

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

**BASIC FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2018**

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**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
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**JUNE 30, 2018**

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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 year ended June 30, 2018, 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 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 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. 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 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, 2018, and the changes in financial position and cash flows thereof for the year 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 4 through 12 and schedule of proportionate share of the net OPEB Liability, schedule of the District's proportionate share of the net pension liability, and schedule of pension contributions on pages 39 through 41 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 21, 2019, 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.

*Harshwal & Company LLP*

**Oakland, California  
February 21, 2019**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018. Please read it in conjunction with the Independent Auditor's Report and the District's basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's operating revenues increased by \$100,800, or 4.6 percent.
- The District's operating expenses increased by \$108,161, or 2.9 percent, mainly due to increases in employee benefits, professional services, and utilities.
- General revenues from taxes, interest, and investments accounted for \$1,227,167 in revenues or 32 percent of all revenues.
- The District had total expenditures of \$4,219,238 and total revenue of \$3,833,981. The resulting decrease in net position of \$385,257 includes net government grant income of \$24,543, depreciation expense in the amount of \$793,087 and expenses for repair and operations of the Redwood Terminal 2 in the amount of \$292,025.
- Notes payable has decreased \$300,661 from the prior fiscal year due to scheduled debt service 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 YEAR ENDED JUNE 30, 2018**

**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 YEAR ENDED JUNE 30, 2018**

Table 1  
Comparative Statement of Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017 (Restated)</u>	<u>Increase (Decrease)</u>
<b>Assets:</b>			
Cash	\$ 1,540,158	\$ 1,877,789	\$ (337,631)
Receivable	314,141	249,657	64,484
Other Assets	6,252	58,906	(52,654)
New Market Loan Receivable	5,849,375	5,849,375	-
Capital Assets Net	<u>11,973,515</u>	<u>12,518,651</u>	<u>(545,136)</u>
Total Assets	<u>19,683,441</u>	<u>20,554,378</u>	<u>(870,937)</u>
<b>Deferred Outflows of Resources</b>			
Pension	325,335	251,612	73,723
Bond Refunding	<u>26,395</u>	<u>30,912</u>	<u>(4,517)</u>
Total Deferred Outflow of Resources	<u>351,730</u>	<u>282,524</u>	<u>69,206</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,035,171</u>	<u>\$ 20,836,902</u>	<u>\$ (801,731)</u>
<b>Liabilities</b>			
Payables and Other Liabilities	\$ 430,210	\$ 418,148	\$ 12,062
Unearned Income	4,960,451	5,196,218	(235,767)
Environment Remediation Liability	76,502	103,562	(27,060)
Current Portion of Long-Term Debt	1,299,471	1,322,188	(22,717)
Net Pension Liability	941,780	780,795	160,985
Other Long-term Debt	<u>4,477,152</u>	<u>4,794,279</u>	<u>(317,127)</u>
Total Liabilities	<u>12,185,566</u>	<u>12,615,190</u>	<u>(429,624)</u>
<b>Deferred Inflows of Resources</b>			
Related to Pension	<u>103,599</u>	<u>90,449</u>	<u>13,150</u>
Total Deferred Inflows of Resources	<u>103,599</u>	<u>90,449</u>	<u>13,150</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	9,698,957	10,143,705	(444,748)
Unrestricted	(2,910,971)	(2,806,910)	(104,061)
Restricted	<u>958,020</u>	<u>794,468</u>	<u>163,552</u>
Total Net Position	<u>7,746,006</u>	<u>8,131,263</u>	<u>(385,257)</u>
Total Liabilities, Net Position, and Deferred Inflows of Resources	<u>\$ 20,035,171</u>	<u>\$ 20,836,902</u>	<u>\$ (801,731)</u>

Net position of the District decreased by 4.7 percent, or \$385,257.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

	<u>2018</u>	<u>2017</u> <u>(Restated)</u>	<u>Increase</u> <u>(Decrease)</u>
<b>Operating Revenues:</b>			
Rents and Leases	\$ 1,311,795	\$ 1,231,738	\$ 80,057
Slip Rentals	695,812	675,071	20,741
Harbor Improvement Surcharge	83,403	77,438	5,965
Other	182,807	188,770	(5,963)
Total Operating Revenue	<u>2,273,817</u>	<u>2,173,017</u>	<u>100,800</u>
<b>Operating Expenses:</b>			
Salaries, Wages and Benefits	1,349,070	1,367,658	(18,588)
Depreciation	793,087	983,100	(190,013)
Field Landing Expenses	81,570	56,614	24,956
Professional Services	369,024	314,917	54,107
Redwood Terminal 2 Expenses	292,025	195,904	96,121
Utilities	268,312	168,164	100,148
Other	703,978	662,548	41,430
Total Operating Expenses	<u>3,857,066</u>	<u>3,748,905</u>	<u>108,161</u>
Operating Income (Loss)	<u>(1,583,249)</u>	<u>(1,575,888)</u>	<u>(7,361)</u>
<b>Non-Operating Revenue (Expense):</b>			
General Property Taxes	1,045,047	999,051	45,996
Investment Income (Loss)	182,120	172,783	9,337
Grants and Other Income	332,997	649,313	(316,316)
Grant Expenses	(112,082)	(48,816)	(63,266)
Interest Expenses	(247,987)	(263,896)	15,909
Other Non-Operating Expenses	(2,103)	(1,221)	(882)
Total Non-Operating Revenue (Expense)	<u>1,197,992</u>	<u>1,507,214</u>	<u>(309,222)</u>
Increase (Decrease) In Net Position	<u>\$ (385,257)</u>	<u>\$ (68,674)</u>	<u>\$ (316,583)</u>

Operating income increased by \$100,800 over the prior year, and operating expenses increased by \$108,161, including \$96,121 increase in Redwood Terminal 2 expenses.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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

	<b>2018</b>	<b>2017 (Restated)</b>	<b>% Change</b>
Net Position, June 30,	<u>\$7,746,006</u>	<u>\$ 8,131,263</u>	<u>(4.74)%</u>

The 4.74 percent is due to increased utilities, professional services, and Redwood Terminal 2 expenses.

Table 4 presents a summary of enterprise fund revenues for the year ended June 30, 2018 and the amounts and percentages of increases and decreases in relation to the prior year.

Table 4  
Summary of Revenues

	2017/18 Amount	Percent of Total	Increase (Decrease) from 2016/17	Percent Increase (Decrease)
Revenues:				
Rents, Leases, Project Administration	\$ 1,311,795	34.21 %	\$ 80,057	6.5 %
Slip Rentals	695,812	18.15 %	20,741	3.1 %
Harbor Improvement Surcharge	83,403	2.18 %	5,965	7.7 %
Other Operating Income	182,807	4.77 %	(5,963)	(3.2)%
General Property Taxes	1,045,047	27.26 %	45,996	4.6 %
Interest Income	182,120	4.75 %	9,337	5.4 %
Grant and Other Non-Operating Income	332,997	8.69 %	(316,316)	(48.7)%
Total Revenues	<u>\$ 3,833,981</u>	<u>100.00 %</u>	<u>\$ (160,183)</u>	<u>(4.0)%</u>

Rents and leases increased due to increased revenues from Redwood Terminal 2 and Shelter Cove. Grant revenue varies from year to year based on available grant funding. Interest income increased due to slight increase in interest rate.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<b>Operating Revenues:</b>			
Rents and Leases	\$ 1,749,676	\$ 1,311,795	\$ (437,881)
Slip Rentals	910,000	695,812	(214,188)
Harbor Improvement Surcharge	100,000	83,403	(16,597)
Other	<u>215,000</u>	<u>182,807</u>	<u>(32,193)</u>
Total Operating Revenue	<u>2,974,676</u>	<u>2,273,817</u>	<u>(700,859)</u>
<b>Operating Expenses</b>			
Salaries, Wages and Benefits	1,462,400	1,349,070	113,330
Depreciation	-	793,087	(793,087)
Field Landing Expenses	50,000	81,570	(31,570)
Professional Services	361,000	369,024	(8,024)
Redwood Terminal 2 Expenses	65,000	292,025	(227,025)
Repairs and Maintenance	121,000	90,090	30,910
Utilities	210,000	268,312	(58,312)
Other Operating Expenses	<u>568,400</u>	<u>613,888</u>	<u>(45,488)</u>
Total Operating Expenses	<u>2,837,800</u>	<u>3,857,066</u>	<u>(1,019,266)</u>
Operating Income (Loss)	<u>136,876</u>	<u>(1,583,249)</u>	<u>(1,720,125)</u>
<b>Non-Operating Revenue (Expense):</b>			
General Property Taxes	965,000	1,045,047	80,047
Investment Income (Loss)	170,000	182,120	12,120
Grant and Other Non-Operating Income	2,462,826	332,997	(2,129,829)
Grant Expenses	(831,338)	(112,082)	719,256
Interest Expenses	(1,699,868)	(247,987)	1,451,881
Other Non-Operating Expenses	<u>(896,500)</u>	<u>(2,103)</u>	<u>894,397</u>
Total Non-Operating Revenue (Expense)	<u>170,120</u>	<u>1,197,992</u>	<u>1,027,872</u>
Increase (Decrease) in Net Position	<u>\$ 306,996</u>	<u>\$ (385,257)</u>	<u>\$ (692,253)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Final Budget versus Actual Results**

Variances of more than \$100,000 between budgeted and actual amounts were a result of the following:

The unfavorable variance of \$437,881 in rent and lease revenues was due to lower than expected rent revenue from Redwood Terminal 2 and Fields Landing. The unfavorable variance of \$214,188 in slip rentals was due to lower than anticipated slip rents. The favorable variance of \$113,330 in salaries, wages and benefits was due to staff retirements. The unfavorable variance of \$793,087 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 of \$227,025 in Redwood Terminal 2 expenses was due to higher than anticipated costs to repair and renovate the facilities. The unfavorable of \$2,129,829 variance in grants and other non-operating income was due to grants that were budgeted but not received, dredging revenue of \$350,000 budgeted but not received, and \$1,250,000 budgeted for fiber optic cable placement project that did not occur in 2017/18. This unfavorable variance is partially offset by a favorable variance of \$719,256 in the grant expense. The favorable variance of \$1,451,881 in interest expense was due to the District including the principal portion of loan payments, including a \$1,156,000 payoff of the Coast Seafoods loan, in the annual budget. The favorable variance of \$894,397 in other non-operating expense was due to capital expenditures that were recorded by the District as capital assets on the balance sheet, not as expenses in the financial statements.

**Capital Assets**

The District's investment in capital assets, net of accumulated depreciation, as of June 30, 2018 was \$11,973,515. The total decrease in net capital assets from the prior year was 4.4 percent. This decrease was due to capital acquisitions being offset by the annual depreciation expense. There were no dispositions of capital assets in fiscal year ended June 30, 2018.

Table 6  
Comparative Schedule of Capital Assets

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Land, Building and Improvement	\$ 22,934,010	\$ 22,789,150
Automotive Equipment	95,639	88,316
Office and Operating Equipment	3,976,833	3,968,696
Dredging Costs	2,777,752	2,690,121
Marina Restaurant Work-in-progress	34,100	34,100
Subtotals	<u>29,818,334</u>	<u>29,570,383</u>
Less: Accumulated Depreciation	<u>(17,844,819)</u>	<u>17,051,732</u>
Capital Assets, Net	<u>\$ 11,973,515</u>	<u>\$ 12,518,651</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Debt Administration**

The District incurred no new long-term debt in 2017/18. The increase in net pension liability was a result of State-wide increases in the CalPERS net pension liability. The District is required to report its proportionate share of that liability in its financial statements. As of June 30, 2018, the increase in other post-employment benefits was due to the implementation of GASB 75 and the resulting changes in the computation of the liability for other post-employment benefits. The ending balances for debts and other long-term liabilities, as of June 30, 2018 and 2017 are presented below in Table 7.

Table 7  
Debt and Other Long-Term Liabilities

	<b>June 30, 2018</b>	<b>June 30, 2017 (Restated)</b>
2014 Refunding Bond	\$ 2,701,352	\$ 2,892,276
Notes Payable to BBVA	1,361,593	1,437,325
Capital Lease Payable	5,107	9,947
Note Payable to Coast Seafood's	1,156,375	1,156,375
Notes Payable for Marina Utility Meters	-	29,165
Other Long-Term Liabilities:		
Other Postemployment Benefit Obligation	552,198	591,379
Net Pension Liability	941,780	780,795
Total	\$ 6,718,405	\$ 6,897,262

**ECONOMIC FACTORS**

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

The District's efforts to improve economic conditions include the acquisition and environmental clean-up of the Freshwater Tissue/Redwood Terminal 2 property beginning in 2013/14 and continuing into 2017/18. Redwood Terminal 2 had significant deferred maintenance to buildings and utilities which needed to be addressed in order to attract new tenants to the facility. The District obtained funding through the New Market Tax Credit program which will result in an estimated \$5 million in renovation and improvements to the site. It is estimated that revenues from tenants at the Redwood Terminal 2 property should increase to over \$500,000 from new tenant leases over the next two years.

The District also assumed responsibility for the operations of the boat launching facility in Shelter Cove, California, to maintain access to fishing and recreation in the Shelter Cove area. 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.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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.

## **BASIC FINANCIAL STATEMENTS**



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2018**

**ASSETS:**

CURRENT ASSETS:

Cash & Cash Equivalents	\$ 582,138
Restricted Cash & Cash Equivalents	958,020
Accounts Receivable, Net	314,141
Interest Receivable	5,200
Prepaid Insurance	<u>1,052</u>
Total Current Assets	<u>1,860,551</u>

NONCURRENT ASSETS:

Nondepreciable Capital Assets	5,950,936
Depreciable Capital Assets, Net	6,022,579
Notes Receivable	<u>5,849,375</u>
Total Noncurrent Assets	<u>17,822,890</u>
Total Assets	<u>19,683,441</u>

**DEFERRED OUTFLOWS OF RESOURCES:**

Pension	325,335
Bond Refunding	<u>26,395</u>
Total Deferred Outflows of Resources	<u>351,730</u>

**LIABILITIES:**

CURRENT LIABILITIES:

Accounts Payable	164,488
Accrued Wages, Payroll Taxes & Benefit	28,753
Unearned Income	1,253,496
Environment Remediation Liability	76,502
Accrued Vacation Payable	63,325
Accrued Sick Leave Payable	73,800
Accrued Interest Payable	9,769
Customer Deposits Payable	90,073
Current Portion of Notes Payable	<u>1,299,472</u>
Total Current Liabilities	<u>3,059,678</u>

LONG-TERM LIABILITIES:

Other Postemployment Benefit Obligation	552,198
Unearned Income	3,706,955
Pension Liability	941,780
Notes Payable	<u>3,924,955</u>
Total Noncurrent Liabilities	<u>9,125,888</u>
Total Liabilities	<u>\$ 12,185,566</u>

Continued..

The accompanying notes are an integral part of these financial statement.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2018**

**DEFERRED INFLOWS OF RESOURCES:**

Pension	\$ <u>103,599</u>
Total Deferred Inflows of Resources	<u>103,599</u>

**NET POSITION:**

Net Investment in Capital Assets	9,698,957
Unrestricted	(2,910,971)
Restricted	<u>958,020</u>
Total Net Position	<u>\$ 7,746,006</u>

The accompanying notes are an integral part of these financial statement.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**OPERATING REVENUES:**

Sales & Permits	\$ 32,255
Slip Rentals	695,812
Rents and Leases	1,311,795
Harbor Improvement Surcharge	83,403
Other Revenue	<u>150,552</u>
Total Operating Revenues	<u>2,273,817</u>

**OPERATING EXPENSES:**

Payroll & Related Cost	1,323,870
Commissioners' Fees	25,200
Accounting & Auditing	52,294
Advertising & Promotion	2,686
Automobile Expenses	43,236
Bad Debt	67,294
Field Landing Expenses	81,570
Communications	13,494
Conference & Meetings	32,282
Depreciation	793,087
Dues & Subscriptions	43,268
Elections & Property Tax Administration Fee	26,293
Insurance	61,666
Rent and Lease	140,442
Legal & Other Professional Fees	316,730
Office Expenses	43,261
Operating Supplies	9,664
Outside Service	14,966
Redwood Terminal 2 Expenses	292,025
Repairs, Maintenance & Small Tools	90,090
Utilities	268,312
Shelter Cove Expenses	93,126
Other Operating Expenses	<u>22,210</u>
Total Operating Expenses	<u>3,857,066</u>
Operating Income (Loss)	<u>\$ (1,583,249)</u>

Continued..

The accompanying notes are an integral part of these financial statement.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

**NON-OPERATING REVENUES (EXPENSES):**

General Property Taxes	\$ 1,045,047
Investment Income (Loss)	182,120
Other Governmental Grant (Note 1)	136,736
Other Non-Operating Income (Note 1)	196,261
Grant Expenses (Note 1)	(112,082)
Interest Expenses	(247,987)
Other Non-Operating Expenses	<u>(2,103)</u>
Total Nonoperating Revenues (Expenses)	<u>1,197,992</u>

<b>CHANGE IN NET POSITION</b>	(385,257)
<b>BEGINNING NET POSITION, AS RESTATED (Note 11)</b>	<u>8,131,263</u>
<b>ENDING NET POSITION</b>	<u><u>\$ 7,746,006</u></u>

The accompanying notes are an integral part of these financial statement.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from Customers	\$ 1,991,080
Payments to Suppliers	(1,717,226)
Payments to Employees	<u>(1,273,738)</u>
Net Cash Provided (Used) by Operating Activities	<u>(999,884)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Taxes for General Operations	1,045,047
Receipt of Grant & Contract Funds From Other Governments	136,736
Expenditures of Grant Funds	(112,082)
Other Nonoperating Receipts	<u>196,261</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,265,962</u>

**CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:**

Payments to Acquire, Construct & Improve Capital Assets	(247,951)
Principal Payments on Notes Payable & Bonds	(300,661)
Interest Paid	(238,218)
Refunding Bond	4,517
Payments for Other Nonoperating Costs	<u>(2,103)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(784,416)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest Received	<u>180,707</u>
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INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS (337,631)

CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR 1,877,789

CASH & CASH EQUIVALENTS AT END OF YEAR \$ 1,540,158

**FINANCIAL STATEMENT PRESENTATION RECONCILIATION**

Cash & Cash Equivalents	\$ 582,138
Restricted Cash & Cash Equivalents	<u>958,020</u>

CASH & CASH EQUIVALENTS AT END OF YEAR \$ 1,540,158

Continued..

The accompanying notes are an integral part of these financial statement.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ (1,583,249)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	793,087
Changes in Assets & Liabilities:	
Accounts Receivable	(46,970)
Prepaid Expenses	54,067
Accounts Payable - Related to Operating Activities	(31,184)
Accrued Liabilities	(11,099)
Pension Liability and Deferred Outflows and Inflows of Resources	61,231
Unearned Income	<u>(235,767)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u><u>\$ (999,884)</u></u></b>

**NONCASH CAPITAL & RELATED FINANCING ACTIVITIES:**

Amortization of Ground Lease	\$ 139,953
Amortization of Bond Premium	\$ 4,517

The accompanying notes are an integral part of these financial statement.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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.

**A. 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.

**B. 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.

**C. 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.

**D. 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.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus/Basis of Accounting(Continued)**

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 non-operating 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.

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

**E. 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 supplementary information.

**F. Allowance for Doubtful Accounts**

The District evaluates the collectability of receivables in order to determine the allowance for doubtful accounts. As of June 30, 2018, the District recorded an allowance for doubtful accounts of \$186,751. 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.

**G. 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.



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Cash, Cash Equivalents, and Investments(Continued)**

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.

**H. 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

**I. 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.

**J. 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.

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

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Property Taxes**

The lien date for secured property taxes is March 1st of each year. Taxes are levied as of July 1st on all secured real property and are due and payable November 1st and February 1st 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.

**L. Postemployment Benefits other than Pensions**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**M. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**N. Compensated Absences**

All vested vacation is recognized as an expense and as a liability at the anniversary date of hire during the year ended June 30, 2018. The liability for compensated absences is reported as accrued vacation payable. Additionally, 50% of accrued sick hours over 240 is vested and reported as accrued sick leave payable. The accrued vacation payable and accrued sick leave payable are payable from unrestricted current assets.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 - CASH AND CASH EQUIVALENTS**

The cash and cash equivalents at June 30, 2018 is classified in the accompanying financial statements as follows:

Cash & cash equivalents	\$ 582,138
Restricted cash & cash equivalents	<u>958,020</u>
Total cash and cash equivalents	<u>\$ 1,540,158</u>

Restricted cash and cash equivalents - restricted assets includes accumulated marina dredging surcharge of \$617,563, marina float replacement of \$296,431, and other restricted cash of \$44,026.

Total cash and cash equivalents at June 30, 2018, consisted of the following:

Cash on hand	\$ 555
Deposits held with financial institutions	138,542
Deposits held with the County Treasurer's Investment Pool	<u>1,401,061</u>
Total cash and cash equivalents	<u>\$ 1,540,158</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 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 totaling \$384,107 as of June 30, 2018. The District had no custodial credit risk exposure since its deposits were either insured or collateralized as required by State law.

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.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 3 - CAPITAL ASSETS**

Changes in capital assets during the year ended June 30, 2018, are as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>June 30, 2018</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
Redwood Terminal 2	998,308	-	998,308
	<hr/>	<hr/>	<hr/>
Total Nondepreciable Capital Assets	5,950,936	-	5,950,936
	<hr/>	<hr/>	<hr/>
<u>Depreciable Capital Assets:</u>			
Automotive Equipment	88,316	7,323	95,639
Dredge	1,215,423	-	1,215,423
Office Equipment	193,303	-	193,303
Operating Equipment	305,961	8,138	314,099
Marina Facilities	7,972,883	-	7,972,883
Aquaponics Pilot Facility	96,037	-	96,037
Fields Landing Facilities	3,264,161	-	3,264,161
Shelter Cove Facilities	2,150,882	-	2,150,882
King Salmon Improvements	428	-	428
Marina Dredging 2005	2,474,894	87,631	2,562,525
Redwood Dock Facilities	2,151,195	-	2,151,195
Redwood Terminal 2	1,451,595	144,859	1,596,454
Homeland Security Equipment	2,254,008	-	2,254,008
Table Bluff Equipment	361	-	361
	<hr/>	<hr/>	<hr/>
Total Depreciable Capital Assets	23,619,447	247,951	23,867,398
Accumulated Depreciation	(17,051,732)	(793,087)	(17,844,819)
	<hr/>	<hr/>	<hr/>
Net Depreciable Capital Assets	6,567,715	(545,136)	6,022,579
	<hr/>	<hr/>	<hr/>
Total Capital Assets, Net	\$ 12,518,651	\$ (545,136)	\$ 11,973,515
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Total depreciation expense charged to operations for the year ended June 30, 2018 was \$793,087.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 - NOTES PAYABLE**

The following is a schedule of the changes in notes payable for the fiscal year ended June 30, 2018:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Principal</u> <u>Reductions</u>	<u>Classification</u>		
			<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
Refunding Bonds Series 2014	\$ 2,892,276	\$ (190,924)	\$ 2,701,352	\$ 98,408	\$ 2,602,944
Coast Seafood's Line of Credit	1,156,375	-	1,156,375	1,156,375	-
Compass BBVA Bank Loan	1,437,325	(75,732)	1,361,593	39,582	1,322,011
Capital Lease Obligation	9,947	(4,840)	5,107	5,107	-
Tri Counties Bank Note	29,165	(29,165)	-	-	-
	<u>\$ 5,525,088</u>	<u>\$ (300,661)</u>	<u>\$ 5,224,427</u>	<u>\$ 1,299,472</u>	<u>\$ 3,924,955</u>

**Refunding of Debt:**

On December 22, 2014, the District issued \$3,333,674 in revenue bonds with an interest rate of 4.1 percent, to refund \$2,180,000 of outstanding 2004 revenue bonds with an average interest rate of 5.42 percent and \$1,241,382 of notes payable to the California Department of Boating and Waterways with an interest rate of 4.5 percent. The bonds are secured by net revenues of the District. The District used \$217,702 of proceeds from the debt service reserve fund on the 2004 revenue bonds to fund the refunding issuance costs and reduce the balance borrowed on the 2014 refunding bonds. The District used \$43,600 of the proceeds from the refunding to pay a call premium on the refunding. The call premium is recorded as a deferred outflow of resources and amortized as interest expense over the 15-year term of the bonds.

The annual requirements to amortize the outstanding bonds payable, as of June 30, 2018 are as follows:

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 - NOTES PAYABLE (CONTINUED)**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 98,408	\$ 55,378	\$ 153,786
2020	202,909	104,662	307,571
2021	211,313	96,257	307,570
2022	220,066	87,505	307,571
2023	229,181	78,390	307,571
2024 to 2028	1,296,408	241,445	1,537,853
2029 to 2031	443,067	18,289	461,356
Total	<u>\$ 2,701,352</u>	<u>\$ 681,926</u>	<u>\$ 3,383,278</u>

**Coast Seafood's Line of Credit:**

The District has a letter of credit agreement with Coast Seafood's Company for up to \$1.25 million. As of June 30, 2018, the District had an outstanding balance of \$1.16 million borrowed from Coast Seafood's Company, at 3.5% annual interest. The loan maturity date was June 2018. The District is currently negotiating to extend the loan term but has not yet reached a formal agreement with Coast Seafoods regarding the terms of any extension, and in the interim the District is continuing to make interest-only payments on the loan. The primary purpose of this letter of credit was 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 completed in September 2014. The District pledged collateral of income received or receivable from operations at the Fields Landing Boat Yard, Woodley Island Marina, sale of District's interest in Samoa pulp mill equipment and grants for the removal and disposal of pulp liquors.

**Compass BBVA Bank Loan:**

During the year ended June 30, 2016, the District borrowed \$1,560,000 from Compass BBVA Bank, at a 5.99% annual interest rate. Payments of principal and interest are due semi-annually with the first payment due July 1, 2016. The loan matures on July 1, 2030. In conjunction with this loan, the District entered into an installment sale agreement and pledged all net revenues as collateral with Compass BBVA Bank for the payment of this obligation. As of June 30, 2018, future debt service related to this loan are as follow:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 39,582	\$ 40,786	\$ 80,368
2020	82,756	77,981	160,737
2021	87,787	72,950	160,737
2022	93,124	67,612	160,736
2023	98,786	61,951	160,737
2024 to 2028	591,663	212,020	803,683
2029 to 2031	367,895	33,726	401,621
Total	<u>\$ 1,361,593</u>	<u>\$ 567,026</u>	<u>\$ 1,928,619</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 - NOTES PAYABLE (CONTINUED)**

**Capital Lease:**

During the year ended June 30, 2016, the District entered into a tractor equipment lease, requiring four annual payments of \$5,387. Interest is imputed at a 5.5% annual rate. As of June 30, 2018, future required payments were as follow:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ <u>5,107</u>	\$ <u>280</u>	\$ <u>5,387</u>
Total	\$ <u><u>5,107</u></u>	\$ <u><u>280</u></u>	\$ <u><u>5,387</u></u>

**Tri Counties Bank Note Payable:**

In February 2013, the District obtained a loan from Tri Counties Bank (formerly 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 furniture, fixtures and equipment. As of June 30, 2018 the loan had been completely paid off and settled.

**NOTE 5 - 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 five years of service.

**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 health insurance premiums for the retiree spouse who must enroll in Medicare, if eligible. Any employee hired after December 1, 2011, will not be eligible for retiree health insurance.

Following is a table of plan participants:

	<u>Number of Participants</u>
Inactive Employees Receiving Benefits	<u>3</u>
Participating Active Employees	<u>4</u>
Total Number of participants	<u><u>7</u></u>





**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)**

Experience Studies-Following are the tables the retirement and turnover assumptions are based upon.

Retirement	2009 CalPERS 2.0%@55 Rates for Miscellaneous Employees The retirement assumptions are based on the 2009 CalPERS 2.0%@55 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.
Turnover	2009 CalPERS Turnover for Miscellaneous Employees The turnover assumptions are based on the 2009 CalPERS Turnover for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

For other assumptions, actual plan provisions and plan data were used.  
The alternative measurement method was not used in this valuation.

**Discount Rate**

GASB 75 requires a discount rate that reflects the following: a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return; b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met. As of the valuation date, there were no plan assets and the discount rate used to measure the District’s Total OPEB liability was based on the Bond Buyer 20 Bond Index.

**Changes in Net OPEB Liability**

Changes in Net OPEB Liability as of June 30, 2018 was as follows:

	For the Year Ending June 30, 2018
Determination of Net OPEB Obligation	
Service Cost	\$ 19,877
Interest on Total OPEB Liability	21,313
Net OPEB Expense	41,190
Benefit Payments	(80,371)
Increase in Net OPEB Obligation	(39,181)
Net OPEB Obligation – beginning of year	591,379
Net OPEB Obligation – end of year	\$ 552,198

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)**

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1- percentage point lower (2.80 percent) or 1-percentage-point higher (4.80 percent) than the current discount rate:

	<u>Discount Rate 1% Lower</u>	<u>Valuation Discount Rate</u>	<u>Discount Rate 1% Higher</u>
Net OPEB Liability	\$ 569,253	\$ 552,198	\$ 535,087

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.00 percent) or 1- percentage-point higher (5.00 percent ) than the current healthcare cost trend rates.

	<u>Trend 1% Lower</u>	<u>Valuation Trend</u>	<u>Trend 1% Higher</u>
Net OPEB Liability	\$ 538,171	\$ 552,198	\$ 563,520

**NOTE 6 - PENSION PLAN**

**A. General Information about the Pension Plan**

**Plan Description** - All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees’ Retirement System (CalPERS). The Plan’s benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The Plan consists of a miscellaneous pool and a safety pool (referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Humboldt Bay Harbor Recreation and Conservation District. The Humboldt Bay Harbor Recreation and Conservation District’s employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Misc.). The Humboldt Bay Harbor Recreation and Conservation District does not have any rate plans in the safety risk pool.

**Benefits Provided** - The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 - PENSION PLAN (CONTINUED)**

The Plan's provisions and benefits in effect at June 30, 2018 are summarized as follows:

**Employer Rate Plans in the Miscellaneous Risk Pool**

<u>Employer rate plan</u>	<u>Miscellaneous Prior to January 01, 2013</u>	<u>PEPRA Misc. On or After January 1, 2013</u>
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
"Monthly benefits, as a % of eligible compensation"	2.418%	1.0% to 2.5%
"Required employee contribution rates"	6.886%	6.25%
"Required employer contribution rates"	8.377%	6.555%

**Contributions Description** - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

The Humboldt Bay Harbor Recreation and Conservation District's contributions to Miscellaneous Risk Pool plan for the year ended June 30, 2018, was \$53,870.

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2018, Humboldt Bay Harbor Recreation and Conservation District reported net pension liability \$941,780 for its proportionate share of net pension liability of the Miscellaneous Risk Pool.

The proportionate share of the total NPL to each of the enterprise and internal service funds is not being allocated because it is deemed to have an immaterial effect on the financial statements.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 - PENSION PLAN (CONTINUED)**

The Humboldt Bay Harbor Recreation and Conservation District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

As of June 30, 2018, Humboldt Bay Harbor Recreation and Conservation District's reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$941,780. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members.

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation.

The Humboldt Bay Harbor Recreation and Conservation District's proportionate share percentage of the net pension liability for each risk pool was as follows:

Proportion at measurement date – June 30, 2016	0.022480 %
Proportion at measurement date – June 30, 2017	<u>0.023890 %</u>
Change - Increase/(Decrease)	<u>0.001410 %</u>

For the year ended June 30, 2018, the District recognized pension expense of \$137,815. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 - PENSION PLAN (CONTINUED)**

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Difference Between Expected and Actual Experience	\$ 1,495	\$ (21,415)
Change in Assumptions	185,463	(14,142)
Differences Between Projected and Actual Investment Earnings	41,944	-
Change in Employer's Proportion	42,563	(11,277)
Differences Between Employer's Contributions and Proportionate Share of Contributions	-	(56,765)
Contributions Subsequent to Measurement Date	<u>53,870</u>	<u>-</u>
Total	<u><u>\$ 325,335</u></u>	<u><u>\$ (103,599)</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b><u>Measurement Date June 30</u></b>	<b><u>Deferred Outflows/ (Inflows) of Resources</u></b>
2019	\$ 79,254
2020	105,694
2021	61,691
2022	<u>(24,903)</u>
Total	<u><u>\$ 221,736</u></u>

**Subsequent Events**

There were no subsequent events that would materially affect the results presented in this disclosure.

**Amortization of Deferred Outflows and Deferred Inflows of Resources**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 - PENSION PLAN (CONTINUED)**

The amortization period differs depending on the source of the gain or loss:

Net Difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

Total pension liability for the plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>1</sup>	Derived using CalPERS' Membership Data for all Funds
Post-retirement Benefit Increases	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>1</sup> The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms/publications/calpers-experience-study-2014.pdf>.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website.

**Change of Assumptions**

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 - PENSION PLAN (CONTINUED)**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees’ Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Years 11+<sup>2</sup></u>
Global Equity	47.0 %	4.90 %	5.38 %
Global Fixed Income	19.0 %	0.80 %	2.27 %
Inflation Sensitive	6.0 %	0.60 %	1.39 %
Private Equity	12.0 %	6.60 %	6.63 %
Real Estate	11.0 %	2.80 %	5.21 %
Infrastructure and Forestland	3.0 %	3.90 %	5.36 %
Liquidity	2.0 %	(0.40)%	(0.90)%
Total	<u>100 %</u>		

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 - PENSION PLAN (CONTINUED)**

<sup>1</sup> An expected inflation of 2.5% used for this period.

<sup>2</sup> An expected inflation of 3.0% used for this period.

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

	<b>Discount Rate Less 1% (6.15%)</b>	<b>Current Discount (7.15%)</b>	<b>Discount Rate plus 1% (8.15%)</b>
Proportionate share of the Miscellaneous Risk Pool's net pension liability	\$ 1,553,119	\$ 941,780	\$ 435,457

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Additional financial and actuarial information required for GASB Statement No. 68 disclosures is located in CalPERS' CAFR for the fiscal year ended June 30, 2017, and the CalPERS' GASB 68 Accounting Valuation Report for the schools cost-sharing multiple-employer defined benefit pension plan, which can be found on CalPERS' website at <https://www.calpers.ca.gov/docs/forms-publications/gasb-68>.

**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.



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 - NEW MARKET TAX CREDIT TRANSACTION**

The District is a sponsor of New Markets Tax Credits (NMTC) to support redevelopment in distressed communities. The New Markets Tax Credit Program (NMTC Program) was established by Congress in 2000 to spur new or increased investments in operating businesses and real estate projects located in low-income communities.

The District, in collaboration with Chase Bank (Bank), entered into various agreements to provide for the completion of the Humboldt Bay Eco-Industrial Park project, consisting of renovations and improvements to property in Samoa, Humboldt County, California. As part of the NMTC Program transaction, a new independent entity, Humboldt Bay Development Association, Inc. (HBDA) a not-for-profit organization, was formed to participate under the Federal NMTC guidelines and to complete the project improvements. Also, pursuant to NMTC Program requirements, several financial intermediaries were established to finance the project. HBDA's construction costs are projected to be approximately \$5.20 million.

As required under the NMTC agreements with these entities, the District loaned the Chase NMTC Samoa Investment Fund, LLC \$5,849,375 and within the NMTC structure invested \$398,057 in cash to the transaction. Within the structure of the NMTC transaction, this \$398,057 cash investment was offset by a \$565,000 reimbursement from HBDA for project costs incurred by the District prior to the NMTC closing, and the funds to provide the loan to Chase NMTC Samoa Investment Fund, LLC were obtained through proceeds in the amount of \$3,906,000 for a long-term ground lease of the Samoa property to HBDA and from a \$1,560,000 loan obtained from Compass BBVA Bank.

The District's leveraged loan receivable from Chase NMTC Samoa Investment Fund, LLC bears interest of 2.7481% and is receivable in quarterly interest-only payments from June 10, 2016 through March 10, 2023; thereafter principal and interest payments are due until March 10, 2046. As of June 30, 2018, the balance of the loan receivable was \$5,849,375.

The District recorded the ground lease as unearned revenue in the liabilities section of its balance sheet, and will recognize operating income over the course of the lease. The District recognized \$60,092 of operating revenue during the year ended June 30, 2018, for a remaining balance of unearned income as of June 30, 2018 of \$3,767,047.

To fund HBDA's initial cost of the ground lease and the remaining project costs to be incurred by HBDA, within the NMTC structure New Markets Community Capital XVII, LLC and CNMC SUT-CDE 69, LLC loaned HBDA funds totaling \$8,680,000. In addition, the District and HBDA signed lease agreements under which the District is leasing-back the Samoa, California property from HBDA for the District's operations related to that asset.

As of June 30, 2018, unearned income consisted of:

Unearned HBDA ground lease income - current	\$ 60,092
Unearned PG&E dredge-related income (Note 9)	939,211
Unearned lease income (outfall pipe, tidelands, slip rentals and warehouse)	<u>254,193</u>
Total unearned income - current	1,253,496
Unearned HBDA ground lease income – long-term	<u>3,706,955</u>
Total unearned income	<u><u>\$ 4,960,451</u></u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Environmental Protection Agency (EPA) Settlement Agreement**

In June 2015, the District signed a settlement agreement with the EPA related to the approximately \$13.3 million of costs the EPA incurred to clean-up Parcel A on the Samoa peninsula (the site). The agreement stipulates that the District will pay all or a portion of this liability from the salvage of fixtures and equipment at the site, or from the potential sale of the property. The obligation to reimburse the EPA from net proceeds of a sale of any real property within the site shall not apply to the property for any sale that occurs at least seven years after August 26, 2015, the date of the agreement. The District has not recorded this liability as the obligation is not payable until a sale occurs.

**PG&E Agreement**

During 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 known 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. As of June 30, 2018, \$939,211 of the PG&E funding has not been used and is recorded as unearned income on the statement of net position. 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**

The District's management has evaluated subsequent events through February 21, 2019, which is the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures, except as subsequently noted, are required for the year ending June 30, 2018.

**NOTE 11 - PRIOR PERIOD ADJUSTMENTS**

Net position previously reported, June 30, 2017	\$ 8,245,344
Restatement for the effects of GASB 75:	
June 30, 2017 OPEB liability computed in accordance with GASB 75	\$ (591,379)
June 30, 2017 OPEB liability previously reported in accordance with prior accounting standards	<u>477,298</u>
Net restatement adjustment	<u>(114,081)</u>
Net position, as restated, June 30, 2017	<u><u>\$ 8,131,263</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**JUNE 30, 2018**

		2018
Measurement Period, June 30		
Service Cost	\$	19,877
Interest on Total OPEB Liability		21,313
Benefit Payments		(80,371)
Increase in Net OPEB Obligation		(39,181)
Net OPEB Obligation – Beginning of Year, As Restated		591,379
Net OPEB Obligation – End of Year	\$	552,198
Covered Employee Payroll	\$	376,937
Total OPEB Liability as a Percentage of Covered Employee Payroll		146.50 %

**NOTE TO SCHEDULE**

The District's retiree healthcare plan had no assets accumulated in a trust that meets the criteria in Governmental Accounting Standards Board Statement no. 75, paragraph 4.

Changes in assumptions - There were no changes in assumptions for the measurement period ended June 30, 2018.

There are no statutorily or contractually established contribution requirements.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY FOR THE LAST TEN YEARS \*  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
JUNE 30, 2018**

	CalPERS Fiscal Year <u>June 30, 2014</u>	CalPERS Fiscal Year <u>June 30, 2015</u>	CalPERS Fiscal Year <u>June 30, 2016</u>	CalPERS Fiscal Year <u>June 30, 2017</u>
Plan's Proportion of the PERF C Net Pension Liability/(Asset)	0.008534 %	0.007965 %	0.009023 %	0.009500 %
Plan's Proportionate Share of the Net Pension Liability /(Asset)	\$ 531,034	\$ 546,685	\$ 780,795	\$ 941,780
Plan's Covered-Employee Payroll	\$ 730,490	\$ 871,775	\$ 863,258	\$ 794,364
Plan's Proportionate Share of the Net Pension Liability/(Asset) as Percentage of Covered-Employee Payroll	72.70 %	72.70 %	90.45 %	72.70 %
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	83.19 %	83.38 %	80.01 %	77.50 %

\* Fiscal Year 2015 was the first year of implementation, therefore only 4 years are shown

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**SCHEDULE OF CONTRIBUTIONS FOR THE LAST TEN YEARS\***  
**CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	CalPERS Fiscal Year <u>2014-15</u>	CalPERS Fiscal Year <u>2015-16</u>	CalPERS Fiscal Year <u>2016-17</u>	CalPERS Fiscal Year <u>2017-18</u>
Actuarially Determined Contributions	\$ 68,939	\$ 75,091	\$ 83,233	\$ 53,870
Actual Contributions During the Measurement Period	<u>(68,939)</u>	<u>(75,091)</u>	<u>(83,233)</u>	<u>53,870</u>
Contribution Deficiency (Excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered-Employee Payroll	\$ 730,490	\$ 871,775	\$ 863,258	\$ 794,364
Contributions as a Percentage of Covered Employee Payroll	9.44 %	8.61 %	9.64 %	6.78 %

\* Fiscal Year 2015 was the first year of implementation, therefore only 4 years are shown.

**SUPPLEMENTARY INFORMATION**

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**UNRESTRICTED AND TIDELANDS TRUST**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Tidelands Trust</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and Permits	\$ 11,639	\$ 20,616	\$ 32,255
Slip Rentals	-	695,812	695,812
Utility Charges	-	62,586	62,586
Rents and Concessions	206,896	21,463	228,359
Rents - Tideland Leases	-	382,624	382,624
Rents - Redwood Terminal 2	392,400	3,000	395,400
Late Fees and Interest on Past Due Accounts	29,853	11,839	41,692
Fields Landing Fees and Rents	199,929	6,790	206,719
Shelter Cove Fees and Rents	33,186	65,506	98,692
Harbor Improvement Surcharge	-	83,403	83,403
Other Revenue	7	46,268	46,275
	<u>873,910</u>	<u>1,399,907</u>	<u>2,273,817</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	213,590	594,680	808,270
Commissioners' Fees	5,040	20,160	25,200
Imputed Auto Value	122	348	470
Payroll Benefits	136,286	378,843	515,129
Advertising & Promotion	918	1,767	2,685
Bad Debt	97	67,197	67,294
Communications	6,472	7,022	13,494
Conference & Meetings	15,995	16,287	32,282
Dues & Subscriptions	21,634	21,634	43,268
Elections	13,147	13,147	26,294
Insurance	26,526	35,140	61,666
Automotive Expenses	22,045	21,191	43,236
Office Expenses	17,476	25,785	43,261
Operating Supplies	2,149	7,515	9,664
Outside Services	4,006	10,960	14,966
Professional Services	129,736	154,169	283,905
Legal Fees	8,584	24,240	32,824
Accounting Fees	51,052	1,242	52,294
Rents and Leases	140,442	-	140,442
Repairs and Maintenance	40,344	49,746	90,090
Small Tools	661	661	1,322
Utilities	104,571	163,741	268,312
Redwood Dock Expenses	-	12,938	12,938
Redwood Terminal 2 Expenses	243,700	48,326	292,026
King Salmon Operating Expenses	7,950	-	7,950
Fields landing Operating Expenses	81,419	151	81,570
Sheltor Cove Operating Expenses	24,589	68,538	93,127
Depreciation	793,087	-	793,087
	<u>2,111,638</u>	<u>1,745,428</u>	<u>3,857,066</u>
Total Operating Expenses			
Operating Income (Loss)	<u>\$ (1,237,728)</u>	<u>\$ (345,521)</u>	<u>(1,583,249)</u>



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**UNRESTRICTED AND TIDELANDS TRUST (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Unrestricted</b>	<b>Tidelands Trust</b>	<b>Total</b>
<b>NONOPERATING REVENUES:</b>			
Investment Income	\$ 167,388	\$ 14,732	\$ 182,120
General Property Taxes	1,045,047	-	1,045,047
Federal Revenues	112	-	112
Other Government Grants	-	136,625	136,625
Other	31,982	164,279	196,261
	<u>1,244,529</u>	<u>315,636</u>	<u>1,560,165</u>
Total Nonoperating Revenues:			
<b>NONOPERATING EXPENSES:</b>			
Interest	170,680	77,307	247,987
Grant Expenses	-	112,082	112,082
Other	1,697	407	2,104
	<u>172,377</u>	<u>189,796</u>	<u>362,173</u>
Total Nonoperating Expenses:			
Net Nonoperating Revenues and Expenses	<u>1,072,152</u>	<u>125,840</u>	<u>1,197,992</u>
Increase (Decrease) In Net Position	(165,576)	(219,681)	(385,257)
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	9,683,887	(1,552,624)	8,131,263
<b>NET POSITION, END OF YEAR</b>	<u>\$ 9,518,311</u>	<u>\$ (1,772,305)</u>	<u>\$ 7,746,006</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**MARINA AND GENERAL**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Marina</u>	<u>General</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales & Permits	\$ 12,582	\$ 19,673	\$ 32,255
Rents and Concessions	15,738	212,620	228,358
Slip Rentals	462,845	-	462,845
Rents - Tidelands Leases	-	382,624	382,624
Rents - Redwood Terminal 2	-	395,400	395,400
Late Fees and Interest	13,849	27,843	41,692
Fields Landing Fees and Rents	-	206,719	206,719
Sheltor Cove Fees and Rents	-	98,693	98,693
Harbor Improvement Surcharge	-	83,404	83,404
Dredging Surcharge	96,657	-	96,657
Float Replacement Surcharge	66,895	-	66,895
Transient Rentals	69,415	-	69,415
Utility Charges	62,586	-	62,586
Other Revenues	7	46,267	46,274
Total Operating Revenues	<u>800,574</u>	<u>1,473,243</u>	<u>2,273,817</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	171,987	636,283	808,270
Commissioners' Fees	7,560	17,640	25,200
Imputed Auto Value	-	470	470
Payroll Benefits	117,638	397,491	515,129
Advertising & Promotion	696	1,990	2,686
Bad Debt	67,197	97	67,294
Communications	2,882	10,612	13,494
Conference & Meetings	-	32,282	32,282
Dues & Subscriptions	-	43,268	43,268
Elections	-	26,293	26,293
Insurance	31,596	30,070	61,666
Automotive Expenses	8,211	35,025	43,236
Office Expenses	16,280	26,982	43,262
Operating Supplies	9,664	-	9,664
Outside Services	14,966	-	14,966
Professional Services	7,147	276,759	283,906
Legal Fees	3,520	29,305	32,825
Accounting Fees	12,763	39,531	52,294
Rents and Leases	-	140,442	140,442
Repairs, Maintenance & Small Tools	50,620	40,791	91,411
Utilities	244,017	24,294	268,311
Redwood Dock Expenses	-	12,938	12,938
Redwood Terminal 2 Expenses	-	292,025	292,025
King Salmon Operating Expenses	-	7,950	7,950
Fields landing Operating Expenses	-	81,570	81,570
Sheltor Cove Operating Expenses	-	93,127	93,127
Depreciation	219,274	573,813	793,087
Total Operating Expenses	<u>986,018</u>	<u>2,871,048</u>	<u>3,857,066</u>
Operating Income (Loss)	<u>\$ (185,444)</u>	<u>\$ (1,397,805)</u>	<u>\$ (1,583,249)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**MARINA AND GENERAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Marina</u>	<u>General</u>	<u>Total</u>
<b>NONOPERATING REVENUES:</b>			
Interest	\$ 90,000	\$ 182,120	\$ 272,120
General Property Taxes	-	955,047	955,047
Federal Revenues	-	112	112
Other Governmental Grants	-	136,625	136,625
Other	2,662	193,599	196,261
Total Nonoperating Revenues:	<u>92,662</u>	<u>1,467,503</u>	<u>1,560,165</u>
<b>NONOPERATING EXPENSES:</b>			
Interest	45,631	202,357	247,988
Grant Expenses	-	112,081	112,081
Capital Expenditure	-	-	-
Other	<u>1,319</u>	<u>785</u>	<u>2,104</u>
Total Nonoperating Expenses:	<u>46,950</u>	<u>315,223</u>	<u>362,173</u>
Net Nonoperating Revenues and Expenses	<u>45,712</u>	<u>1,152,280</u>	<u>1,197,992</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (139,732)</u>	<u>\$ (245,525)</u>	<u>\$ (385,257)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**BUDGET TO ACTUAL - MARINA**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Marina</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Sales & Permits	\$ 10,000	\$ 12,582	\$ 2,582
Slip Rentals	650,000	462,845	(187,155)
Transient Rentals	100,000	69,415	(30,585)
Dredging Surcharge	95,000	96,657	1,657
Float Replacement Surcharge	65,000	66,895	1,895
Utility Charges	100,000	62,586	(37,414)
Rents and Concessions	10,000	15,738	5,738
Late fees and Interest	10,000	13,849	3,849
Other Revenues	-	7	7
Total Operating Revenues	<u>1,040,000</u>	<u>800,574</u>	<u>(239,426)</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	220,000	171,987	48,013
Commissioners' Fees	7,620	7,560	60
Payroll Benefits	114,000	117,638	(3,638)
Advertising & Promotion	3,000	696	2,304
Bad Debt	-	67,197	(67,197)
Communications	6,000	2,882	3,118
Conference & Meetings	3,000	-	3,000
Dues & Subscriptions	10,000	-	10,000
Elections	5,000	-	5,000
Insurance	30,000	31,596	(1,596)
Automotive Expenses	5,000	8,211	(3,211)
Office Expenses	16,000	16,280	(280)
Operating Supplies	6,000	9,664	(3,664)
Outside Service	-	14,966	(14,966)
Professional Services	10,000	7,147	2,853
Legal Fees	5,000	3,520	1,480
Accounting Fees	10,000	12,763	(2,763)
Repairs, Maintenance & Small Tools	50,500	50,620	(120)
Utilities	150,000	244,017	(94,017)
Depreciation	-	219,274	(219,274)
Total Operating Expenses	<u>651,120</u>	<u>986,018</u>	<u>(334,898)</u>
Operating Income (Loss)	<u>\$ 388,880</u>	<u>\$ (185,444)</u>	<u>\$ (574,324)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**BUDGET TO ACTUAL - MARINA (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Marina</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>NONOPERATING REVENUES:</b>			
General Property Taxes	\$ 90,000	\$ 90,000	\$ -
Other	-	2,662	2,662
Total Nonoperating Revenues:	<u>90,000</u>	<u>92,662</u>	<u>2,662</u>
<b>NONOPERATING EXPENSES:</b>			
Interest	129,217	45,631	(83,586)
Capital Expenditure	105,000	-	(105,000)
Other	-	1,319	1,319
Total Nonoperating Expenses:	<u>234,217</u>	<u>46,950</u>	<u>(187,267)</u>
Net Nonoperating Revenues and Expenses	<u>(144,217)</u>	<u>45,712</u>	<u>189,929</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 244,663</u>	<u>\$ (139,732)</u>	<u>\$ (1,393,320)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**BUDGET TO ACTUAL - GENERAL**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General</u>		<b>Variance Favorable (Unfavorable)</b>
	<u>Budget</u>	<u>Actual</u>	
<b>OPERATING REVENUES:</b>			
Sales & Permits	\$ 60,000	\$ 19,673	\$ (40,327)
Rents and Concessions	235,600	212,620	(22,980)
Rents - Tidelands Leases	416,251	382,624	(33,627)
Rents - Redwood Terminal 2	620,500	395,400	(225,100)
Late Fees and Interest	10,000	27,843	17,843
Fields Landing Fees and Rents	345,450	206,719	(138,731)
Sheltor Cove Fees and Rents	121,875	98,693	(23,182)
Harbor Improvement Surcharge	100,000	83,404	(16,596)
Other Revenues	25,000	46,267	21,267
Total Operating Revenues	<u>1,934,676</u>	<u>1,473,243</u>	<u>(461,433)</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	728,000	636,283	91,717
Commissioners' Fees	17,780	17,640	140
Imputed Auto Value	-	470	(470)
Payroll Benefits	375,000	397,491	(22,491)
Advertising & Promotion	6,000	1,990	4,010
Bad Debt	-	97	(97)
Communications	7,000	10,612	(3,612)
Conference & Meetings	25,000	32,282	(7,282)
Dues & Subscriptions	40,000	43,268	(3,268)
Elections	20,000	26,293	(6,293)
Insurance	30,000	30,070	(70)
Automotive Expenses	30,000	35,025	(5,025)
Office Expenses	25,000	26,982	(1,982)
Operating Supplies	6,000	-	6,000
Outside Services	45,000	-	45,000
Professional Services	241,000	276,759	(35,759)
Legal Fees	55,000	29,305	25,695
Accounting Fees	40,000	39,531	469
Rents and Leases	205,400	140,442	64,958
Repairs, Maintenance & Small Tools	70,500	40,791	29,709
Utilities	60,000	24,294	35,706
Redwood Dock Expenses	10,000	12,938	(2,938)
Redwood Terminal 2 Expenses	65,000	292,025	(227,025)
King Salmon Operating Expenses	5,000	7,950	(2,950)
Fields landing Operating Expenses	50,000	81,570	(31,570)
Sheltor Cove Operating Expenses	30,000	93,127	(63,127)
Depreciation	-	573,813	(573,813)
Total Operating Expenses	<u>2,186,680</u>	<u>2,871,048</u>	<u>(1,164,312)</u>
Operating Income (Loss)	<u>\$ (252,004)</u>	<u>\$ (1,397,805)</u>	<u>\$ (1,625,745)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**BUDGET TO ACTUAL - GENERAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>General</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>NONOPERATING REVENUES:</b>			
Interest	\$ 170,000	\$ 182,120	\$ 12,120
General Property Taxes	875,000	955,047	80,047
Federal Revenues	-	112	112
Other Governmental Grants	784,326	136,625	(647,701)
Other	1,678,500	193,599	(1,484,901)
Total Nonoperating Revenues:	<u>3,507,826</u>	<u>1,467,503</u>	<u>(2,040,323)</u>
<b>NONOPERATING EXPENSES:</b>			
Interest	1,570,651	202,357	(1,368,294)
Grant Expenses	831,338	112,081	(719,257)
Capital Expenditure	783,000	-	(783,000)
Other	8,500	785	(7,715)
Total Nonoperating Expenses:	<u>3,193,489</u>	<u>315,223</u>	<u>(2,878,266)</u>
Net Nonoperating Revenues and Expenses	<u>314,337</u>	<u>1,152,280</u>	<u>837,943</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 62,333</u>	<u>\$ (245,525)</u>	<u>\$ (4,461,515)</u>

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



**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, 2018, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated February 21, 2019.

***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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

*Harshwal & Company LLP*

**Oakland, California  
February 21, 2019**