

SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Years Ended March 31, 2013 and 2012

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
REQUIRED SUPPLEMENTAL INFORMATION, MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
FINANCIAL STATEMENTS	
Statements of Net Assets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to Financial Statements	14-28
EXPENDITURES OF FEDERAL AWARDS	
Schedule of Expenditures of Federal Awards	29
Notes to Schedule of Expenditures of Federal Awards	30
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 <i>GOVERNMENT AUDITING STANDARDS</i>	31-32
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	33-34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	35



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, 2013 and 2012, 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 opinions 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, 2013 and 2012, 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 3-10 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 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 August 20, 2013 on our consideration of the Santa Cruz Port District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Santa Cruz Port District's internal control over financial reporting and compliance.

Hutchinson and Bloodgood LLP

August 27, 2013

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2013 and 2012

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, 2013 and 2012. 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.

FY13 was the second year of the District's program based budget. Expenses are budgeted and tracked within 19 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. This FY13 report presents the first two years of year-end figures using this budget approach.

In early FY12, the District began the process of upgrading to Microsoft (Windows-based) compatible programs to replace its antiquated marina management and accounting systems. Implementing the new software, PacSoft for marina management and Microsoft Dynamics GP for accounting, has enhanced the District's ability to accurately track, manage and program expenses and assets, and to manage its marina billing and inventory efforts. The conversion to both systems was completed in FY12. Additional upgrades to the District's technology, software licensing and networking capabilities were implemented during FY13. These enhancements improved network performance, activated new networking resources within Microsoft Dynamics GP and PacSoft, streamlined data management, and improved budgeting, reporting tools and employee efficiency.

In FY13, the District adopted its first 5-Year Capital Improvement Plan (CIP). The CIP lists projects for the current year (FY13) in detail, and provides capital needs forecasts extending out through FY17. The CIP includes 8 projects in FY13 estimated at \$470,000, and 12 other projects identified but unfunded. In FY13 a Condition Survey was completed, providing a planning document for future maintenance and capital project expenditures.

Funding for the CIP is derived primarily from operating revenues. 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 a Capital Improvement Fund. The vast majority of expenses within the Capital Improvement Fund will be capitalized upon completion of the various projects, and will include force account labor where applicable. Under the previous system, force account labor was sometimes excluded from the capitalized costs, resulting in underreported assets. The new CIP process is also expected to produce some salary savings within the operating budget as staff will be able to charge time against projects appropriately.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2013 and 2012

FINANCIAL HIGHLIGHTS *(Continued)*

Fiscal Year Ended March 31, 2013

Operating Revenues

- Operating revenues were \$7,516,216; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$7,449,672, or about 108% of budgeted revenues, and were \$637,125, 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) 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 Assets

- Overall assets have increased approximately 23%, with overall long-term debt and other liabilities decreasing approximately 2%, resulting in total net assets (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 assets (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, 2013 and 2012

FINANCIAL HIGHLIGHTS *(Continued)*

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.

Prior Fiscal Year Ended March 31, 2012

Operating Revenues

- Operating revenues were \$6,879,091; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$6,812,547, or about 102% of budgeted revenues, and were \$240,000, or 3.6% higher than the prior year. Visitor-related income sources (launch, parking, and RV) were \$724,149, approximately \$26,000, or 5% under the prior year. Slip rent, at \$3,469,283, was about \$180,125 or 5% under budget, and approximately \$182,125, or 5% less 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, FY12 revenues exceeded FY11 levels by 3%. The increase is attributable to fuel sales for 2012's highly productive salmon, groundfish and albacore fishing seasons

Operating Expenses

- Operating expenses (before depreciation) were \$4,818,969, \$1,111,541 or 19% under budget, and approximately \$60,000, or 1.3% higher than the prior year. Non-dredging expenses of \$3,843,218 were about 11.7% under budget, and were consistent with the prior year's expenses. Dredging expenses of 975,751 were 13.5% under budget, and were approximately \$104,351, or 9.7% less than the prior year.

SANTA CRUZ PORT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2013 and 2012

FINANCIAL HIGHLIGHTS *(Continued)*

Prior Fiscal Year Ended March 31, 2012 (continued)

Net Assets

- Overall assets increased approximately 33%, with overall long-term debt and other liabilities increasing approximately 35%, resulting in total net assets (equity) exceeding the prior year by 31% (an increase of \$2,660,605). During FY12, investment outpaced depreciation due to the reconstruction of docks damaged or destroyed by the March 2011 tsunami disaster.
- In comparison with the prior year, overall net assets reported in FY11 increased approximately 1%, with overall long-term debt and other liabilities increasing approximately 3%, leaving total net assets (equity) essentially unchanged from the prior year. The FY11 investment in plant kept pace with depreciation, although investment was slower than the rate of depreciation.

Special and Extraordinary Items

- Expenses incurred for the damage repairs related to the March 11, 2011, tsunami were \$4,211,184 and \$191,140, in FY12 and FY11, respectively. The District received federal and state disaster assistance of \$4,028,938 and \$99,633, for FY12 and FY11, respectively. Future costs for the remaining repairs were estimated to be \$14,000,000, of which approximately \$13,125,000 was expected to be covered by federal and state disaster assistance.
- The District paid \$73,323 in principal and interest in FY12 against the OE3 Trust Fund withdrawal liability assessed under ERISA in August 2011 for \$913,315. There were no costs incurred in FY11.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2013 and 2012

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 years ended March 31, 2013 and 2012. 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 Assets* present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 Assets* present information showing how the District's net assets changed during the two most recent fiscal years. All changes in net assets 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, 2013 and 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net assets:

	2013	2012	2011
Assets			
Current and other assets	\$ 7,418,540	\$ 6,592,731	\$ 2,232,153
Capital assets net of depreciation	26,806,223	21,089,019	18,428,493
Other assets	443,368	449,233	449,654
	<u>\$ 34,668,131</u>	<u>\$ 28,130,983</u>	<u>\$ 21,110,300</u>
% change over prior year	23%	33%	
Liabilities			
Current liabilities	\$ 3,215,979	\$ 2,853,910	\$ 1,401,960
Long-term debt	12,400,473	13,095,948	10,121,276
Deferred revenue	914,980	981,524	1,048,068
	<u>\$ 16,531,432</u>	<u>\$ 16,931,382</u>	<u>\$ 12,571,304</u>
% change over prior year	-2%	35%	
Net assets			
Invested in capital assets	\$ 12,765,976	\$ 6,473,288	\$ 6,980,807
Restricted for debt service	381,351	381,491	376,187
Unrestricted	4,989,372	4,344,822	1,182,002
	<u>\$ 18,136,699</u>	<u>\$ 11,199,601</u>	<u>\$ 8,538,996</u>
% change over prior year	62%	31%	

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

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2013 and 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

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 is 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.

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.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2013 and 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION *(Continued)*

Prior Fiscal Year Ended March 31, 2012

Capital Assets

Priorities were re-established after the March 11, 2011, tsunami, which destroyed U dock and severely damaged docks throughout the south harbor. Reconstruction work completed during FY12 included U and V docks. The total cost for rebuilding those two docks was approximately \$2.0 million, of which approximately \$1.7 million in reimbursement has been received from FEMA. The estimated cost of repairing all tsunami related damage is approximately \$18 million, of which FEMA and CalEMA funding combined will reimburse approximately 94%. The District has 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 FY12 included replacement of the fuel lines between the fuel storage tanks and the pumps on the fuel dock. A portion of the work was related to tsunami damage, and the remainder was required by the Santa Cruz County Environmental Health Department to maintain compliance with its underground storage tank (UST) permitting requirements. The total cost of the work was approximately \$120,000, of which approximately \$35,000 will be reimbursed by FEMA.

Debt Administration

All of the District's debt is related to the facilities expansion. The District's long-term debt at March 31, 2012, totaled \$13,567,663. This represents an increase of \$3,234,589, or 31%, from FY11.

The California Department of Boating and Waterways allowed the District to defer payment on its loans by one year due to the impact of the tsunami on District resources. Additions to long-term debt in Note 4 for Loans 5 through 11 represent the increased interest owed as a result of the deferral. The addition to Loan 12 is a combination of increased interest on the deferred principal payment and the amendment to the loan increasing it by \$2.5 million for tsunami recovery work.

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 ASSETS
March 31, 2013 and 2012**

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 4,534,923	\$ 5,042,924
Trade receivables	155,878	202,628
Grants receivable	24,184	46,840
CalEMA receivable (Note 11)	2,661,583	1,253,515
Interest receivable	2,251	2,203
Prepaid expenses	37,021	41,265
Inventory	2,700	3,356
Total current assets	7,418,540	6,592,731
RESTRICTED ASSETS		
Cash and cash equivalents (Note 2)	381,351	381,491
CAPITAL ASSETS (Note 3)		
Nondepreciable assets:		
Land	1,349,360	1,349,360
Construction in progress	2,679,039	1,312,426
Depreciable assets:		
Structures and improvements	25,970,987	25,837,520
Docks	16,444,495	11,133,197
Equipment	6,508,230	6,320,343
Office equipment	110,452	90,840
	53,062,563	46,043,686
Less accumulated depreciation	26,256,340	24,954,667
	26,806,223	21,089,019
OTHER ASSETS		
Bond issuance costs, net of accumulated amortization	62,017	67,742
	\$ 34,668,131	\$ 28,130,983

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

LIABILITIES AND NET ASSETS	2013	2012
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 978,547	\$ 830,439
Accrued interest	373,216	263,206
Payroll liabilities	158,046	142,214
Current portion of long-term debt (Note 4)	658,250	471,715
Current portion of deferred revenue (Note 6)	66,544	66,544
Tsunami CalEMA advance liability (Note 11)	544,777	670,797
Prepaid slip rents	117,881	126,458
Deposits	<u>318,718</u>	<u>282,537</u>
 Total current liabilities	 3,215,979	 2,853,910
 LONG-TERM DEBT, less current portion (Note 4)	 12,400,473	 13,095,948
 OTHER LONG-TERM LIABILITIES		
Deferred revenue, less current portion (Note 6)	<u>914,980</u>	<u>981,524</u>
	<u>16,531,432</u>	<u>16,931,382</u>
 NET ASSETS		
Invested in capital assets, net of related debt	12,765,976	6,473,288
Restricted for:		
Debt service	381,351	381,491
Unrestricted	<u>4,989,372</u>	<u>4,344,822</u>
	<u>18,136,699</u>	<u>11,199,601</u>
	<u>\$ 34,668,131</u>	<u>\$ 28,130,983</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended March 31, 2013 and 2012

	2013	2012
Operating revenues:		
Charges for berthing and services	\$ 6,060,133	\$ 5,490,721
Rent and concessions	1,456,083	1,388,370
	7,516,216	6,879,091
Operating expenses:		
Depreciation and amortization	1,338,538	1,323,307
Dredging Operations	838,764	975,751
Grounds	575,417	608,750
Administrative Services	507,595	525,123
Harbor Patrol	441,927	469,420
Fuel Services	556,269	457,727
Marina Management	414,325	386,186
Buildings	259,700	295,828
Property Management	419,124	216,669
Parking Services	203,175	171,311
Docks, Piers, Marine Structures	219,408	169,812
Finance & Purchasing	182,756	167,294
Utilities	116,531	84,833
Environmental & Permitting	102,242	67,147
Aeration	52,587	56,327
Rescue Services	73,509	51,503
Events	71,700	40,961
Port Commission Support	45,543	35,125
Ice Production	24,074	23,379
Capital Projects	29,406	15,823
	6,472,590	6,142,276
Operating income	1,043,626	736,815
Non-operating revenues (expenses):		
County revenues for public services	13,742	24,985
Grants	21,447	128,816
Interest income	30,675	16,650
Other income	53,930	22,258
Interest expense	(629,784)	(664,490)
	(509,990)	(471,781)
Increase in net assets before extraordinary items	533,636	265,034
Extraordinary Items		
OE3 Trust Fund withdrawal liability (Note 11)	--	(913,315)
Grants recognized in excess of current expenses related to tsunami damage (Note 11)	6,403,462	3,536,138
	6,403,462	3,536,138
Increase in net assets	6,937,098	2,887,857
Net assets, beginning, as previously stated	11,199,601	8,538,996
Prior period adjustment (Note 12)	--	(227,252)
Net assets, beginning, as restated	11,199,601	8,311,744
Net assets, ending	\$ 18,136,699	\$ 11,199,601

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

SANTA CRUZ PORT DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended March 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 7,524,026	\$ 6,853,185
Cash paid to suppliers and employees	<u>(5,113,755)</u>	<u>(4,969,763)</u>
Net cash provided by operating activities	<u>2,410,271</u>	<u>1,883,422</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County revenues received for public services	13,742	24,985
Grant monies received for abandoned boats	32,670	14,523
Cash received from other nonoperating activities	64,363	32,774
Interest paid on OE3 pension liability	(57,102)	(44,519)
Principal paid on OE3 pension liability	(40,664)	(28,805)
Cash paid related to tsunami damage	<u>(23,559)</u>	<u>(510,098)</u>
Net cash used by noncapital financing activities	<u>(10,550)</u>	<u>(511,140)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(6,895,422)	(3,516,975)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	4,893,933	3,659,024
Proceeds from issuance of long-term debt	--	2,732,365
Interest paid on long-term debt	(462,672)	(671,862)
Principal paid on long-term debt	<u>(474,376)</u>	<u>(388,386)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,938,537)</u>	<u>1,814,166</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	<u>30,675</u>	<u>16,650</u>
Net increase (decrease) in cash and cash equivalents	(508,141)	3,203,098
CASH AND CASH EQUIVALENTS, BEGINNING	<u>5,424,415</u>	<u>2,221,317</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 4,916,274</u></u>	<u><u>\$ 5,424,415</u></u>

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

**RECONCILIATION OF OPERATING INCOME
TO NET CASH FLOWS FROM
OPERATING ACTIVITIES**

	2013	2012
Operating income	\$ 1,043,626	\$ 736,815
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,338,538	1,323,307
(Increase) decrease in:		
Trade receivables	46,750	40,378
Prepaid expenses	4,244	(28,051)
Other current assets	608	(3,189)
Increase (decrease) in:		
Accounts payable and accrued expenses	15,445	(119,554)
Deferred revenue	(66,544)	(66,544)
Prepaid slip rents	(8,577)	(12,696)
Deposits	36,181	12,956
	<u>\$ 2,410,271</u>	<u>\$ 1,883,422</u>
Net cash provided by operating activities	<u>\$ 2,410,271</u>	<u>\$ 1,883,422</u>

**SUPPLEMENTAL DISCLOSURES
SCHEDULE OF NONCASH INVESTING AND
FINANCING ACTIVITIES**

Capital asset additions	\$ 7,043,917	\$ 4,209,396
Less additions financed/included in accounts payable	<u>(148,495)</u>	<u>(692,421)</u>
Cash paid to purchase capital assets	<u>\$ 6,895,422</u>	<u>\$ 3,516,975</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENTS OF NET ASSETS**

	Current Assets	Restricted Assets	Statements of Cash Flows Total
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>
Year ended March 31, 2012			
Cash and cash equivalents, beginning	\$ 1,845,130	\$ 376,187	\$ 2,221,317
Net increase	<u>3,197,794</u>	<u>5,304</u>	<u>3,203,098</u>
Cash and cash equivalents, ending	<u>\$ 5,042,924</u>	<u>\$ 381,491</u>	<u>\$ 5,424,415</u>

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

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 Assets.

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.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 vacation which is payable upon retirement. The liability for compensated absences at March 31, 2013 and 2012, included in payroll liabilities on the Statement of Net Assets, was \$52,748 and \$43,411, 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.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 balance sheets as a reduction of revenue bonds payable and are being amortized on a straight-line basis over the bond redemption period.

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

SANTA CRUZ PORT DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

In the Statement of Net Assets, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – 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 Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments, as reduced by related outstanding debt.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Note 2. CASH AND CASH EQUIVALENTS

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

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

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 2. CASH AND CASH EQUIVALENTS (Continued)

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, 2013.

Restricted Cash - Restricted cash consists of the following:

	2013	2012
Restricted cash and cash equivalents for debt service:		
Money market funds / government obligations	\$ 381,351	\$ 381,491

Note 3. CAPITAL ASSETS

A summary of changes in capital assets follows 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
	46,043,686	12,459,384	(5,440,507)	53,062,563
Accumulated depreciation	(24,954,667)	(1,326,713)	25,040	(26,256,340)
	\$21,089,019	\$11,132,671	\$ (5,415,467)	\$26,806,223

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 3. CAPITAL ASSETS (Continued)

A summary of changes in capital assets follows for the year ended March 31, 2012:

	March 31, 2011	Additions	Deletions and Transfers	March 31, 2012
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	161,997	4,125,202	(2,974,773)	1,312,426
Depreciable assets:				
Structures and improvemer	25,828,985	8,535	--	25,837,520
Docks	8,598,160	2,822,756	(287,719)	11,133,197
Equipment	6,134,787	185,556	--	6,320,343
Office equipment	48,720	42,120	--	90,840
	<u>42,122,009</u>	<u>7,184,169</u>	<u>(3,262,492)</u>	<u>46,043,686</u>
Accumulated depreciation	<u>(23,930,904)</u>	<u>(1,311,482)</u>	<u>287,719</u>	<u>(24,954,667)</u>
	<u>\$ 18,191,105</u>	<u>\$ 5,872,687</u>	<u>\$ (2,974,773)</u>	<u>\$ 21,089,019</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 4. LONG-TERM DEBT

Long-term debt and related current portions as of March 31, 2013 and 2012, is presented below:

	March 31, 2012	Additions	Reductions	March 31, 2013
State of California Department of Boating and Waterways:				
Loan 5	\$ 117,808	\$ --	\$ (57,608)	\$ 60,200
Loan 6	154,998	--	(49,409)	105,589
Loan 7	222,473	--	(52,002)	170,471
Loan 8	977,228	--	(70,603)	906,625
Loan 9	1,623,193	--	(85,738)	1,537,455
Loan 10	1,508,469	--	(51,903)	1,456,566
Loan 11	1,892,914	--	(39,017)	1,853,897
Loan 12	3,483,099	--	(32,910)	3,450,189
CAT Tractor loan	12,746	--	(12,746)	--
Blackwell	22,440	--	(22,440)	--
OE3 Pension	884,510	--	(40,664)	843,846
	<u>10,899,878</u>	<u>--</u>	<u>(515,040)</u>	<u>10,384,838</u>
Revenue Bonds, California Maritime Infrastructure Authority:				
2004A, 2004B, 2004C	2,740,000	--	--	2,740,000
Less bond discount/deferred loss, net	<u>(72,215)</u>	<u>6,100</u>	<u>--</u>	<u>(66,115)</u>
Bonds, net	<u>2,667,785</u>	<u>6,100</u>	<u>--</u>	<u>2,673,885</u>
Total notes payable and bonds, net	13,567,663	6,100	(515,040)	13,058,723
Less current portion, notes	(471,715)		3,465	(468,250)
Less current portion, bonds	--	<u>(190,000)</u>	<u>--</u>	<u>(190,000)</u>
	<u>\$ 13,095,948</u>	<u>\$ (183,900)</u>	<u>\$ (511,575)</u>	<u>\$ 12,400,473</u>

SANTA CRUZ PORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012**

Note 4. LONG-TERM DEBT (Continued)

Total interest incurred and charged to expense during the years ended March 31, 2013 and 2012, was \$629,784 and \$664,490, respectively. For the year ended March 31, 2012, \$312,438 in interest was capitalized.

The State of California Department of Boating and Waterways loans are unsecured, with interest rates, maturity dates, and annual payments as follows:

	Interest Rate	Maturity Dates	Annual Payment
Loan 5	4.5%	08/01/13	\$ 62,909
Loan 6	4.5%	08/01/14	\$ 56,384
Loan 7	4.5%	08/01/15	\$ 62,013
Loan 8	4.5%	08/01/22	\$ 114,579
Loan 9	4.5%	08/01/25	\$ 158,783
Loan 10	4.5%	08/01/30	\$ 119,784
Loan 11	4.5%	08/01/37	\$ 126,388
Loan 12	4.5%	08/01/43	\$ 214,452

The CAT Tractor loan was payable in monthly installments of \$1,626, including interest at 5.9%. The loan was secured by equipment and was paid in full during the year ended March 31, 2013.

The Blackwell loan was payable in monthly installments of \$2,546, including interest at 5%. The loan was secured by real property and was paid in full during the year ended March 31, 2013.

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 is netted against the new debt and amortized over the life of the old Certificates of Participation.

The Revenue Bond issue, California Maritime Infrastructure Authority (2004A, 2004B, and 2004C issue) is payable with annual principal payments of \$125,000 to \$320,000 and annual interest payments of \$24,010 to \$263,770. The bonds are secured by a pledge of revenues. The bonds mature in installments from \$125,000 to \$320,000 per year through May 2024.

SANTA CRUZ PORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012**

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
2014	\$ 658,250	\$ 689,203	\$ 1,347,453
2015	683,075	655,052	1,338,127
2016	614,565	619,366	1,233,931
2017	588,338	586,415	1,174,753
2018	618,653	552,817	1,171,470
2019-2023	3,668,721	2,197,921	5,866,642
2024-2028	2,578,477	1,169,771	3,748,248
2029-2033	1,342,684	720,887	2,063,571
2034-2038	1,269,712	434,477	1,704,189
2039-2043	897,396	174,899	1,072,295
2044-2049	204,967	9,435	214,402
<i>Less bond discount</i>	<i>(66,115)</i>	<i>--</i>	<i>(66,115)</i>
	\$ 13,058,723	\$ 7,810,243	\$ 20,868,966

Note 5. LINE OF CREDIT

In June 2011 the District entered into a new line of credit borrowing agreement with Comerica Bank. The line of credit was utilized to aid the District in covering 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 LIBOR plus 3.95% and the line has an established limit of \$7,000,000. There was no outstanding balance as of March 31, 2013 and 2012.

Note 6. DEFERRED REVENUE

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 will pay 47% of the cost of the construction project and the District will pay 53% of the cost of the project. Title for the building will remain 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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2013 and 2012

Note 6. DEFERRED REVENUE (Continued)

The tenant's total contribution to the project was \$1,558,239. That amount was established as deferred 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 \$576,712 of the deferred revenue as rental income. Of the remaining \$981,524, \$66,544 is considered current and \$914,980 is considered long-term.

Note 7. PENSION PLANS

Deferred Compensation Plan (457(a)):

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, 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 new 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 hire date. 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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2013 and 2012

Note 7. PENSION PLANS (Continued)

During a portion of fiscal year 2011/12, members of the 2.5% @ 55 plan also contributed one-half of employer rate of any amount over 29% as provided in a labor agreement. That provision expired with the adoption of a new labor agreement that went into effect for harbor employees on January 1, 2012. 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 29.201% for April 2012 – June 2012 and 30.025% from July 2012 – March 2013. For the 2% @ 60 tier, the employer rate was 7.733% from April 2012 – June 2012 and 7.846% from July 2012 – March 2013. For the 2% @ 62 tier, the employer rate was 6.25% from January 2013 – March 2013. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2012/13, the District's annual pension cost of \$369,989 for CalPERS was equal to the District's required and actual contributions. The required contribution for fiscal year 2012/13 was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45%, and projected payroll growth at 3.25%. Both (a) and (b) include an inflation component of 3%. 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.

Until July 2011, the District employed a dredging crew consisting of members of the Operating Engineers Local 3 (OE3). Those employees were enrolled in the OE3 pension separate from CalPERS. The District's cost for this benefit is included in Dredge operations on the attached Statement of Revenues, Expenses, and Changes in Net Assets.

In connection with labor negotiations between the OE3 and the District, the District imposed participation in the CalPERS retirement plan for members of OE3, effective in July 2011 in accordance with its contract with CalPERS. The District will no longer make contributions to the union trust fund on behalf of OE3 employees. See Note 11 for details regarding the outcome of the negotiations and related retirement benefits.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

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, 2013 and 2012:

	2013	2012
Land	\$ 1,274,935	\$ 1,274,935
Structures and improvements	24,167,737	24,029,270
Docks	16,408,245	11,096,947
	<u>41,850,917</u>	<u>36,401,152</u>
Less accumulated depreciation	<u>19,234,535</u>	<u>18,240,543</u>
	<u><u>\$ 22,616,382</u></u>	<u><u>\$ 18,160,609</u></u>

Minimum future lease income to be received on non-cancelable leases as of March 31, 2013, for each of the next 5 years and in the aggregate is:

2014	\$ 740,182
2015	655,873
2016	552,028
2017	490,904
2018	463,139
Thereafter	<u>3,258,867</u>
	<u><u>\$ 6,160,993</u></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, 2013 and 2012, totaled approximately \$420,264 and \$386,623, respectively.

SANTA CRUZ PORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012**

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.

The District finances the plan on a pay-as-you-go basis. For the years ended March 31, 2013 and 2012, the District paid \$2,000 and \$4,333, respectively in post-employment health care benefits.

Note 11. EXTRAORDINARY ITEMS

March 2011 California 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, 2013, the District has incurred \$11,038,527 of reimbursable expenses related to the tsunami damage, \$6,721,068 of which was incurred during the year ended March 31, 2013. \$10,555,592 in revenue has been recognized through March 31, 2013, \$6,427,021 of which was recognized in the year ended March 31, 2013. Total expenses during the year ended March 31, 2013, related to the tsunami were \$6,733,418. Of those total expenses, \$6,709,859 has been capitalized as property and equipment and construction in progress, and \$23,559 was expensed.

SANTA CRUZ PORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012**

Note 11. EXTRAORDINARY ITEMS (Continued)

March 2011 California Tsunami (continued)

The table below shows the effect of the tsunami on the District's financial statements for the years ended March 31, 2013 and 2012:

	2013	2012
Restoration and replacement costs of District assets, which were capitalized	<u>\$ 6,709,859</u>	<u>\$ 3,822,938</u>
Noncapitalized costs:		
Labor costs	\$ 20,690	\$ 135,164
Administrative and legal costs	2,869	5,276
Dock repair and maintenance	<u>--</u>	<u>369,658</u>
	23,559	510,098
FEMA/CalEMA reimbursements and insurance proceeds	<u>(6,427,021)</u>	<u>(4,046,236)</u>
Grants revenue recognized in excess of current expenses related to tsunami damage	<u>\$ (6,403,462)</u>	<u>\$ (3,536,138)</u>

In April 2011 CalEMA provided the district with a funding advance of \$422,550 for emergency work. As of March 31, 2013, \$122,227 in administrative funding has also been received from CalEMA for expenses that were obligated but not yet incurred. The amounts have been reported as an advance liability on the statement of net assets at March 31, 2013.

OE3 Trust Fund Withdrawal Liability

As a result of the labor negotiations referenced in Note 7, the OE3 Trust Fund sent notice to the District in August 2011 that it has withdrawal liability under ERISA in the amount of \$913,315. The amount can 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. The District has appealed the decision, but is required to continue making the quarterly payments in the interim. The District has recorded the entire liability, and has also retained the services of an actuary to review the withdrawal liability calculations.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2013 and 2012

Note 12. PRIOR PERIOD ADJUSTMENT

As a result of a major clean-up of the District's property and equipment listing and conversion to a new software system for tracking property and equipment, an adjustment was recorded to restate beginning net assets and property and equipment balances at April 1, 2011. Also during the year ended March 31, 2012, it was noted that a reimbursable grant the District received in 2009 for repairs to the west jetty was erroneously recorded to offset the replacement costs being recorded as construction in progress ("CIP"). In addition, a 10% retainer on the grant was not being recognized as income or as a receivable. The table below shows the effect of the adjustments on net assets:

Depreciation calculation errors	\$	(192,292)
Vehicle addition erroneously expensed, net of depreciation		5,769
		(338,744)
Coastal Conservancy Grant		
Amount erroneously recorded as a contra-CIP account		101,356
10% retention on reimbursements held by grantor		10,136
		111,492
Net prior period adjustment	\$	(227,252)

Note 13. SUBSEQUENT EVENTS

The District is in the process of refinancing 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 range from 4.5% on DBW loans up to 7.4% on revenue current bonds).

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.

In August 2013, the District received notice from FEMA that it would receive a close-out payment of approximately \$174,000 related to storm damage sustained in 2005/06. This amount, when received, will be reported as non-operating revenue on the FY14 financial statements.

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through August 27, 2013, the date the financial statements were available to be issued.

SANTA CRUZ PORT DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2013**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant/Contract Number	Federal Expenditures
United States Department of Homeland Security - Federal Emergency Management Agency:			
<i>Passed through California Emergency Management Agency</i>			
Public Assistance Grants	97.036	FEMA-1968-DR-CA, CAL EMA ID: 087-91039	<u>\$ 5,040,801</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,040,801</u></u>

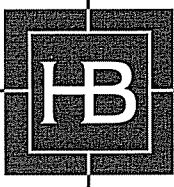
See accompanying notes to schedule of expenditures of federal awards.

SANTA CRUZ PORT DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2013**

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, 2013, 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 August 27, 2013.

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

August 27, 2013



**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, 2013. 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, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Hutchinson and Bloodgood LLP

August 27, 2013

SANTA CRUZ PORT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended March 31, 2013

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Santa Cruz Port District.
2. No significant deficiencies relating to the audit of the financial statements were reported in the 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.
3. No instances of noncompliance material to the financial statements of the Santa Cruz Port District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal awards program for the Santa Cruz Port District expresses an unmodified opinion.
6. There are no audit findings relative to the major federal award programs for the Santa Cruz Port District reported in this schedule.
7. The program tested as a major programs was: United States Department of Homeland Security – Federal Emergency Management Agency – Disaster Grants – Public Assistance, FEMA-1968-DR-CA, CFDA number 97.036
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Santa Cruz Port District did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS

None

PRIOR YEAR AUDIT FINDINGS

None