

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

**BASIC FINANCIAL STATEMENTS**

**REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY  
INFORMATION**

**Year Ended June 30, 2016**

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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, 2016, 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. According, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Humboldt Bay Harbor, Recreation and Conservation

District as of June 30, 2016, 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 3 through 11 and the schedules of the District's proportionate share of the net pension liability, pension contributions, and funding progress - other postemployment benefits on pages 32 through 34 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 27, 2017, on our consideration of Humboldt Bay Harbor, Recreation and Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



February 27, 2017

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

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. Please read it in conjunction with the Independent Auditor's Report and the District's basic financial statements. The District's basic financial statements follow this section.

**FINANCIAL HIGHLIGHTS**

- The District obtained funding through the New Markets Tax Credit to complete restoration and renovation of the buildings on the Redwood Terminal 2 site. The District entered into a long-term ground lease in the amount of \$3,906,000 with a new non-profit entity, Humboldt Bay Development Association, established for the purposes of the New Market Tax Credit. The District also incurred additional debt of \$1,560,000 to fund its required contribution to the transaction. Improvements of approximately \$5.2 million will be completed and paid for by Humboldt Bay Development Association.
- The District's operating revenues increased by \$208,725, or 13.9 percent.
- The District's operating expenses increased by \$215,635, or 6.3 percent, mainly due to increases in salaries and wages and depreciation expense.
- General revenues from taxes, interest, and investments accounted for \$1,034,987 in revenues or 29 percent of all revenues. Revenues in the form of grants and other non-operating income accounted for \$744,325 or 21 percent of all revenues.
- The District had total expenditures of \$4,051,299 and total revenue of \$3,493,650. The resulting decrease in net position of \$557,649 includes net grant income of \$625,212, depreciation expense in the amount of \$1,027,610, and expenses for repair of the Redwood Terminal 2 in the amount of \$301,199.
- The balance of debt has increased \$1,380,325 from the prior fiscal year due to additional debt incurred to finance the District's required contribution towards the New Market Tax Credit transaction, as well as a new capital lease for a tractor for the Shelter Cove boat launch operation.
- The District's current liabilities exceeded its current assets at June 30, 2016 and 2015. The District does not expect that the liabilities for accrued vacation, accrued sick leave, and unearned grant revenue will require full payment in the subsequent year, and anticipates no problems in paying current liabilities.

**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.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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.

**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 - CONTINUED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 1  
Net Position  
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
<b><u>Assets:</u></b>			
Cash, unrestricted	\$ 408,702	\$ 1,043,196	\$ (634,494)
Receivables	334,968	201,360	133,608
Prepaid expenses	19,054	66,324	(47,270)
Restricted cash	820,974	1,067,058	(246,084)
Other assets	2,065	623,955	(621,890)
New Market loan receivable	5,849,375	-	5,849,375
Capital assets, net	<u>13,361,316</u>	<u>13,485,638</u>	<u>(124,322)</u>
Total Assets	20,796,454	16,487,531	4,308,923
<b><u>Deferred Outflows of Resources:</u></b>			
Related to pensions	<u>108,626</u>	<u>115,905</u>	<u>(7,279)</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,905,080</u>	<u>\$ 16,603,436</u>	<u>\$ 4,301,644</u>
<b><u>Liabilities:</u></b>			
Payables and other liabilities	\$ 461,016	\$ 412,586	\$ 48,430
Unearned income	5,002,292	1,460,155	3,542,137
Environmental remediation liability	120,039	168,765	(48,726)
Current portion of long-term debt	313,450	1,366,236	(1,052,786)
Net pension liability	546,686	531,034	15,652
Other long-term debt	<u>6,131,445</u>	<u>3,713,985</u>	<u>2,417,460</u>
Total Liabilities	<u>12,574,928</u>	<u>7,652,761</u>	<u>4,922,167</u>
<b><u>Deferred Inflows of Resources:</u></b>			
Related to pensions	<u>130,214</u>	<u>193,088</u>	<u>(62,874)</u>
Total Deferred Inflows of Resources	<u>130,214</u>	<u>193,088</u>	<u>(62,874)</u>
<b><u>Net Position:</u></b>			
Net Investment in Capital Assets	10,820,996	10,807,428	13,568
Unrestricted	<u>(2,621,058)</u>	<u>(2,049,841)</u>	<u>(571,217)</u>
Total Net Position	8,199,938	8,757,587	(557,649)
Total Liabilities, Net Position, and Deferred Inflows of Resources	<u>\$ 20,905,080</u>	<u>\$ 16,603,436</u>	<u>\$ 4,301,644</u>

Net position of the District decreased 6.4 percent, or \$557,649. This decrease was partially due to \$301,199 of expenses to repair and clean up the Redwood Terminal 2 property.



HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Table 2  
Comparative Statement of Revenues, Expenses, And Changes In Net Position  
 For The Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Rents and leases	\$ 866,290	\$ 635,067	\$ 231,223
Slip rentals	743,045	742,512	533
Pilotage services	-	9,436	(9,436)
Harbor improvement surcharge	62,271	74,392	(12,121)
Other	42,732	44,206	(1,474)
Total Operating Revenue	<u>1,714,338</u>	<u>1,505,613</u>	<u>208,725</u>
Operating Expenses:			
Salaries, wages, and benefits	1,312,441	1,162,877	149,564
Depreciation	1,027,610	982,395	45,215
Fields Landing operating expense	58,476	82,088	(23,612)
Professional services	228,676	210,488	18,188
Redwood Terminal 2 expenses	301,199	310,191	(8,992)
Security services	2,640	2,198	442
Utilities	164,616	141,546	23,070
Other	545,453	533,693	11,760
Total Operating Expenses	<u>3,641,111</u>	<u>3,425,476</u>	<u>215,635</u>
Operating Income (Loss)	<u>(1,926,773)</u>	<u>(1,919,863)</u>	<u>(6,910)</u>
Non-Operating Revenue (Expense):			
Property taxes	974,197	932,081	42,116
Investment income (loss)	60,790	32,194	28,596
Grants and other income	744,325	929,839	(185,514)
Grant expense	(197,099)	(308,545)	111,446
Interest expense	(210,703)	(224,089)	13,386
Loss on disposal of capital asset	-	(5,000)	5,000
Other expenses	(2,386)	(91,192)	88,806
Total Non-Operating Revenue (Expense)	<u>1,369,124</u>	<u>1,265,288</u>	<u>103,836</u>
Increase (Decrease) In Net Position	<u>\$ (557,649)</u>	<u>\$ (654,575)</u>	<u>\$ 96,926</u>

Operating income increased \$208,725 over the prior year. The 2016 decrease in net position includes \$1,027,610 of depreciation expense and \$301,199 of costs related to the Redwood Terminal 2 property.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NET POSITION OF THE DISTRICT'S ENTERPRISE FUND**

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

Table 3  
Changes In Year-End Net Position  
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Net Position, June 30	<u>\$ 8,199,938</u>	<u>\$ 8,757,587</u>	<u>-6.37%</u>

The 6.37 percent decrease can be attributed largely to \$301,199 of expenses to repair and clean up the Redwood Terminal 2 property and \$1,027,610 in depreciation.

Table 4 presents a summary of enterprise fund revenues for the year ended June 30, 2016 and the amounts and percentages of increases and decreases in relation to the prior year.

Table 4  
Summary of Revenues

	<u>2015/16</u>	<u>Percent of</u>	<u>Increase</u>
	<u>Amount</u>	<u>Total</u>	<u>(Decrease)</u>
			<u>from 2014/15</u>
Revenues:			
Rents, leases, & project administration	\$ 866,290	24.80%	\$ 231,223
Slip rentals	743,045	21.27%	533
Pilotage services	-	0.00%	(9,436)
Harbor improvement surcharge	62,271	1.78%	(12,121)
Other operating income	42,732	1.22%	(1,474)
Property taxes	974,197	27.88%	42,116
Investment income (loss)	60,790	1.74%	28,596
Grants and other non-operating income	744,325	21.31%	(185,514)
Total Revenues	<u>\$ 3,493,650</u>	<u>100.00%</u>	<u>\$ 93,923</u>

Grant revenue varies from year to year based on available grant funding. Total operating, property tax and interest income increased \$279,437 over the prior year.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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, 2016

	Final Budget	Actual	Favorable (Unfavorable) Variance
Operating Revenues:			
Rents, leases, & project administration	\$ 1,159,539	\$ 866,290	\$ (293,249)
Slip rentals	773,246	743,045	(30,201)
Harbor improvement surcharge	97,028	62,271	(34,757)
Other	1,486,775	42,732	(1,444,043)
Total Operating Revenue	<u>3,516,588</u>	<u>1,714,338</u>	<u>(1,802,250)</u>
Operating Expenses			
Salaries, wages and benefits	1,288,908	1,312,441	(23,533)
Depreciation	-	1,027,610	(1,027,610)
Fields Landing operating expenses	65,000	58,476	6,524
Professional services	255,500	228,676	26,824
Redwood Terminal 2 expense	80,000	301,199	(221,199)
Repairs and maintenance	90,000	86,852	3,148
Utilities	220,000	164,616	55,384
Other operating expenses	324,000	461,241	(137,241)
Total Operating Expenses	<u>2,323,408</u>	<u>3,641,111</u>	<u>(1,317,703)</u>
Operating Income (Loss)	<u>1,193,180</u>	<u>(1,926,773)</u>	<u>(3,119,953)</u>
Non-Operating Revenue (Expense):			
Property taxes	880,000	974,197	94,197
Investment income (loss)	20,000	60,790	40,790
Grants and other non-operating income	4,387,782	744,325	(3,643,457)
Grant expense	(521,682)	(197,099)	324,583
Interest expense	(203,885)	(210,703)	(6,818)
Other non-operating expense	(4,631,226)	(2,386)	4,628,840
Total Non-Operating Revenue (Expense)	<u>(69,011)</u>	<u>1,369,124</u>	<u>1,438,135</u>
Increase (Decrease) in Net Position	<u>\$ 1,124,169</u>	<u>\$ (557,649)</u>	<u>\$ (1,681,818)</u>

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**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 in rents and leases income was due to lower than anticipated rents from Redwood Terminal 2 due to delays in improvements to the property related to the New Market Tax Credit. The unfavorable variance in other operating revenues was due to a budgeted amount of \$1,400,000 for the sale of surplus property on the Redwood Terminal 2 property that did not occur in 15/16. The unfavorable variance in depreciation was due to the District's policy of budgeting for actual capital outlay for the year rather than depreciation expense. The unfavorable variance in Redwood Terminal 2 expense was due to higher than anticipated costs for repairs, as well as costs related to efforts to obtain new market tax credit funding. The unfavorable variance in other operating expenses was due mainly to higher than anticipated costs for Shelter Cove due to the new boat launching operation, and higher than anticipated costs for automotive expenses. The unfavorable variance in grants and other non-operating income was due to budgeted new market tax credit revenue of \$1.6 million which was not received by the District but was instead received and expended by the non-profit organization "Humboldt Bay Development Association, Inc.", \$1.5 million of budgeted loan proceeds that were recorded as a liability rather than revenue in the District's financial statements, and \$500,000 that was budgeted for mitigation reimbursements that did not occur in 15/16. This unfavorable variance was offset by a favorable variance in other non-operating expenses, reflecting budgeted capital improvements of \$3.31 million for capital improvements that were incurred by Humboldt Bay Development Association rather than the District, and capital improvements and debt principal payments that were recorded by the District as capital assets and reduction in long-term debt, respectively, 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, 2016 was \$13,361,316. The total decrease in net capital assets from the prior year was 0.9 percent. This decrease was due to capital acquisitions being offset by the annual depreciation expense, and reimbursements of prior capital expenditures for Redwood Terminal 2. There were no significant dispositions of capital assets in 2015/16.

Table 6  
Comparative Schedule of Capital Assets  
 June 30, 2016 and 2015

	2016	2015
Land, buildings and improvements	\$ 22,680,953	\$ 21,902,595
Automotive equipment	88,316	88,316
Office and operating equipment	3,936,458	3,812,658
Dredging costs	2,690,121	2,690,121
Marina restaurant work-in-progress	34,100	34,100
Subtotals	\$ 29,429,948	\$ 28,527,790
Less: Accumulated Depreciation	\$ (16,068,632)	\$ (15,042,152)
Capital Assets, net	\$ 13,361,316	\$ 13,485,638

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Debt Administration**

During 2015/16, the District incurred new debt of \$1.56 million to finance the District's required cash contribution to the New Market Tax Credit transaction, and entered into a capital lease in the amount of \$19,922 for the purchase of a tractor for the Shelter Cove boat launching operation. The ending balances for June 30, 2016 and 2015 are presented below in Table 7.

Table 7  
Debt And Other Long-Term Liabilities  
 June 30, 2016 and 2015

	2016	2015
2014 refunding bond	\$ 3,164,519	\$ 3,333,674
Note payable to BBVA	1,560,000	-
Capital lease payable	14,535	-
Note payable to Coast Seafoods	1,156,375	1,156,375
Note payable for Marina utility meters	72,168	112,874
Other long-term liabilities:		
Other post-employment benefits	477,298	477,298
Net pension liability	546,686	531,034
Total	<u>\$ 6,991,581</u>	<u>\$ 5,611,255</u>

**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 2015/16. 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 participated in the New Market Tax Credit program which will result in an estimated \$5 million in renovation and improvements to the site by Humboldt Bay Development Association, Inc., a not-for-profit entity. 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, which will increase oyster farming by adding 600 acres of tideland leases, creating over 50 jobs and increasing District annual revenues by over \$265,000.

HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

In 2014/15 the District negotiated a new 20-year use agreement with DG Fairhaven Power for use of the District's ocean outfall line at \$82,000/year with annual CPI increases of 2.5%. The power company's usage represents only 1.5% of the outfall line's capacity.

**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, 2016**

**ASSETS:**

**CURRENT ASSETS:**

Cash & cash equivalents	\$ 408,702
Restricted cash & cash equivalents	820,974
Accounts receivable, net	197,133
Grants receivable	137,835
Interest receivable	2,065
Prepaid expenses	<u>19,054</u>

TOTAL CURRENT ASSETS 1,585,763

**NONCURRENT ASSETS:**

Nondepreciable capital assets	5,950,936
Depreciable capital assets, net	7,410,380
Note receivable	<u>5,849,375</u>

TOTAL ASSETS 20,796,454

**DEFERRED OUTFLOWS OF RESOURCES:**

Pension	72,905
Bond refunding	<u>35,721</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES 108,626

**LIABILITIES:**

**CURRENT LIABILITIES:**

Accounts payable	126,099
Accrued wages, payroll taxes & benefits	38,106
Unearned income	1,175,153
Environmental remediation liability	120,039
Accrued interest payable	93,162
Accrued vacation payable	79,089
Accrued sick leave payable	60,407
Customer deposits payable	64,152
Current portion of notes payable	<u>313,450</u>

TOTAL CURRENT LIABILITIES 2,069,657

**LONG-TERM LIABILITIES:**

Other postemployment benefits obligation	477,298
Unearned income	3,827,139
Pension liability	546,686
Notes payables, net	<u>5,654,147</u>

TOTAL LIABILITIES 12,574,927

**DEFERRED INFLOWS OF RESOURCES:**

Pension	<u>130,215</u>
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**NET POSITION:**

Net investment in capital assets	10,820,996
Unrestricted	<u>(2,621,058)</u>

TOTAL NET POSITION \$ 8,199,938

See accompanying notes.



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND**

**For the Year Ended June 30, 2016**

**OPERATING REVENUES:**

Sales & permits	\$ 17,548
Marina slip rentals, utility, & dredging surcharges	743,045
Rents, leases, & project administration	866,290
Harbor improvement surcharge	62,271
Other revenue	<u>25,184</u>
TOTAL OPERATING REVENUES	<u>1,714,338</u>

**OPERATING EXPENSES:**

Payroll & related costs	1,331,465
Commissioners' fees	25,400
Accounting & auditing	44,093
Advertising & promotion	9,828
Automobile expense	51,781
Bad debt	12,731
Fields Landing expenses	58,476
Communications	12,811
Conferences & meetings	25,204
Depreciation	1,027,610
Dues & subscriptions	34,725
Elections & property tax administration fee	24,461
Insurance	52,012
Legal & other professional fees	184,583
Office expense	49,767
Operating supplies	8,882
Outside services	2,640
Redwood Terminal 2 expenses	301,199
Repairs, maintenance, & small tools	131,113
Utilities	164,617
Shelter Cove expenses	81,992
Other operating expenses	<u>5,721</u>
TOTAL OPERATING EXPENSES	<u>3,641,111</u>

OPERATING INCOME (LOSS) (1,926,773)

**NONOPERATING REVENUES (EXPENSES):**

General property taxes	974,197
Investment income (loss)	60,790
Other government grants (see note 1)	179,258
Grant expenses (see note 1)	(197,099)
Other nonoperating income (see note 1)	565,058
Interest expense	(210,703)
Other nonoperating expenses	<u>(2,377)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,369,124</u>

CHANGE IN NET POSITION (557,649)

BEGINNING NET POSITION, 8,757,587

ENDING NET POSITION \$ 8,199,938

See accompanying notes.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from customers	\$ 1,537,844
Payments to suppliers	(1,180,577)
Payments to employees	(1,398,863)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,041,596)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Taxes for general operations	974,197
Receipt of grant & contract funds from other governments	156,824
Expenditures of grant funds	(222,898)
Other nonoperating receipts	157,654
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	1,065,777

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

Payments to acquire, construct & improve capital assets	(360,916)
Proceeds on notes payable	1,560,000
Principal payments on notes payable & bonds	(209,861)
Interest paid	(203,917)
Proceeds from ground lease & NMTC cost reimbursement	4,099,375
Payments for new market tax credits transaction	(5,849,375)
Payments for other nonoperating costs	(2,377)
NET CASH PROVIDED (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	(967,071)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	62,312
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INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS (880,578)

CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR 2,110,254

CASH & CASH EQUIVALENTS AT END OF YEAR \$ 1,229,676

**FINANCIAL STATEMENT PRESENTATION RECONCILIATION:**

Cash & cash equivalents	\$ 408,702
Restricted cash equivalents, current	820,974
CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 1,229,676

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

Operating Income (loss)	\$ (1,926,773)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,027,610
Bad debt	12,731
Changes in assets & liabilities:	
Accounts receivable	(81,174)
Prepaid expenses	47,273
Accounts payable - related to operating activities	16,055
Accrued liabilities	3,037
Pension liability and deferred outflows and inflows of resources	(45,035)
Deposits & other	1,845
Unearned income	(97,165)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,041,596)

**NONCASH CAPITAL & RELATED FINANCING ACTIVITIES**

Asset acquisition under capital lease	\$ 19,922
Amortization of ground lease	18,768
Amortization of bond premium	5,093
Recognition of unearned income related to PG&E funding	247,929

See accompanying notes.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Reporting Entity**

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

**Nature of Activities**

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

**Basis of Presentation**

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

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

**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**  
**For the year ended June 30, 2016**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of the District are charges to customers for rents and tidelands leases and harbor improvement surcharges. Operating expenses include the cost of maintaining the marina and tidelands, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Other government grants represent nonoperating revenues received from other agencies related to harbor projects, including Spartina eradication, homeland security, port access, aquaponics expansion and other initiatives. Other nonoperating income includes the portion of the PG&E funding (see Note 9) that has been recognized. Grant expenses primarily represent nonoperating expenses related to the other government grants nonoperative revenues.

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

**Budget and Budgetary Accounting**

The Board of Commissioners adopts a budget annually to be effective July 1<sup>st</sup> 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.

**Allowance for Doubtful Accounts**

The District evaluates the collectability of receivables in order to determine the allowance for doubtful accounts. As of June 30, 2016, the District recorded an allowance for doubtful accounts of \$99,435. Based on historical experience, the District does not expect additional amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

**Cash, Cash Equivalents and Investments**

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

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

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

**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

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Net Position**

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

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

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

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

**Property Taxes**

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

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1%

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula.

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

**Postemployment Benefits other than Pensions**

The District accounts for postemployment benefits other than pensions in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB No. 45). The District records a liability on the Statement of Net Position for the difference between the amount the District contributes for retirees and the actuarially required contribution for funding postemployment benefits other than pension benefits. An actuarial computation of the required contribution was made for the year ended June 30, 2014 and rolled forward for the years ending June 30, 2015 (see Note 5).

**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.

**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, 2016. 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.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

The cash and cash equivalents at June 30, 2016 is classified in the accompanying financial statements as follows:

Cash and cash equivalents - current assets	\$ 408,702
Cash and cash equivalents - restricted assets - current	<u>820,974</u>
Total cash and cash equivalents	<u>\$ 1,229,676</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

Cash and cash equivalents - restricted assets - current includes \$756,822 of the PG&E funding which has not been used and is recorded within unearned income on the statement of net position as of June 30, 2016.

Cash, cash equivalents, and investment at June 30, 2016, consists of the following:

Cash on hand	\$ 405
Deposits held with financial institutions	386,387
Deposits held with the County Treasurer's Investment Pool	842,884
Total cash and cash equivalents	<u>\$ 1,229,676</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 \$244,469 as of June 30, 2016. 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**  
For the year ended June 30, 2016

**NOTE 3 - CAPITAL ASSETS**

Changes in capital assets during the year ended June 30, 2016, are as follows:

	<u>06/30/15</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>06/30/16</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	-	600,998	397,310	998,308
Total nondepreciable capital assets	<u>4,952,628</u>	<u>600,998</u>	<u>397,310</u>	<u>5,950,936</u>
 <u>Depreciable capital assets:</u>				
Automotive equipment	88,316	-	-	88,316
Dredge	982,910	200,275	-	1,183,185
Office equipment	193,303	-	-	193,303
Operating equipment	286,039	19,922	-	305,961
Marina facilities	7,946,214	16,128	-	7,962,342
Aquaponics pilot facility	96,037	-	-	96,037
Fields Landing facilities	3,264,161	-	-	3,264,161
Shelter Cove facilities	2,142,972	7,910	-	2,150,882
King Salmon improvements	428	-	-	428
Marina dredging 2005	2,474,894	-	-	2,474,894
Redwood Dock facilities	2,151,195	-	-	2,151,195
Redwood Terminal 2	1,694,322	136,043	(476,426)	1,353,939
Homeland security equipment	2,254,008	-	-	2,254,008
Table Bluff equipment	361	-	-	361
Total depreciable capital assets	<u>23,575,160</u>	<u>380,278</u>	<u>(476,426)</u>	<u>23,479,012</u>
Accumulated depreciation	<u>(15,042,153)</u>	<u>(1,027,610)</u>	<u>1,131</u>	<u>(16,068,632)</u>
Net depreciable capital assets	<u>8,533,007</u>	<u>(647,332)</u>	<u>(475,295)</u>	<u>7,410,380</u>
Total capital assets, net	<u>\$ 13,485,635</u>	<u>\$ (46,334)</u>	<u>\$ (77,985)</u>	<u>\$ 13,361,316</u>

Total depreciation expense charged to operations for the year ended June 30, 2016 was \$1,027,610.



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended June 30, 2016

**NOTE 4 - NOTES PAYABLE**

The following is a schedule of the changes in notes payable for the fiscal year ended June 30, 2016:

	<u>Balance</u> <u>06/30/15</u>	<u>Principal</u> <u>Additions</u>	<u>Principal</u> <u>Reductions</u>	<u>Balance</u> <u>06/30/16</u>	<u>Classification</u>	
					<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
Refunding Bonds:						
Series 2014	\$3,333,674	\$ -	\$ (169,155)	\$3,164,519	\$ 179,648	\$ 2,984,871
Coast Seafoods:						
Line of Credit	1,156,375	-	-	1,156,375	-	1,156,375
Compass BBVA Bank						
Note	-	1,560,000	-	1,560,000	86,212	1,473,788
Capital Lease Obligation						
Capital Lease	-	19,922	(5,387)	14,535	4,588	9,947
Tri Counties Bank						
Note	<u>112,874</u>	<u>-</u>	<u>(40,706)</u>	<u>72,168</u>	<u>43,002</u>	<u>29,166</u>
	<u>\$4,602,923</u>	<u>\$1,579,922</u>	<u>\$ (215,248)</u>	<u>\$5,967,597</u>	<u>\$ 313,450</u>	<u>\$ 5,654,147</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 5.417 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 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 District completed the refunding to reduce its total debt service. The refunding resulted in a total reduction in debt service payments over the next 17 years of \$340,503. The present value of this amount is \$171,421, using a discount rate of 3.1 percent.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

The bond debt service is as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 179,648	\$ 127,922	\$ 307,570
2018	187,089	120,481	307,570
2019	194,838	112,732	307,570
2020	202,909	104,661	307,570
2021	211,313	96,257	307,570
2022 to 2026	1,195,335	342,515	1,537,850
2027 to 2030	993,387	82,074	1,075,461
Total	<u>\$ 3,164,519</u>	<u>\$ 986,642</u>	<u>\$ 4,151,161</u>

**Coast Seafoods Line of Credit:**

The District has a letter of credit agreement with Coast Seafoods Company for up to \$1.25 million. As of June 30, 2016, the District has borrowed \$1.16 million from Coast Seafoods Company, at 3.5% annual interest. The loan maturity date is June 2018. 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 pledges all net revenues as collateral with Compass BBVA Bank for the payment of this obligation.

Year Ending June 30	Principal	Interest	Total
2017	\$ 86,212	\$ 74,525	\$ 160,737
2018	73,542	87,195	160,737
2019	78,013	82,724	160,737
2020	82,756	77,981	160,737
2021	87,787	72,950	160,737
2022 to 2026	525,787	277,896	803,683
2027 to 2030	625,903	97,411	723,314
Total	<u>\$ 1,560,000</u>	<u>\$ 770,682</u>	<u>\$ 2,330,682</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

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.

Year Ending June 30	Principal	Interest	Total
2017	\$ 4,588	\$ 799	\$ 5,387
2018	4,840	547	5,387
2019	5,107	281	5,388
Total	<u>\$ 14,535</u>	<u>\$ 1,627</u>	<u>\$ 16,162</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.

Year Ending June 30	Principal	Interest	Total
2017	\$ 43,002	\$ 2,918	\$ 45,920
2018	29,166	1,051	30,217
Total	<u>\$ 72,168</u>	<u>\$ 3,969</u>	<u>\$ 76,137</u>

**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. Currently, two retirees meet the retirement or the disability retirement eligibility criteria.

Plan Description

The District administers a single-employer defined benefit healthcare plan which provides healthcare insurance for eligible retirees and their spouses. The District pays 100% of the health insurance premiums for retired employees with a minimum of ten years of service and who have reached a minimum of fifty-five years of age up until age sixty-five. The District pays 50% of the 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.

Funding Policy

The District funds post-employment health benefits on a pay-as-you-go basis. For the fiscal year ended June 30, 2016, the District's contributions for post-employment health benefit costs were \$0.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated on the annual required contribution to the employer (ARC), an amount determined in accordance with the alternative measurement method parameters of GASB No. 45. The ARC represents a level

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's OPEB obligation to the plan.

Annual required contribution	\$ 29,902
Interest on net OPEB obligation	21,479
Adjustment to annual required contribution	<u>(51,381)</u>
Annual OPEB cost	-
Contributions made:	
Premiums paid	<u>-</u>
Increase (decrease) in net OPEB obligation	-
Net OPEB obligation - beginning of year	<u>477,298</u>
Net OPEB obligation - end of year	<u><u>\$ 477,298</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ -	\$ -	0.0%	\$ 477,298
June 30, 2015	\$ -	\$ -	0.0%	\$ 477,298
June 30, 2014	\$ -	\$ -	0.0%	\$ 477,298

As of June 30, 2016, the actuarial accrued liability for benefits was \$223,143, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

The following simplifying assumptions were made:

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

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

*Mortality* - Life expectancies at the calculation date are based on tables provided in GASB Statement No. 45.

*Turnover* - The probability that an employee will remain employed until the assumed retirement age was determined using tables provided in GASB Statement No. 45.

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

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

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

*Use of Health Insurance Premiums* - The plan's current premium structure was used as the initial per capita healthcare rates for the purpose of projecting future healthcare benefit payments.

*Coverage Options* - The plan has only one coverage option.

*Grouping techniques* - No participant grouping techniques were utilized in the computation of actuarial amounts.

*Actuarial cost method* - The entry age normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2016, was four years.

**NOTE 6 - PENSION PLAN**

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

***Plan Description*** - All qualified full-time and part-time employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information. These reports can be obtained at CalPERS' website under "Forms and Publications".

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
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**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members hired prior to January 1, 2013 with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013 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 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016 are summarized as follows:

Hire Date	Prior to January 15, 2011	January 15, 2011 through December 31, 2012	On or After January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
"Monthly benefits, as a % of eligible compensation"	1.10% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
"Required employee contribution rates"	6.891%	6.891%	6.891%
"Required employer contribution rates"	8.003%	8.003%	6.555%

**Contributions** - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	\$ 75,091
Contributions - employee (paid by employer)	-
Total	<u>\$ 75,091</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability in the amount of \$546,686.

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

Portion at June 30, 2015	0.0215%
Portion at June 30, 2016	<u>0.0199%</u>
Decrease	<u><u>0.0016%</u></u>

For the year ended June 30, 2016, the District recognized pension expense of \$43,169. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 68,090	\$ -
Difference between expected and actual experience	4,815	-
Change in assumptions	-	45,559
Differences between the employer's contributions and the employer's proportionate share of contributions:		
Change in employer's proportion	-	61,817
Net differences between projected and actual earnings on plan investments	-	<u>22,839</u>
Total	<u><u>\$ 72,905</u></u>	<u><u>\$ 130,215</u></u>

The District reported \$68,090 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
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**For the year ended June 30, 2016**

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

Year Ending June 30	Pension Expense (Decrease)
2017	\$ (55,229)
2018	(54,327)
2019	(43,971)
2020	28,128
Total	\$ (125,399)

**Actuarial Assumptions** - For the measurement period ended June 30, 2015 (the measurement date), the total pension liability for the Plan was determined by rolling forward the June 30, 2014 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-age normal cost method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.5% (a)
Mortality	Derived using CalPERS's membership data for all funds
"Post Retirement Benefit Increase"	Contract COLA up to 2.75% until purchasing power protection allowance floor applies, 2.75% thereafter

(a) Net of pension plan investment and administrative expenses, including inflation.

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can found on the CalPERS website under Forms and Publications.

**Change of Assumption:** GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the



**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
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testing, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. 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 best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

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

<u>Asset Class</u>	Current Target <u>Allocation</u>	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

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

(b) 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 District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
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**For the year ended June 30, 2016**

calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate Less 1% (6.65%)	Current Discount (7.65%)	Discount Rate plus 1% (8.65%)
Net pension liability	\$ 916,830	\$ 546,686	\$ 241,089

***Pension Plan Fiduciary Net Position*** - Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports available on CalPERS' website.

**C. Payable to the Pension Plan**

At June 30, 2016, the District reported no amount payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**NOTE 7 - RISK MANAGEMENT**

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

**NOTE 8 - 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 \$5.2 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

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2016**

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, 2016, 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 \$18,769 of operating revenue during the year ended June 30, 2016, for a remaining balance of unearned income as of June 30, 2016 of \$3,887,231.

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, 2016, unearned income consisted of:

Unearned HBDA ground lease income - current	\$ 60,092
Unearned PG&E dredge-related income (see Note 9)	756,822
Unearned lease income (outfall pipe, tidelands, slip rentals and warehouse)	<u>358,239</u>
Total unearned income - current	1,175,153
Unearned HBDA ground lease income – long-term	<u>3,827,139</u>
Total unearned income	<u><u>\$ 5,002,292</u></u>

**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,

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
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**For the year ended June 30, 2016**

2016, \$756,822 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.

Litigation

In October 2015, a case was filed in the Humboldt County Superior Court alleging a conflict of interest. The District has not recorded a liability related to this litigation as the District believes the likelihood of a material adverse effect on the District's financial statements as a result of this litigation is remote.

**NOTE 10 - SUBSEQUENT EVENTS**

The District's management has evaluated subsequent events through February 27, 2017, 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, 2016.

In September 2016, the District entered into an agreement that included granting a twenty-five year license for the use of District property to operate an electricity grid-connected photovoltaic solar energy facility, the energy output of which will be purchased by the District for its energy needs. The District will receive a lump-sum payment of \$500,000 for the license. This payment is expected to be received in March 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**

**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, 2016**

	June 30, 2015	June 30, 2016
Plan's proportion of the net pension liability	0.021500%	0.256420%
Plan's proportionate share of the net pension liability	\$ 531,034	\$ 546,686
Plan's covered-employee payroll	\$ 730,490	\$ 871,775
Plan's proportionate share of the net pension liability as percentage of covered-employee payroll	72.70%	62.70%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	83.19%	83.38%

**NOTES TO SCHEDULE:**

Benefit changes: There were no changes to benefit terms.

Changes in assumptions: The discount rate for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**SCHEDULE OF CONTRIBUTIONS FOR THE LAST TEN YEARS \***  
**CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**June 30, 2016**

	June 30, 2015	June 30, 2016
Contractually required contribution (actuarially determined)	\$ 68,939	\$ 75,091
Contribution in relation to the actuarially determined contribution	(68,939)	(75,091)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 730,490	\$ 871,775
Contributions as a percentage of covered-employee payroll	9.44%	8.61%

**NOTES TO SCHEDULE:**

Actuarial valuation date June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial funding method	Entry age normal cost
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years (a)
Asset valuation method	Smoothed value
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.5%, net of pension plan investment expense
Retirement age	60 years
Mortality	CalPERS Mortality Experience Study

(a) Actuarial Policy ACT-96-0SE specifies that all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and the net unamortized gain or loss is amortized as a rolling 30-year amortization with the exception of gains and losses in fiscal years 2008-09, 2009-10 and 2010-11 in which each years' gains or losses will be isolated and amortized over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization). Also, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability. Finally, all plans are subject to a minimum employer contribution rate equal to the employer normal cost plus a 30-year amortization of surplus, if any.

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

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS**  
**June 30, 2016**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) - Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll ([a-b]/c)
June 30, 2016	\$ 223,143	\$ -	\$ 223,143	0.00%	\$ 523,676	42.61%
June 30, 2013	1,081,824	-	1,081,824	0.00%	715,336	151.20%
June 30, 2010	716,234	-	716,234	0.00%	695,704	103.00%

**Note (1)** The District sponsors and administers a single-employer defined benefit postemployment healthcare plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. The above schedule presents information about the funded status for the Plan's two actuarial valuations (in thousands).

**Note (2)** Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for the above actuarial valuation can be found in Note 5 to the basic financial statements. The next actuarial valuation will be performed during fiscal year ended June 30, 2017.

**Note (3)** The District's June 30, 2016 valuation was computed using the alternative measurement method allowed by GASB Statement No. 45, rather than through a formal actuarial valuation. This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.



## **SUPPLEMENTARY INFORMATION**

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**UNRESTRICTED AND TIDELANDS TRUST**  
**For the Year Ended June 30, 2016**

	Unrestricted	Tidelands Trust	Total
<b>OPERATING REVENUES:</b>			
Sales & permits	\$ 7,037	\$ 10,511	\$ 17,548
Marina slip rentals, utility, & dredging surcharges	-	743,045	743,045
Rents, leases, & project administration	516,194	350,096	866,290
Harbor improvement surcharge	-	62,271	62,271
Other revenue	8,302	16,882	25,184
TOTAL OPERATING REVENUES	531,533	1,182,805	1,714,338
<b>OPERATING EXPENSES:</b>			
Payroll & related costs	353,387	978,078	1,331,465
Commissioners' fees	5,080	20,320	25,400
Accounting & auditing	43,812	281	44,093
Advertising & promotion	3,632	6,196	9,828
Automobile expense	11,074	40,707	51,781
Bad debt	-	12,731	12,731
Fields Landing expenses	58,476	-	58,476
Communications	5,331	7,480	12,811
Conferences & meetings	12,443	12,761	25,204
Depreciation	1,027,610	-	1,027,610
Dues & subscriptions	16,686	18,039	34,725
Elections & property tax administration fee	12,231	12,230	24,461
Insurance	21,083	30,929	52,012
Legal & other professional fees	65,670	118,913	184,583
Office expense	17,260	32,507	49,767
Operating supplies	2,088	6,794	8,882
Outside services	378	2,262	2,640
Redwood Terminal 2 expenses	301,199	-	301,199
Repairs, maintenance, & small tools	29,814	101,299	131,113
Utilities	57,724	106,893	164,617
Shelter Cove expenses	47,141	34,851	81,992
Other operating expenses	5,721	-	5,721
TOTAL OPERATING EXPENSES	2,097,840	1,543,271	3,641,111
OPERATING INCOME (LOSS)	(1,566,307)	(360,466)	(1,926,773)
<b>NONOPERATING REVENUES (EXPENSES):</b>			
General property taxes	974,197	-	974,197
Investment income	52,360	8,430	60,790
Other government grants	108	179,150	179,258
Grant expenses	-	(197,099)	(197,099)
Other nonoperating income	178,777	386,281	565,058
Interest expense	(113,452)	(97,251)	(210,703)
Other nonoperating expenses	(2,306)	(71)	(2,377)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,089,684	279,440	1,369,124
CHANGE IN NET POSITION	\$ (476,623)	\$ (81,026)	\$ (557,649)

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**MARINA AND GENERAL**  
**For the Year Ended June 30, 2016**

	Marina	General	Total
<b>OPERATING REVENUES:</b>			
Sales & permits	\$ 12,167	\$ 5,381	\$ 17,548
Marina slip rentals, utility, & dredging surcharges	741,414	1,631	743,045
Rents, leases, & project administration	13,508	852,782	866,290
Harbor improvement surcharge	-	62,271	62,271
Other revenue	14,979	10,205	25,184
TOTAL OPERATING REVENUES	782,068	932,270	1,714,338
<b>OPERATING EXPENSES:</b>			
Payroll & related costs	344,231	987,234	1,331,465
Commissioners' fees	7,620	17,780	25,400
Accounting & auditing	9,847	34,246	44,093
Advertising & promotion	937	8,891	9,828
Automobile expense	7,486	44,295	51,781
Bad debt	12,731	-	12,731
Fields Landing expenses	-	58,476	58,476
Communications	3,339	9,472	12,811
Conferences & meetings	-	25,204	25,204
Depreciation	462,198	565,412	1,027,610
Dues & subscriptions	-	34,725	34,725
Elections & property tax administration fee	-	24,461	24,461
Insurance	28,533	23,479	52,012
Legal & other professional fees	5,580	179,003	184,583
Office expense	20,764	29,003	49,767
Operating supplies	8,882	-	8,882
Outside services	1,890	750	2,640
Redwood Terminal 2 expenses	-	301,199	301,199
Repairs, maintenance, & small tools	44,523	86,590	131,113
Utilities	139,777	24,840	164,617
Shelter Cove expenses	-	81,992	81,992
Other operating expenses	-	5,721	5,721
TOTAL OPERATING EXPENSES	1,098,338	2,542,773	3,641,111
OPERATING INCOME (LOSS)	(316,270)	(1,610,503)	(1,926,773)
<b>NONOPERATING REVENUES (EXPENSES):</b>			
General property taxes	88,000	886,197	974,197
Investment income	-	60,790	60,790
Other government grants	-	179,258	179,258
Other nonoperating income	5,175	559,883	565,058
Grant expenses	-	(197,099)	(197,099)
Interest expense	(58,601)	(152,102)	(210,703)
Other nonoperating expenses	-	(2,377)	(2,377)
TOTAL NONOPERATING REVENUES (EXPENSES)	34,574	1,334,550	1,369,124
CHANGE IN NET POSITION	\$ (281,696)	\$ (275,953)	\$ (557,649)

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**BUDGET TO ACTUAL - MARINA**  
**For the Year Ended June 30, 2016**

	Marina		Variance
	Budget	Actual	Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>			
Sales & permits	\$ 16,100	\$ 12,167	\$ (3,933)
Marina slip rentals, utility, & dredging surcharges	773,246	741,414	(31,832)
Rents, leases, & project administration	35,000	13,508	(21,492)
Other revenue	64,600	14,979	(49,621)
TOTAL OPERATING REVENUES	<u>888,946</u>	<u>782,068</u>	<u>(106,878)</u>
<b>OPERATING EXPENSES:</b>			
Payroll & related costs	263,079	344,231	(81,152)
Commissioners' fees	-	7,620	(7,620)
Accounting & auditing	6,000	9,847	(3,847)
Advertising & promotion	3,500	937	2,563
Automobile expense	7,000	7,486	(486)
Bad debt	-	12,731	(12,731)
Communications	8,540	3,339	5,201
Conferences & meetings	3,000	-	3,000
Depreciation	-	462,198	(462,198)
Dues & subscriptions	5,000	-	5,000
Elections	5,000	-	5,000
Insurance	12,500	28,533	(16,033)
Legal & other professional fees	23,750	5,580	18,170
Office expense	16,000	20,764	(4,764)
Operating supplies	5,500	8,882	(3,382)
Outside services	-	1,890	(1,890)
Repairs, maintenance, & small tools	60,000	44,523	15,477
Utilities	190,000	139,777	50,223
TOTAL OPERATING EXPENSES	<u>608,869</u>	<u>1,098,338</u>	<u>(489,469)</u>
OPERATING INCOME (LOSS)	<u>280,077</u>	<u>(316,270)</u>	<u>(596,347)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
General property taxes	88,000	88,000	-
Other nonoperating income	-	5,175	5,175
Interest expense	50,293	(58,601)	(108,894)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>138,293</u>	<u>34,574</u>	<u>(103,719)</u>
CHANGE IN NET POSITION	<u>\$ 418,370</u>	<u>\$ (281,696)</u>	<u>\$ (700,066)</u>

**HUMBOLDT BAY HARBOR, RECREATION AND CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES -**  
**BUDGET TO ACTUAL - GENERAL**  
**For the Year Ended June 30, 2016**

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>			
Sales & permits	\$ 3,000	\$ 5,381	\$ 2,381
Marina slip rentals, utility, & dredging surcharges	-	1,631	1,631
Rents, leases, & project administration	2,524,539	852,782	(1,671,757)
Harbor improvement surcharge	97,028	62,271	(34,757)
Other revenue	3,075	10,205	7,130
TOTAL OPERATING REVENUES	<u>2,627,642</u>	<u>932,270</u>	<u>(1,695,372)</u>
<b>OPERATING EXPENSES:</b>			
Payroll & related costs	1,000,629	987,234	13,395
Commissioners' fees	25,200	17,780	7,420
Accounting & auditing	25,000	34,246	(9,246)
Advertising & promotion	3,500	8,891	(5,391)
Automobile expense	24,000	44,295	(20,295)
Fields Landing expenses	15,000	58,476	(43,476)
Communications	5,460	9,472	(4,012)
Conferences & meetings	25,000	25,204	(204)
Depreciation	-	565,412	(565,412)
Dues & subscriptions	29,000	34,725	(5,725)
Elections & property tax administration fee	20,000	24,461	(4,461)
Insurance	72,500	23,479	49,021
Legal & other professional fees	200,750	179,003	21,747
Office expense	25,000	29,003	(4,003)
Operating supplies	1,500	-	1,500
Outside services	-	750	(750)
Redwood Terminal 2 expenses	80,000	301,199	(221,199)
Repairs, maintenance, & small tools	132,000	86,590	45,410
Utilities	30,000	24,840	5,160
Shelter Cove expenses	-	81,992	(81,992)
Other operating expenses	-	5,721	(5,721)
TOTAL OPERATING EXPENSES	<u>1,714,539</u>	<u>2,542,773</u>	<u>(828,234)</u>
OPERATING INCOME (LOSS)	<u>913,103</u>	<u>(1,610,503)</u>	<u>(2,523,606)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
General property taxes	792,000	886,197	94,197
Investment income	20,000	60,790	40,790
Other government grants	787,782	179,258	(608,524)
Other nonoperating income	3,600,000	559,883	(3,040,117)
Grant expenses	(521,682)	(197,099)	324,583
Interest expense	(153,592)	(152,102)	1,490
Other nonoperating expenses	(26,000)	(2,377)	23,623
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>4,498,508</u>	<u>1,334,550</u>	<u>(3,163,958)</u>
CHANGE IN NET POSITION	<u>\$ 5,411,611</u>	<u>\$ (275,953)</u>	<u>\$ (5,687,564)</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, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2017.

**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.

*Hunter, Hunter & Hunt*

February 27, 2017