<u>(979,997)</u>
Operating Income (Loss)	<u>(236,179)</u>	<u>(1,608,965)</u>	<u>(1,372,786)</u>
Non-Operating Revenue (Expense):			
Property taxes	880,000	911,862	31,862
Investment income (loss)	20,000	(4,531)	(24,531)
Grants and other non-operating income	2,739,500	1,186,822	(1,552,678)
Grant expense	(739,500)	(572,274)	167,226
Interest expense	(323,669)	(181,908)	141,761
Other non-operating expense	(68,400)	(11,646)	56,754
Total Non-Operating Revenue (Expense)	<u>2,507,931</u>	<u>1,328,325</u>	<u>(1,179,606)</u>
Increase (Decrease) in Net Position	<u>\$ 2,271,752</u>	<u>\$ (280,640)</u>	<u>\$ (2,552,392)</u>

Final Budget versus Actual Results

Variances of more than \$10,000 between budgeted and actual amounts were a result of the following:

The unfavorable variance in rents and leases is due to lower than anticipated revenue from the Freshwater Tissue property. The unfavorable variance in slip rentals is due to lower than anticipated occupancy, and lower than anticipated revenue from marina electrical metering charges due to a slight

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

delay in implementing the metering program. The unfavorable variance in harbor improvement surcharge was due to lower than anticipated shipping levels during the year. The unfavorable variance in other revenue is due to the revenue from Chevron's payment for the PORTS O&M costs being included in other non-operating revenue in the audited financial statements. The unfavorable variance in depreciation was due to the District's policy of budgeting for actual capital outlay for the year rather than depreciation expense. The unfavorable variance in boat building and repair facility was due to necessary repairs to the travel lift. The unfavorable variance in utilities expense was due to a lower than anticipated decline in expense after installation of a metering system for marina tenants. The favorable variance in other operating expenses was due to lower than anticipated expenses for Redwood Dock and for election expenses. The favorable variance in property taxes was due to a conservative estimate of property tax revenue for budgeting purposes. The unfavorable variance in investment income was due to an adjustment to recognize a decline in the fair market value of the District's pooled cash in the county treasury. The variances in grant income and expense were due to lower than anticipated grant activity for the year. The favorable variance in interest expense is due to the budget amount including the principal portion of the debt payments. The favorable variance in the Redwood Terminal 2 expense was due to capitalizing some of the expenses as land and building improvements. The favorable variance in other non-operating expense is due to principal portion of debt payments being included in the budgeted amount.

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, as of June 30, 2014 was \$13,924,961. The total increase in net capital assets from the prior year was 9.9 percent. This increase was largely attributable to capital acquisitions of dredge equipment and Redwood Terminal 2 improvements. There were no significant dispositions of capital assets in 2013/14.

Table 6
Comparative Schedule of Capital Assets
 June 30, 2014 and 2013

	Governmental Activities	
	2014	2013
Land, buildings and improvements	\$ 20,208,271	\$ 20,234,508
Automotive equipment	88,316	88,316
Office and operating equipment	2,829,748	2,733,350
Dredging costs	2,690,121	2,690,121
Construction in progress	2,134,163	-
Marina restaurant work-in-progress	34,100	34,100
Subtotals	<u>\$ 27,984,719</u>	<u>\$ 25,780,395</u>
Less: Accumulated Depreciation	<u>\$ (14,059,758)</u>	<u>\$ (13,111,255)</u>
Capital Assets, net	<u><u>\$ 13,924,961</u></u>	<u><u>\$ 12,669,140</u></u>

Debt Administration

At year-end, the District had \$3,681,310 in outstanding loans and bonds payable versus \$3,849,230 last year, a decrease of 4.4 percent. The debt consisted of \$1,254,902 payable to the California Department of Boating and Waterways with an interest rate of 4.5 percent and maturity dates ranging from 2024 to 2031, \$2,275,000 of bonds payable to the Bank of New York with an

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

average interest rate of 5.39 percent and a maturity date of 2029, and a \$151,408 note payable to North Valley Bank with an interest rate of 5.5 percent and a maturity date of February 2018. For detail on the note balances and maturities, refer to the notes to the basic financial statements.

Also included in long term debt as of June 30, 2014 and 2013 is \$430,943 and \$477,298, respectively, for the estimated liability for other postemployment benefits to be provided by the District.

ECONOMIC FACTORS

Nation-wide and State-wide economic trends that affect the financial condition of the District appear to be slowly improving.

Local economic conditions for the fishing and shipping industries in Humboldt Bay have improved over the last two years, due to improved international markets for raw logs, investment by California Redwood Company in a new chip export facility, and improved commercial and sport fishing conditions. The District's efforts to improve economic conditions include acquisition and environmental clean-up of the Freshwater Tissue/Redwood Terminal 2 property in 2013/14, development of additional revenue sources at the Fields Landing boat repair facility, and the installation of utility pedestals to monitor and separately bill marina tenants for utility usage. The District is also actively marketing cruise lines and other shippers to make Humboldt Bay a port of call, and helping the oyster industry expand through the District's pre-permitting project, which will increase oyster farming by adding 600 acres of tideland leases, creating over 50 jobs and increasing District annual revenues by over \$265,000.

The Redwood Terminal 2 property acquired by the District in 2013/14 has been appraised at \$3.8 million, for land and buildings only, after completion of the environmental clean-up. The capitalized amount in the District's financial statements is based on estimated total costs incurred and to be incurred by the District for the environmental remediation, plus 2013/14 building and land improvements on the site. The total capitalized amount at June 30, 2014 was \$1,606,178. In addition, the site includes a large industrial boiler, generator, a water treatment plant, other equipment such as a 1.5 mile ocean outfall line, and air emission credits, that have non-appraised total estimated values in the range of \$3 to \$10 million. The value of these assets will not be recognized as revenue until they are sold. The District is attempting to find buyers for these items of equipment and the emission credits. The District intends to use any proceeds from the sale of these assets to pay off the debt incurred for the site's environmental remediation and pay for additional improvements to the site. Recently the District negotiated a new 20 year use agreement with DG Fairhaven Power for use of the District's ocean outfall line at \$82,000/year with annual CPI increases of 2.5%. The power company's usage represents only 1.5% of the outfall line's capacity. The District is currently negotiating with potential new tenants at Redwood Terminal 2 property. Potential tenants include a wood chip exporter, pellet mill manufacture and exporter, oyster nursery, aquaponics, and mineral extractor company. Redwood Terminal 2 has significant deferred maintenance to buildings and utilities which need to be addressed in order to attract new tenants to the facility. The District anticipates using New Market Tax Credits and leverage loan to pay for an estimated \$3 million in costs. Current revenues with two tenants are \$154,000, which should increase to over \$500,000 from new tenant leases over the next two years.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Humboldt Bay Harbor, Recreation and Conservation District, P.O. Box 1030, Eureka, California 95502.

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BASIC FINANCIAL STATEMENTS

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HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
June 30, 2014 and 2013

	2014	2013
ASSETS:		
CURRENT ASSETS:		
Cash & cash equivalents	\$ 1,420,713	\$ 1,906,768
Restricted cash & cash equivalents	1,529,281	60,279
Accounts receivable, net	151,364	173,262
Grants receivable	117,561	338,582
Interest receivable	4,960	2,181
Prepaid expenses	117,099	15,708
TOTAL CURRENT ASSETS	3,340,978	2,496,780
NONCURRENT ASSETS:		
Restricted cash & cash equivalents	217,702	217,702
Nondepreciable capital assets	7,086,791	5,017,529
Depreciable capital assets	6,838,170	7,651,611
Deposits	346,368	-
TOTAL ASSETS	\$ 17,830,009	\$ 15,383,622
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	\$ 302,847	\$ 148,109
Accrued wages, payroll taxes & benefits	54,128	30,652
Unearned income	1,745,485	215,943
Environmental remediation liability	1,198,557	-
Accrued interest payable	219,247	226,937
Accrued vacation payable	78,316	47,948
Accrued sick leave payable	51,941	41,628
Customer deposits payable	62,278	60,280
Current portion of notes payable	176,428	167,523
TOTAL CURRENT LIABILITIES	3,889,227	939,020
LONG-TERM LIABILITIES:		
Other postemployment benefits obligation	430,943	477,298
Notes payables, net	3,504,882	3,681,707
TOTAL LIABILITIES	7,825,052	5,098,025
NET POSITION:		
Net investment in capital assets	11,320,093	11,184,908
Restricted	217,702	277,981
Unrestricted	(1,532,838)	(1,177,292)
TOTAL NET POSITION	10,004,957	10,285,597
TOTAL LIABILITIES AND NET POSITION	\$ 17,830,009	\$ 15,383,622

See accompanying notes.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Sales & permits	\$ 13,245	\$ 13,536
Marina slip rentals, utility, & dredging surcharges	763,583	629,946
Pilotage services	63,300	59,430
Rents & leases	536,424	450,461
Harbor improvement surcharge	63,162	57,696
Other revenue	43,807	26,897
TOTAL OPERATING REVENUES	1,483,521	1,237,966
OPERATING EXPENSES:		
Payroll & related costs	1,124,651	1,191,920
Commissioners' fees	25,200	25,501
Accounting & auditing	39,965	27,452
Advertising & promotion	3,495	5,016
Automobile expense	24,263	29,279
Bad debt	10,179	5,056
Boat building & repair facility	71,756	47,681
Communications	14,096	11,531
Conferences & meetings	24,356	27,350
Depreciation	948,502	953,720
Dues & subscriptions	40,685	32,249
Elections & property tax administration fee	25,162	25,056
Insurance	52,979	46,641
Legal & other professional fees	102,475	136,126
Office expense	41,163	64,246
Operating supplies	7,815	6,229
Security services	35,399	90,418
Redwood Terminal 2 expenses	178,652	-
Repairs, maintenance, & small tools	102,915	112,799
Utilities	198,450	221,449
Other operating expenses	20,328	22,402
TOTAL OPERATING EXPENSES	3,092,486	3,082,121
OPERATING INCOME (LOSS)	(1,608,965)	(1,844,155)
NONOPERATING REVENUES (EXPENSES):		
General property taxes	911,862	932,115
Investment income (loss)	(4,531)	7,761
Other government grants (see note 1)	605,594	933,483
Grant expenses (see note 1)	(572,274)	(543,410)
Other nonoperating income (see note 1)	581,228	47,807
Interest expense	(181,908)	(182,694)
Harbor deepening project	(2,597)	(2,597)
Loss on disposal of capital asset	-	(509,000)
Other nonoperating expenses	(9,049)	(1,942)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,328,325	681,523
CHANGE IN NET POSITION	(280,640)	(1,162,632)
BEGINNING NET POSITION	10,285,597	11,448,229
ENDING NET POSITION	\$ 10,004,957	\$ 10,285,597

See accompanying notes.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,026,780	\$ 1,117,299
Payments to suppliers	(962,151)	(812,229)
Payments to employees	(1,132,049)	(1,055,612)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,067,420)	(750,542)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Taxes for general operations	911,862	932,115
Receipt of grant & contract funds from other governments	856,616	1,623,163
Expenditures of grant funds	(540,730)	(543,410)
Other nonoperating receipts	1,601,228	25,307
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	2,828,976	2,037,175
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Payments to acquire, construct & improve capital assets	(1,005,768)	(602,316)
Receipts from capital asset funding agreement	950,000	-
Proceeds on notes payable	-	200,000
Principal paid on bonds & notes payable	(167,920)	(96,720)
Interest paid	(189,598)	(129,949)
Deposits	(346,368)	-
Other payments made on harbor projects	(2,597)	(2,597)
Payments for other nonoperating costs	(9,049)	(1,942)
NET CASH PROVIDED (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	(771,300)	(633,524)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	(7,309)	8,077
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	982,947	661,186
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	2,184,749	1,523,563
CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 3,167,696	\$ 2,184,749
FINANCIAL STATEMENT PRESENTATION RECONCILIATION:		
Cash & cash equivalents	\$ 1,420,713	\$ 1,906,768
Restricted cash equivalents, current	1,529,281	60,279
Restricted cash equivalents, noncurrent	217,702	217,702
CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 3,167,696	\$ 2,184,749
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (loss)	\$ (1,608,965)	\$ (1,844,155)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	948,502	953,720
Changes in assets & liabilities:		
Accounts receivable	21,898	(148,195)
Prepaid expenses	(101,391)	20,429
Accounts payable - related to operating activities	123,194	73,266
Accrued liabilities	64,157	(1,188)
Other post employment benefits	(46,355)	162,997
Deposits & other	1,998	10,964
Unearned income	(470,458)	21,620
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,067,420)	\$ (750,542)
NONCASH CAPITAL FINANCIAL ACTIVITIES		
Capital assets of \$1,198,557 were recorded for the estimated environmental remediation liability.		

See accompanying notes.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Humboldt Bay Harbor, Recreation and Conservation District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Reporting Entity

The accompanying financial statements include all organizations, activities, and functions that comprise the District. The District has no oversight responsibility over any other governmental unit and is not included in any other governmental "reporting entity" as defined in GASB pronouncements. The District is governed by a five-member Board of Commissioners from the five supervisorial districts in Humboldt County.

Nature of Activities

The District is a special district created in 1970 by the State of California. The District was formed for the development of Humboldt County's harbors and ports, for the promotion of commerce, navigation, fisheries, and recreation thereon, as well as the protection of the County's natural resources.

Basis of Presentation

The financial statements required by GASB Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), as amended by GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The District utilizes an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services that are provided to outside parties. The District has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method.

During the year ended June 30, 2014, the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). GASB No. 65 changes the accounting and reporting requirements for certain assets and liabilities, including the requirement to expense all debt issuance costs when incurred. The impact of adoption of GASB No. 65 on the District is to retroactively restate prior period balances, as follows:

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

Net position as of July 1, 2012, as previously stated:	\$ 11,706,527
Decrease due to retroactive application of GASB No. 65 requiring the capitalized deferred bond issuance costs to be expensed as incurred	<u>(258,298)</u>
Net position as of July 1, 2012, as restated:	<u>\$ 11,448,229</u>
Interest expense for the year ended June 30, 2013, as previously stated:	\$ (197,613)
Decrease to reverse the bond amortization recorded as interest expense to reflect the retroactive application of GASB No. 65 requiring the capitalized deferred bond issuance costs to be expensed as incurred	<u>14,919</u>
Interest expense for the year ended June 30, 2013, as restated:	<u>\$ (182,694)</u>
Unamortized bond issuance costs as of June 30, 2013, as previously stated:	\$ 243,379
Decrease due to retroactive application of GASB No. 65 requiring the capitalized deferred bond issuance costs to be expensed as incurred	<u>(243,379)</u>
Unamortized bond issuance costs as of June 30, 2013, as restated:	<u>\$ -</u>

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for periods beginning after June 15, 2014. The principal objective of this statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions. The District believes the adoption of this new guidance will have a material impact on the financial statements.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and their reporting in the financial statements.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of the District are charges to customers for rents and tidelands leases and harbor improvement surcharges. Operating expenses include the cost of maintaining the marina and tidelands, 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. Other government grants represent nonoperating revenues received from other agencies related to Harbor projects, including Spartina eradication, Homeland security, port access, aquaponics expansion and other initiatives. Other nonoperating income includes the portion of the PG&E funding (see Note 9) that has been recognized. Grant expenses primarily represent nonoperating expenses related to the other government grants nonoperative revenues.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Budget and Budgetary Accounting

The Board of Commissioners adopts a budget annually to be effective July 1st of the ensuing fiscal year. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgetary data for expenses, as revised, are presented in the accompanying supplemental information.

Allowance for Doubtful Accounts

The District evaluates the collectability of receivables in order to determine the allowance for doubtful accounts. As of June 30, 2014 and 2013, the District recorded an allowance for doubtful accounts of \$70,732 and \$60,948, respectively. Based on historical experience, the District does not expect additional amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be all cash on hand, demand deposits, and pooled cash and investments. The pooled cash and investments consists of cash pooled with the Humboldt County Treasurer's Investment Pool and is used as a demand deposit account.

The District follows the authority governing investments for municipal governments set forth in the California Government Code, Sections 53601 through 53659. The County Treasurer's Investment Pool is administered by the County of Humboldt Treasurer's Office and conforms to the California Government Code. The County's portfolio normally consists of U.S. Treasury issues, U.S. Agency agreements, banker's acceptances, and the State of California Local Agency Investment Fund. All cash invested by the County in demand deposit accounts is collateralized to 110 percent with approved U.S. Government securities, such as Treasury Bills and other U.S. Treasury issues. The fair value of the District's investments in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasury for the entire County Treasury portfolio.

Capital Assets

The capitalization threshold for all capital assets is \$2,500. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets that individually may be below threshold amounts are capitalized if collectively they are above the threshold amount.

Depreciation of all exhaustible capital assets is charged as an expense against operations, with accumulated depreciation reflected in the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Equipment	3 - 10 Years
Dredging projects	7 Years
Buildings and improvements	20 - 40 Years

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

Estimates

The preparation of financial statements in conformity with 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by creditors, grantors, contributors, laws, or regulations. Restricted assets are cash balances restricted by bank covenants for future payments of the loan for the harbor deep dredging project.

Unrestricted net position - consist of all other net position that does not meet the definition of "net investment in capital assets" or "restricted net position" and is available for general use by the District.

Property Taxes

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Humboldt County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula.

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted by the County. Under this plan, the county auditor/controller distributes 100 percent of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues on the accrual basis of accounting.

Postemployment Benefits other than Pensions

The District accounts for postemployment benefits other than pensions in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for*

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

Postemployment Benefits Other Than Pensions (GASB No. 45). The District records a liability on the Statement of Net Position for the difference between the amount the District contributes for retirees and the actuarially required contribution for funding postemployment benefits other than pension benefits. An actuarial computation of the required contribution was made for the years ended June 30, 2014 and 2013 (see Note 6).

Compensated Absences

All vested vacation and compensatory leave time is recognized as an expense and as a liability at the anniversary date of hire during the year ended June 30, 2014. In prior years, the expense and liability were recognized at the time the benefit vests. The liability for compensated absences is included as part of the accrued expenses payable from unrestricted current assets. Additionally, 50% of accrued sick hours over 240 is vested and included in the accrued sick pay liability.

NOTE 2 - CASH AND CASH EQUIVALENTS

The cash and cash equivalents at June 30, 2014 and 2013, are classified in the accompanying financial statements as follows:

	2014	2013
Cash and cash equivalents - current assets	\$ 1,420,713	\$ 1,906,768
Cash and cash equivalents - restricted assets - current	1,529,281	60,279
Cash and cash equivalents - restricted assets - noncurrent	<u>217,702</u>	<u>217,702</u>
Total cash and cash equivalents	<u>\$ 3,167,696</u>	<u>\$ 2,184,749</u>

Cash and cash equivalents - restricted assets - current includes \$1.47 million of the PG&E funding which has not been used and is recorded within unearned income on the statement of net position as of June 30, 2014.

Cash, cash equivalents, and investment at June 30, 2014 and 2013, consist of the following:

	2014	2013
Cash and cash equivalents:		
Cash on hand	\$ 405	\$ 405
Deposits held with financial institutions	433,025	381,917
Deposits held with the County Treasurer's Investment Pool	<u>2,734,266</u>	<u>1,802,427</u>
Total cash and cash equivalents	<u>\$ 3,167,696</u>	<u>\$ 2,184,749</u>

The District may invest in any obligations, bonds, or securities in accordance with Section 563601 of the California Government Code, provided that the investment is in compliance with any debt covenant.

Custodial credit risk for deposits is the risk that in the event of a failure by a financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires that financial institutions secure cash deposits made by state or local governments by pledging securities as collateral. The fair value of the pledged securities must equal at least 110% of the amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

value of 150% of the secured public deposits. The District may waive collateral requirements for cash deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The District has not waived the collateralization requirement. The District had deposits with bank balances of \$477,302 and \$430,191 as of June 30, 2014 and 2013, respectively. At June 30, 2014, the balances in the North Valley Bank accounts exceeded federally insured limits by \$9,599. The District has not experienced any losses in these accounts and management believes that the District is not exposed to any significant credit risk related to these accounts.

The custodial credit risk for the County Treasurer's Investment Pool is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The district does not have a specific policy which relates to interest rate risk.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, the external investment pool with the County Treasury is not rated.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2014, are as follows:

	<u>06/30/13</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>06/30/14</u>
<u>Nondepreciable capital assets:</u>				
Marina	\$ 2,556,121	\$ -	\$ -	\$ 2,556,121
Fields Landing	1,038,099	-	-	1,038,099
King Salmon	14,716	-	-	14,716
Redwood Dock	859,000	-	-	859,000
Marina restaurant complex	34,100	-	-	34,100
Shelter Cove breakwater projects	235,365	-	-	235,365
Dredging costs	215,227	-	-	215,227
Aquaponics pilot facility	64,901	-	(64,901)	-
Construction in progress	<u>-</u>	<u>2,134,163</u>	<u>-</u>	<u>2,134,163</u>
Total nondepreciable capital assets	<u>5,017,529</u>	<u>2,134,163</u>	<u>(64,901)</u>	<u>7,086,791</u>

Included in construction in progress as of June 30, 2014 is \$1,606,178 related to Redwood Terminal 2 and \$527,985 of components of a new dredge.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

Depreciable capital assets:

Automotive equipment	88,316	-	-	88,316
Office equipment	193,303	-	-	193,303
Operating equipment	286,039	-	-	286,039
Marina facilities	7,907,189	39,025	-	7,946,214
Aquaponics pilot facility	-	31,136	64,901	96,037
Fields Landing facilities	3,264,161	-	-	3,264,161
Shelter Cove facilities	2,142,972	-	-	2,142,972
King Salmon improvements	428	-	-	428
Marina dredging 2005	2,474,894	-	-	2,474,894
Redwood Dock facilities	2,151,195	-	-	2,151,195
Homeland security equipment	2,254,008	-	-	2,254,008
Table Bluff equipment	<u>361</u>	-	-	<u>361</u>
Total depreciable capital assets	20,762,866	<u>70,161</u>	<u>64,901</u>	20,897,928
Accumulated depreciation	<u>(13,111,255)</u>	<u>(948,503)</u>	-	<u>(14,059,758)</u>
Net depreciable capital assets	<u>7,651,611</u>	<u>(878,342)</u>	<u>64,901</u>	<u>6,838,170</u>
Total capital assets, net	<u>\$12,669,140</u>	<u>\$ 1,255,821</u>	<u>\$ -</u>	<u>\$13,924,961</u>

Total depreciation expense charged to operations for the years ended June 30, 2014 and 2013, was \$948,503 and \$953,720, respectively.

Loss on disposal of capital assets for the year ended June 30, 2014 was \$0. Loss on disposal of capital assets for the year ended June 30, 2013 of \$509,000 represents the impact of the demolition of Building 14.

NOTE 4 - NOTES PAYABLE

The following is a schedule of the changes in notes payable for the fiscal year ended June 30, 2014:

	Balance				<u>Classification</u>	
	<u>06/30/13</u>	Principal	Principal	Balance	Current	Long-Term
		Additions	Reductions	<u>06/30/14</u>	Portion	Portion
California Department of Boating and Waterways:						
Note 2	\$ 537,933	\$ -	\$ (17,118)	\$ 520,815	\$ 17,887	\$ 502,928
Note 3	693,725	-	(20,535)	673,190	21,459	651,731
Note 4	64,293	-	(3,396)	60,897	3,549	57,348
Refunding Bonds:						
Series 2004	2,365,000	-	(90,000)	2,275,000	95,000	2,180,000
North Valley Bank						
Note	<u>188,279</u>	<u>-</u>	<u>(36,871)</u>	<u>151,408</u>	<u>38,533</u>	<u>112,875</u>
	<u>\$3,849,230</u>	<u>\$ -</u>	<u>\$ (167,920)</u>	<u>\$3,681,310</u>	<u>\$ 176,428</u>	<u>\$ 3,504,882</u>

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

State of California, Department of Boating and Waterways

The District entered into loan agreements, with the State of California, Department of Boating and Waterways, Notes 2, and 3, to finance the construction of the Woodley Island Marina. Note 4 was issued for the first phase of construction of the Woodley Island Improvement Project. This improvement project was not completed.

The Department of Boating and Waterways agreed to a reduction in schedule payments for Notes 2 and 3 until negotiations for a restructuring of future payments is completed.

The notes call for principal and interest payments at a rate of 4.5% to be paid annually beginning August 1, 1983 for Note 2, August 1, 1984 for Note 3, and August 1, 1997 for Note 4. Notes 2, 3, and 4 mature on August 1, 2030, August 1, 2031, and August 1, 2024, respectively.

As of June 30, 2011, the State of California approved a two year deferral of payments on California Boating and Waterways loans number 2, 3 and 4. The amounts deferred will be payable at the original maturity dates of the loans.

The annual principal and interest requirements on the long-term debt outstanding as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 42,895	\$ 56,471	\$ 99,366
2016	44,825	54,541	99,366
2017	46,842	52,524	99,366
2018	48,951	50,415	99,366
2019	51,154	48,212	99,366
2020 to 2024	292,439	204,491	496,930
2025 to 2030	351,576	132,980	484,556
2031 to 2032	376,220	48,763	424,983
Total	<u>\$ 1,254,902</u>	<u>\$ 648,397</u>	<u>\$ 1,903,299</u>

Refunding Bonds, Series 2004:

In August 2004, the District issued the Series 2004 bonds to prepay the loan agreement with the California Maritime Infrastructure Authority incurred to finance the District's portion of the harbor deep dredging project. The Series 2004 bonds are unsecured, general obligations of the District.

The District is required by the Fiscal Agent Agreement to maintain an amount equal to the debt service requirements as defined in the Agreement in a Debt Service Reserve Fund. The Debt Service Reserve Fund of \$217,702 and \$217,702 is included in the respective June 30, 2014 and 2013 restricted cash and cash equivalents.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

Interest, at an average rate of 5.39%, is payable semi-annually on January 1 and July 1 of each year, commencing January 1, 2005. The bonds mature on July 1 of each year commencing July 1, 2005 and have a final maturity date of July 1, 2031. The bond debt service is as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 95,000	\$ 117,978	\$ 212,978
2016	100,000	113,442	213,442
2017	105,000	108,468	213,468
2018	110,000	103,092	213,092
2019	115,000	97,467	212,467
2020 to 2024	670,000	389,225	1,059,225
2025 to 2029	875,000	182,072	1,057,072
2030 to 2032	205,000	5,638	210,638
Total	<u>\$ 2,275,000</u>	<u>\$ 1,117,382</u>	<u>\$ 3,392,382</u>

North Valley Bank Note Payable:

In February 2013, the District obtained a loan from North Valley Bank for \$200,000, at a fixed interest rate of 5.5%, due February 2018. The District pledged collateral in the form of utility power pedestals for the Marina.

Year Ending June 30	Principal	Interest	Total
2015	\$ 38,533	\$ 7,388	\$ 45,921
2016	40,706	5,214	45,920
2017	43,003	2,918	45,921
2018	29,166	1,051	30,217
Total	<u>\$ 151,408</u>	<u>\$ 16,571</u>	<u>\$ 167,979</u>

NOTE 5 - RETIREMENT PLAN

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in social security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, 2012, and 2011 were \$74,121, \$65,553, \$60,732, and \$58,555, respectively.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

During the fiscal year ended June 30, 2014, the District revised the personnel policies. Under the revised personnel policies, the District provides post-retirement health care benefits, in accordance with state statute, to all employees hired before December 1, 2011, who retire from the District on or after attaining age fifty-five with at least ten years of service up until age sixty-five or when the retired employee is first eligible for Medicare, whichever is later. Employees forced to retire due to disability may retire at any age with at least 5 years of service. Currently, two retirees meet the retirement or the disability retirement eligibility criteria.

Plan Description

The District administers a single-employer defined benefit healthcare plan which provides healthcare insurance for eligible retirees and their spouses. The District pays 100% of the health insurance premiums for retired employees with a minimum of ten years of service and who have reached a minimum of fifty-five years of age up until age sixty-five. The District pays 50% of the retiree spouse's health insurance premiums who must enroll in Medicare, if eligible. Any employee hired after December 1, 2011, will not be eligible for retiree health insurance.

Funding Policy

The District funds post-employment health benefits on a pay-as-you-go basis. For the fiscal years ended June 30, 2014 and 2013, the District's contributions for post-employment health benefit costs were \$0 and \$7,000, respectively.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated on the annual required contribution to the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's OPEB obligation to the plan.

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 74,114	\$ 156,089
Interest on net OPEB obligation	21,479	13,908
Adjustment to annual required contribution	<u>(141,948)</u>	<u>-</u>
Annual OPEB cost (expense reduction)	(46,355)	169,997
Contributions made:		
Premiums paid	<u>-</u>	<u>(7,000)</u>
Increase (decrease) in net OPEB obligation	(46,355)	162,997
Net OPEB obligation - beginning of year	<u>477,298</u>	<u>314,301</u>
Net OPEB obligation - end of year	<u>\$ 430,943</u>	<u>\$ 477,298</u>

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current fiscal year is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ (46,355)	\$ -	0.0%	\$ 430,943
June 30, 2013	\$ 169,997	\$ 7,000	4.2%	\$ 477,298
June 30, 2012	\$ 111,988	\$ 7,618	6.8%	\$ 314,301
June 30, 2011	\$ 105,341	\$ 6,200	5.9%	\$ 209,931

As of June 30, 2014, the actuarial accrued liability for benefits was \$458,675, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. 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 presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 61, or at the first subsequent year in which the member would qualify for benefits.

Marital Status – 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

Mortality - Life expectancies at the calculation date are based on the mortality tables provided by CalPERS.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using miscellaneous employee turnover data provided by CalPERS.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

Healthcare cost trend rate - Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment. The ultimate trend rate was 4%.

Payroll increase - Payroll for current employees is expected to increase at the rate of approximately 3.0% annually.

Discount rate - The calculation uses an annual discount rate of 5.0%. This is based on the assumed long-term return on employer assets.

Actuarial cost method - The entry age normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014, was five years.

Required Supplementary Information: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)— Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll ([a-b]/c)
June 30, 2013	\$1,081,824	\$ -	\$1,081,824	0.0%	\$ 715,336	151.2%
June 30, 2010	\$ 716,234	\$ -	\$ 716,234	0.0%	\$ 695,704	103.0%

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial coverage covering each of those risks of loss. There have been no significant reductions in insurance coverage from the prior year. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this coverage in any of the past three years.

NOTE 8 - JOINT VENTURES

The Humboldt Bay Harbor, Recreation and Conservation District participates in a joint venture under a joint powers agreement with the California Maritime Infrastructure Authority (the Authority). The relationship between the District and the Authority is such that the Authority is not a component unit of the District for financial reporting purposes.

The Authority acts as a conduit agency to provide a funding mechanism for the financing and development of port infrastructure for its five member districts; the Humboldt Bay Harbor, Recreation and Conservation District, the Stockton Port District, the Sacramento-Yolo Port District, the San Diego Unified Port District, and the Santa Cruz Port District. The Authority is governed by a board consisting of one member from each member district. The board controls the operations of the Authority, including selection of management, independent of any influence by the member districts beyond their representation on the board.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

The Authority acts as a conduit agency only. There were no assets or liabilities of the Authority at the Statement of Net Position date. For the current period being reported in these financial statements the District made no payments to the Authority and received no funds from the Authority.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Pulp Mill Property

In August 2013, the District entered into a purchase and sale agreement to purchase a 72-acre parcel (Parcel A) on the Samoa peninsula from the Freshwater Tissue Company at no cost. The District assumed responsibility for everything that remains on the parcel which includes: a power plant, water treatment plant, buildings and stored hazardous materials. In June 2014, the District entered into a purchase agreement for Parcels B and C, paying \$320,000 to obtain the right to purchase these parcels. This payment is recorded within deposits as of June 30, 2014.

The District estimates the clean-up costs associated with Parcel A to range from \$8.5 million to \$14.0 million, of which the District is expected to be responsible for \$1.5 million to \$2.0 million. As of June 30, 2014, the District has recorded an environmental remediation liability of \$1.2 million, representing the \$1.5 million cost estimate, reduced by approximately \$300,000 in costs paid during the year ended June 30, 2014. The District estimates the fair value of the assets acquired to range from \$8.0 million to \$21.0 million. The District expects to fund the clean-up costs with asset sales, rental income, and additional financing with Coast Seafoods Company. As of June 30, 2014, the District has a \$1.25 million unused letter of credit with Coast Seafoods Company, for a two-year period at 3.5% annual interest. The purpose of this letter of credit is to finance the trucking of the hazardous materials from the Humboldt Bay Region to a pulp mill in the state of Washington, which began in April 2014 and was completed in September 2014.

The above costs represent significant management estimates and actual results could differ.

PG&E Agreement

During the year ended June 30, 2014, the District entered into a purchase agreement with Nehalem River Dredging, Inc. for the purchase of a used dredge for a \$950,000 purchase price. As of June 30, 2014, the District has paid \$505,000, with a commitment to pay the remaining purchase price upon achievement of predetermined milestones.

During the year ended June 30, 2014, Pacific Gas and Electric (PG&E) paid the District \$2.0 million for the specific purpose of procuring dredging equipment, financing initial start-up and training of District personnel, and reuse or disposal of dredged material. As part of the agreement, the District has committed to perform a one-time dredging of certain real property owned by PG&E and located near King Salmon know as Fisherman's Channel. The District assumes responsibility for the dredging activities and repair work of Fisherman's Channel, and upon completion of these contract terms, the District will obtain ownership of the Fisherman's Channel. During the year ended June 30, 2014, the District recognized approximately \$530,000 as other operating revenue, representing the \$505,000 installment payment for the dredge purchase and approximately \$25,000 related to trucking and travel costs. As of June 30, 2014, \$1.47 million of the PG&E funding has not been used and is recorded as unearned income on the statement of net position. The District expects to complete the dredge purchase and related services in the next year.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

The District believes the PG&E grant will cover the costs associated with this commitment. This represents a significant management estimate and actual results could differ.

NOTE 10 - SUBSEQUENT EVENTS

In December 2014, the District refinanced the outstanding balance on the 2004 refunding bonds of \$2,180,000 as well as the outstanding balances totaling \$1,241,382 on the three remaining loans from the Department of Boating and Waterways, through issuance of refunding bonds with a principal balance of \$3,333,674. The present value cash flow savings over the term of the debt as a result of this refinance is calculated to be \$147,217. The 2014 refunding bonds have a maturity date of July 1, 2029 and an interest rate of 4.1%.

Subsequent to June 30, 2014, the Environmental Protection Agency (EPA) notified the District that the District may be responsible to reimburse the EPA for up to \$10.0 million of costs incurred related to the clean-up of Parcel A on the Samoa peninsula. The District believes the EPA's notification was based on incorrect data, and has submitted corrected information to the EPA for review. The District believes the \$10.0 million of costs will be covered by the Superfund and any potential loss to the District will be in the range of \$0 and \$400,000.

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SUPPLEMENTARY INFORMATION

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HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF REVENUES AND EXPENSES -
UNRESTRICTED AND TIDELANDS TRUST
For the Year Ended June 30, 2014

	Unrestricted	Tidelands Trust	Total
OPERATING REVENUES:			
Sales & permits	\$ 9,107	\$ 4,138	\$ 13,245
Marina slip rentals, utility, & dredging surcharges	-	763,583	763,583
Pilotage services	-	63,300	63,300
Rents & leases	309,918	226,506	536,424
Harbor improvement surcharge	-	63,162	63,162
Other revenue	13,698	30,109	43,807
TOTAL OPERATING REVENUES	332,723	1,150,798	1,483,521
OPERATING EXPENSES:			
Payroll & related costs	334,083	790,568	1,124,651
Commissioners' fees	5,040	20,160	25,200
Accounting & auditing	38,870	1,095	39,965
Advertising & promotion	1,869	1,626	3,495
Automobile expense	5,889	18,374	24,263
Bad debt	-	10,179	10,179
Boat building & repair facility	71,086	670	71,756
Communications	6,396	7,700	14,096
Conferences & meetings	11,117	13,239	24,356
Depreciation	948,502	-	948,502
Dues & subscriptions	19,068	21,617	40,685
Elections & property tax administration fee	12,581	12,581	25,162
Insurance	22,513	30,466	52,979
Legal & other professional fees	45,272	57,203	102,475
Office expense	14,106	27,057	41,163
Operating supplies	2,721	5,094	7,815
Security services	6,320	29,079	35,399
Redwood Terminal 2 expenses	178,652	-	178,652
Repairs, maintenance, & small tools	32,547	70,368	102,915
Utilities	68,945	129,505	198,450
Other operating expenses	20,328	-	20,328
TOTAL OPERATING EXPENSES	1,845,905	1,246,581	3,092,486
OPERATING INCOME (LOSS)	(1,513,182)	(95,783)	(1,608,965)
NONOPERATING REVENUES (EXPENSES):			
General property taxes	911,862	-	911,862
Investment income	3,651	(8,182)	(4,531)
Other government grants	52	605,542	605,594
Other nonoperating income	10,730	570,498	581,228
Grant expenses	-	(572,274)	(572,274)
Interest expense	(52,692)	(129,216)	(181,908)
Harbor deepening project	-	(2,597)	(2,597)
Other nonoperating expenses	(6,433)	(2,616)	(9,049)
TOTAL NONOPERATING REVENUES (EXPENSES)	867,170	461,155	1,328,325
CHANGE IN NET POSITION	\$ (646,012)	\$ 365,372	\$ (280,640)

See accompanying notes.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF REVENUES AND EXPENSES -
MARINA AND GENERAL
For the Year Ended June 30, 2014

	Marina	General	Total
OPERATING REVENUES:			
Sales & permits	\$ 11,932	\$ 1,313	\$ 13,245
Marina slip rentals, utility, & dredging surcharges	763,583	-	763,583
Pilotage services	-	63,300	63,300
Rents & leases	19,579	516,845	536,424
Harbor improvement surcharge	-	63,162	63,162
Other revenue	15,155	28,652	43,807
TOTAL OPERATING REVENUES	810,249	673,272	1,483,521
OPERATING EXPENSES:			
Payroll & related costs	413,877	710,774	1,124,651
Commissioners' fees	7,560	17,640	25,200
Accounting & auditing	8,944	31,021	39,965
Advertising & promotion	1,191	2,304	3,495
Automobile expense	7,039	17,224	24,263
Bad debt	9,331	848	10,179
Boat building & repair facility	-	71,756	71,756
Communications	3,063	11,033	14,096
Conferences & meetings	2,567	21,789	24,356
Depreciation	474,384	474,118	948,502
Dues & subscriptions	-	40,685	40,685
Elections & property tax administration fee	-	25,162	25,162
Insurance	28,077	24,902	52,979
Legal & other professional fees	3,053	99,422	102,475
Office expense	16,217	24,946	41,163
Operating supplies	7,815	-	7,815
Security services	18,529	16,870	35,399
Redwood Terminal 2 expenses	-	178,652	178,652
Repairs, maintenance, & small tools	60,218	42,697	102,915
Utilities	183,418	15,032	198,450
Other operating expenses	-	20,328	20,328
TOTAL OPERATING EXPENSES	1,245,283	1,847,203	3,092,486
OPERATING INCOME (LOSS)	(435,034)	(1,173,931)	(1,608,965)
NONOPERATING REVENUES (EXPENSES):			
General property taxes	88,000	823,862	911,862
Investment income	-	(4,531)	(4,531)
Other government grants	-	605,594	605,594
Other nonoperating income	2,514	578,714	581,228
Grant expenses	-	(572,274)	(572,274)
Interest expense	(61,740)	(120,168)	(181,908)
Harbor deepening project	-	(2,597)	(2,597)
Other nonoperating expenses	(898)	(8,151)	(9,049)
TOTAL NONOPERATING REVENUES (EXPENSES)	27,876	1,300,449	1,328,325
CHANGE IN NET POSITION	\$ (407,158)	\$ 126,518	\$ (280,640)

See accompanying notes.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF REVENUES AND EXPENSES -
BUDGET TO ACTUAL - MARINA
For the Year Ended June 30, 2014

	Marina		Variance Favorable (Unfavorable)
	Budget	Actual	
OPERATING REVENUES:			
Sales & permits	\$ 14,000	\$ 11,932	\$ (2,068)
Marina slip rentals, utility, & dredging surcharges	863,516	763,583	(99,933)
Rents & leases	10,000	19,579	9,579
Other revenue	25,500	15,155	(10,345)
TOTAL OPERATING REVENUES	<u>913,016</u>	<u>810,249</u>	<u>(102,767)</u>
OPERATING EXPENSES:			
Payroll & related costs	461,308	413,877	47,431
Commissioners' fees	-	7,560	(7,560)
Accounting & auditing	6,000	8,944	(2,944)
Advertising & promotion	3,500	1,191	2,309
Automobile expense	7,140	7,039	101
Bad debt	-	9,331	(9,331)
Communications	8,540	3,063	5,477
Conferences & meetings	3,000	2,567	433
Depreciation	-	474,384	(474,384)
Dues & subscriptions	5,000	-	5,000
Elections & property tax administration fee	13,500	-	13,500
Insurance	12,091	28,077	(15,986)
Legal & other professional fees	10,000	3,053	6,947
Office expense	16,000	16,217	(217)
Operating supplies	5,500	7,815	(2,315)
Security services	40,000	18,529	21,471
Redwood Terminal 2 expenses	-	-	-
Repairs, maintenance, & small tools	60,000	60,218	(218)
Utilities	105,000	183,418	(78,418)
TOTAL OPERATING EXPENSES	<u>756,579</u>	<u>1,245,283</u>	<u>(488,704)</u>
OPERATING INCOME (LOSS)	<u>156,437</u>	<u>(435,034)</u>	<u>(591,471)</u>
NONOPERATING REVENUES (EXPENSES):			
General property taxes	88,000	88,000	-
Other nonoperating income	-	2,514	2,514
Interest expense	(99,366)	(61,740)	37,626
Other nonoperating expenses	(38,400)	(898)	37,502
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(49,766)</u>	<u>27,876</u>	<u>77,642</u>
CHANGE IN NET POSITION	<u>\$ 106,671</u>	<u>\$ (407,158)</u>	<u>\$ (513,829)</u>

See accompanying notes.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT
STATEMENTS OF REVENUES AND EXPENSES -
BUDGET TO ACTUAL - GENERAL
For the Year Ended June 30, 2014

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
OPERATING REVENUES:			
Sales & permits	\$ 1,000	\$ 1,313	\$ 313
Pilotage services	61,294	63,300	2,006
Rents & leases	762,472	516,845	(245,627)
Harbor improvement surcharge	97,028	63,162	(33,866)
Other revenue	41,500	28,652	(12,848)
TOTAL OPERATING REVENUES	<u>963,294</u>	<u>673,272</u>	<u>(290,022)</u>
OPERATING EXPENSES:			
Payroll & related costs	659,516	710,774	(51,258)
Commissioners' fees	25,200	17,640	7,560
Accounting & auditing	25,000	31,021	(6,021)
Advertising & promotion	3,500	2,304	1,196
Automobile expense	20,560	17,224	3,336
Bad debt	-	848	(848)
Boat building & repair facility	35,000	71,756	(36,756)
Communications	5,460	11,033	(5,573)
Conferences & meetings	23,000	21,789	1,211
Depreciation	-	474,118	(474,118)
Dues & subscriptions	24,000	40,685	(16,685)
Elections & property tax administration fee	31,500	25,162	6,338
Insurance	72,274	24,902	47,372
Legal & other professional fees	100,000	99,422	578
Office expense	25,000	24,946	54
Operating supplies	1,500	-	1,500
Security services	-	16,870	(16,870)
Redwood Terminal 2 expenses	215,400	178,652	(36,748)
Repairs, maintenance, & small tools	42,000	42,697	(697)
Utilities	20,000	15,032	4,968
Other operating expenses	27,000	20,328	6,672
TOTAL OPERATING EXPENSES	<u>1,355,910</u>	<u>1,847,203</u>	<u>(564,789)</u>
OPERATING INCOME (LOSS)	<u>(392,616)</u>	<u>(1,173,931)</u>	<u>(854,811)</u>
NONOPERATING REVENUES (EXPENSES):			
General property taxes	792,000	823,862	31,862
Investment income	20,000	(4,531)	(24,531)
Other government grants	2,739,500	605,594	(2,133,906)
Other nonoperating income	-	578,714	578,714
Grant expenses	(739,500)	(572,274)	167,226
Interest expense	(224,303)	(120,168)	104,135
Harbor deepening project	-	(2,597)	(2,597)
Other nonoperating expenses	(30,000)	(8,151)	21,849
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>2,557,697</u>	<u>1,300,449</u>	<u>(1,257,248)</u>
CHANGE IN NET POSITION	<u>\$ 2,165,081</u>	<u>\$ 126,518</u>	<u>\$ (2,112,059)</u>

See accompanying notes.

**REPORT ON INTERNAL CONTROL AND COMPLIANCE
AND OTHER MATTERS**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

To the Board of Commissioners
Humboldt Bay Harbor, Recreation and Conservation District
Eureka, 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 business-type activities of Humboldt Bay Harbor, Recreation and Conservation District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated February 26, 2015.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency; see finding 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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.

February 26, 2015

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SCHEDULE OF FINDINGS

2014-1

To be discussed at the next meeting.

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