

SAN MATEO COUNTY HARBOR DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

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**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

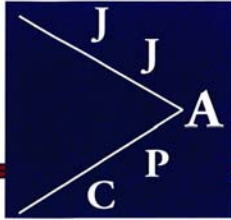
Elected Officials and Administrative Personnel

BOARD OF COMMISSIONERS

Tom Mattusch – President
Virginia Change Kiraly – Vice President
Robert Bernardo –Secretary
Pietro Parravano – Treasurer
Sabrina Brennan – Commissioner

MANAGEMENT

Steve McGrath - General Manager



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of the
San Mateo County Harbor District
South San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Mateo County Harbor District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively 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; 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 an opinion 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2015, and the respective changes in financial position and, where applicable, 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 (MD&A) on pages 3-10, the District's Schedule of Contributions on page 34 and the Schedule of the District's Proportionate Share of the Net Pension Liability on page 35 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.

Implementation of New Accounting Standards

As disclosed in the Note 1 to the financial statements, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2015.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2016 on our consideration of the 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.

May 19, 2016

JJACPA, Inc.

**JJACPA, Inc.
Dublin, CA**

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Management's Discussion and Analysis

This section of San Mateo County Harbor District's basic financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2015. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the District's basic financial statements (pages 12 - 14) and the footnotes (pages 15 - 31).

Financial Highlights

At June 30, 2015 the District's Net Position decreased \$2,480,350 to \$43,945,266 from \$46,425,616 in 2014. The District remains in a strong financial position as of June 30, 2015, with the main reason for the decline in Net Position coming from a new accounting reporting requirement. The implementation of GASB 68 now requires reporting of unfunded pension liabilities on the balance sheet, forcing a one-time downward adjustment of Net Position of \$3,511,131. This new reporting requirement increased long term liabilities by over \$3 million dollars. Without the implementation of GASB 68, the District would have seen an increase in Net Position of \$1,030,781 for the year.

The District's income before contributions was up \$111,472 (13%) from 2014 with total income before contributions of \$1,030,781 in 2015 compared to \$919,309 in 2014.

Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole and capitalization of assets and depreciation for agencies not reporting on the accrual basis of accounting. Since the District has historically reported all activities in enterprise funds in a manner similar to business activities and followed the accrual basis of accounting, the District merely has been required to reclassify certain balances to utilize the new Statement No. 34 terminology. There were no major reconciling items necessary or elimination of balances due to the implementation of Statement No. 34.

The annual financial statements include the Independent Auditors' Report, this management's discussion and analysis, the basic financial statements, and notes to the basic financial statements.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Management's Discussion and Analysis

Financial Analysis of the District as a Whole

	Net Position		Increase (Decrease)	Percent Change
	As of June 30, 2015 and 2014			
	2015	2014		
Assets and Deferred Outflows of Resources:				
Current assets	\$ 17,803,927	\$ 14,308,121	\$ 3,495,806	24.4%
Non-current assets	43,721,314	45,413,530	(1,692,216)	(3.7)%
Deferred Outflows of Resources	624,675	-	624,675	100.0%
Total assets and deferred outflows of resources	<u>62,149,916</u>	<u>59,721,651</u>	<u>2,428,265</u>	<u>4.1%</u>
Liabilities and Deferred Inflows of Resources:				
Current liabilities	2,464,561	4,123,113	(1,658,552)	(40.2)%
Non-current liabilities	14,971,287	9,172,922	5,798,365	63.2%
Deferred Inflows of Resources	768,802	-	768,802	100.0%
Total liabilities and deferred inflows of resources	<u>18,204,650</u>	<u>13,296,035</u>	<u>4,908,615</u>	<u>36.9%</u>
Net position:				
Net investment in capital assets	37,788,045	39,480,261	(1,692,216)	-4.3%
Restricted/Unrestricted net position:				
Restricted for debt service	1,790,494	1,775,629	14,865	0.8%
Unrestricted	4,366,727	5,169,726	(802,999)	(15.5)%
Total net position	<u>\$ 43,945,266</u>	<u>\$ 46,425,616</u>	<u>\$ (2,480,350)</u>	<u>(5.3)%</u>

This schedule is prepared from the District's Statement of Net Position (page 12), which is presented on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the Statement of Activities are those revenues that are generated from the primary enterprise operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are all the expenses, enterprise and non-enterprise, that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Management's Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

	Operating Results			
	For the years ended June 30, 2015 and 2014			
	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 3,981,060	\$ 3,997,068	\$ (16,008)	(0.4)%
Non-operating revenues	6,620,222	5,713,215	907,007	15.9%
Total Revenues	<u>10,601,282</u>	<u>9,710,283</u>	<u>890,999</u>	<u>9.2%</u>
Operating expenses	8,623,363	8,164,965	458,398	5.6%
Non-operating expenses	947,138	626,009	321,129	51.3%
Total Expenses	<u>9,570,501</u>	<u>8,790,974</u>	<u>779,527</u>	<u>8.9%</u>
Net income before contributions	<u>1,030,781</u>	<u>919,309</u>	<u>111,472</u>	<u>12.1%</u>
Capital Contributions	-	4,124,194	(4,124,194)	(100.0)%
Change in net position	1,030,781	5,043,503	(4,012,722)	(79.6)%
Net position:				
Beginning of year	46,425,616	41,382,113	5,043,503	12.2%
Adjustment	(3,511,131)	-	(3,511,131)	
Beginning of year, as adjusted	42,914,485	-	42,914,485	
End of year	<u>\$ 43,945,266</u>	<u>\$ 46,425,616</u>	<u>\$ (2,480,350)</u>	<u>(5.3)%</u>

While the Statement of Net Position shows the change in financial position of Net Position, the operating results are reflected in the Statement of Revenues, Expenses, and Changes in Net Position (page 13). This statement provides answers to the nature and source of the change in financial position of Net Position.

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Management’s Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

Net Position decreased by \$2,480,350 as detailed below:

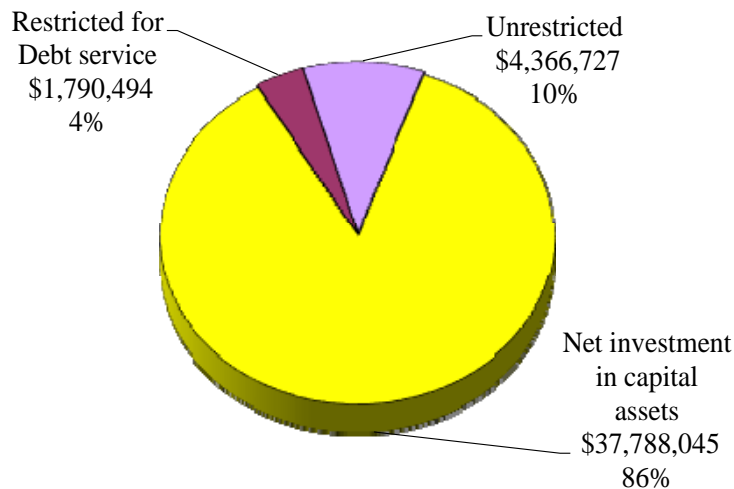
**Analysis of Net Position
As of June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net position:				
Net Investment in capital assets	\$ 37,788,045	\$ 39,480,261	\$ (1,692,216)	(4.3)%
Restricted				
Debt service	1,790,494	1,775,629	14,865	0.8%
Unrestricted	<u>4,366,727</u>	<u>5,169,726</u>	<u>(802,999)</u>	<u>(15.5)%</u>
Total	<u>\$ 43,945,266</u>	<u>\$ 46,425,616</u>	<u>\$ (2,480,350)</u>	<u>(5.3)%</u>

The change in Net Position is primarily due to the new reporting requirement and implementation of GASB 68 for the current reporting period which adjusted the District’s Beginning Net Position down a total of \$3,511,131. Without that, the District’s Net Position would have seen an increase of \$1,030,781 for the year.

The following is a graphic illustration of Net Position:

Analysis of \$43,945,266 in Net Position



**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Management's Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

FY 2014-2015		Revenue Source	FY 2013-2014		Increase/ (Decrease)	Percentage Increase/ (Decrease)
Total	Percentage of Total Revenue		Total	Percentage of Total Revenue		
\$ 2,917,301	27.5%	Berth rental/slip fees (berth rental, mooring fees, transient berths and dockage)	\$ 2,876,853	29.6%	\$ 40,448	1.4%
782,837	7.4%	Rents and concessions	828,309	8.5%	(45,472)	(5.5%)
123,196	1.2%	Launching fees	110,073	1.1%	13,123	11.9%
157,726	1.5%	Other operating (dock box, RV, other)	181,833	1.9%	(24,107)	(13.3%)
5,653,906	53.3%	Property tax	5,266,831	54.2%	387,075	7.3%
785,571	7.4%	Gain on sale of assets	95,049	1.0%	690,522	726.5%
99,749	0.9%	Investment earnings	75,043	0.8%	24,706	32.9%
61,337	0.6%	Capital Grants	271,420	2.8%	(210,083)	(77.4%)
19,659	0.2%	Reimbursements	4,872	0.1%	14,787	303.5%
\$ 10,601,282	100.0%	Totals	\$ 9,710,283	100.0%	\$ 876,212	9.02%

Enterprise revenues from the Districts harbor activities remained relatively stagnant year over year. The increase in total revenue is largely due to the gain from the sale of land at Pillar Point and increased property tax revenue. Grant revenue decreased as a whole due to a one time grant that was received in 2014 for the construction of Dock 8 at OPM from the Division of Boating and Waterways. Investment earnings increased almost 33% due to having more money in the investment account earning interest.

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

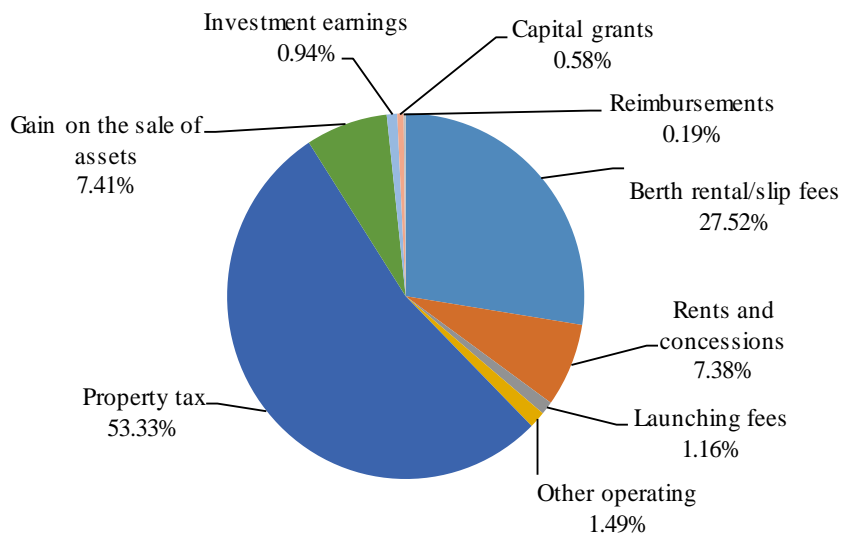
Management's Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

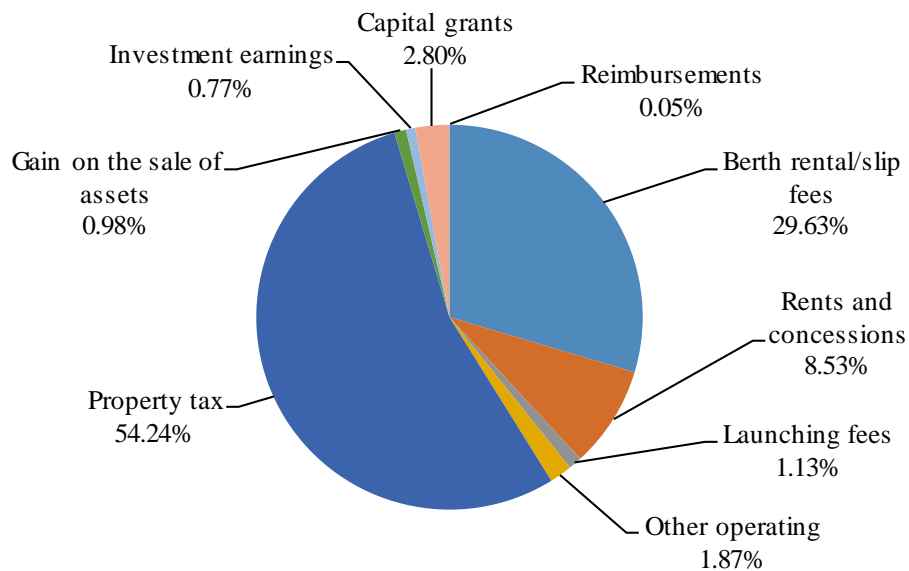
The following is a graphic illustration of revenues by source:

**Revenues by Source
Both Operating & Non-Operating**

FY 2014-15



FY 2013-14



**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Management’s Discussion and Analysis

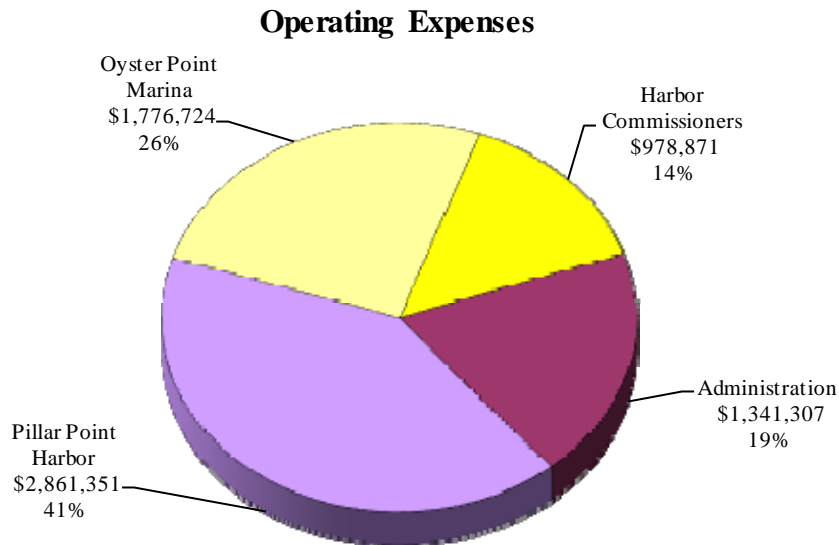
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$458,398 as detailed below:

Operating Expenses				
For the years ended June 30, 2015 and 2014				
	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating expenses:				
Harbor Commissioners	\$ 978,871	\$ 493,225	\$ 485,646	98.5%
Administration	1,341,307	1,190,853	150,454	12.6%
Pillar Point Harbor	2,861,351	2,471,208	390,143	15.8%
Oyster Point Marina	1,776,724	1,724,398	52,326	3.0%
Depreciation and amortization	1,665,110	2,285,281	(620,171)	(27.1)%
Total	<u>\$ 8,623,363</u>	<u>\$ 8,164,965</u>	<u>\$ 458,398</u>	<u>5.6%</u>

Harbor Commissioners operating expenses increased mostly due to the increased costs for elections expense and a modest increase in contractual services. Administration operating expenses increased mostly due to increases in contractual services, and the cost of the GM search that started in the beginning of 2015, following the retirement of the previous GM. Pillar Point operating expenses increased mostly due to the expensing of old capital projects that were not picked up past the engineering phase and increases in contractual services. These were expensed as repairs and maintenance expenses for the harbor, since we are not sure if the reports will be used in future capital projects. Oyster Point operating expenses increased mostly due to vessel destruction costs for the removal of boats in the harbor that have been abandoned and were in poor condition.

The following is a graphic illustration of 2014-15 operating expenses:



San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Management's Discussion and Analysis

Cash Flows

Cash flows have increased \$3,620,716 which is the result of not making a payment in this year to DBW for \$1.4 million. The remaining \$2.2 million increase in cash is from the sale of land at Pillar Point and the District's net operating revenue.

Long-term Debt

No new debt was issued for the year. The District did not make a debt service payment in FY 2014-2015 because two payments were made in FY 2013-2014 for interest savings. Our loan balance remains at \$5,933,269, and there is \$272,573 in accrued interest payable for the loan that will be due with our next scheduled payment December 31, 2015. The District's Board of Commissioners decided to retire the debt due to the Department of Boating and Waterways during FY 2015-2016. The District has no future long term debt payments that are due.

Long – Term Liabilities

The San Mateo County Harbor District has deferred revenue from pre-payment of rent revenue from the WETA ferry terminal. It is a 55 year lease with an up from rent payment of \$3,660,000 that was used to pay down the District's obligation to the Department of Boating and Waterways. The District has restructured the reporting of the deferred revenue to a current portion (within one year) and a long term portion (exceeding one year). Previously the entire amount was reported as a current liability. The District feels that this reporting is a better breakdown of reporting our current and long – term liabilities.

Economic Factors and Potential Future Results

The District's operating revenues are dependent on several factors including the strength of the fishing season, the strength of tourism, and strong property sales. These cyclical and weather dependent factors are important trends for the District to look for in the economy, as changes could impact future revenue streams. Commercial crab season opening was delayed until March 2016, which may result in lowered rent revenues for Fiscal year 15-16, as commercial fishermen are trying to recover from the late start to the season. Since the District decided to pay off the outstanding debt, it has freed up nearly \$1.4 million per year to spend on capital projects to improve the condition of the District's facilities.

Contacting the District

This financial report is designed to provide our customers and creditors a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and is allocated to it. If you have questions about this report, contact:

San Mateo County Harbor District
PO Box 1449
El Granada, CA 94018
Phone (650) 583-4400

Steve McGrath, General Manager.

BASIC FINANCIAL STATEMENTS

San Mateo County Harbor District

Statement of Net Position

June 30, 2015

(with comparative totals for June 30, 2014)

	2015	2014
ASSETS		
Current assets:		
Cash and investments	\$ 15,810,502	\$ 12,204,651
Restricted cash and investments	1,790,494	1,775,629
Accounts receivable:		
Customers	136,528	283,090
Interest	27,025	21,001
Prepaid expenses and deposits	39,378	23,750
Total current assets	17,803,927	14,308,121
Noncurrent assets:		
Capital assets:		
Land	13,081,020	13,108,381
Construction in progress	789,742	790,124
Depreciable assets	60,497,425	60,663,357
Less accumulated depreciation	(30,646,873)	(29,148,332)
Total noncurrent assets	43,721,314	45,413,530
Total assets	61,525,241	59,721,651
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan	624,675	-
Total assets and deferred outflows of resources	\$ 62,149,916	59,721,651
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 472,506	\$ 205,948
Accrued payroll	121,157	109,861
Customer deposits	291,647	289,743
Unavailable revenue - current	327,105	256,832
Accrued interest payable	272,573	-
Due within one year	979,573	-
Total current liabilities	2,464,561	862,384
Noncurrent liabilities:		
Unavailable revenue	3,194,183	3,260,729
Due after one year	4,953,696	5,933,269
Termination benefits payable	3,594,992	2,973,047
Accrued vacation and sick leave	211,838	266,606
Net pension liability	3,016,578	-
Total noncurrent liabilities	14,971,287	12,433,651
Total liabilities	17,435,848	13,296,035
DEFERRED INFLOWS OF RESOURCES		
Pension plan	768,802	-
Total assets and deferred outflows of resources	768,802	-
NET POSITION		
Net investment in capital assets	37,788,045	39,480,261
Restricted for debt service	1,790,494	1,775,629
Unrestricted	4,366,727	5,169,726
Total net position	43,945,266	46,425,616
Total liabilities, deferred inflows of resources and net position	\$ 62,149,916	59,721,651

The accompanying notes are an integral part of these basic financial statements.

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2015

(with comparative totals for the year ended June 30, 2014)

	2015	2014
OPERATING REVENUES:		
Berth rental	\$ 2,718,883	\$ 2,706,832
Dock box fees	6,450	6,380
Launching fees	123,196	110,073
Mooring fees	37,541	42,346
Recreational vehicles	58,005	37,311
Rents and concessions	782,837	828,309
Transient berths and dockage	160,877	127,675
Other operating revenues	93,271	138,142
Total operating revenues	3,981,060	3,997,068
OPERATING EXPENSES:		
Harbor Commissioners	978,871	493,225
Administration	1,341,307	1,190,853
Pillar Point Harbor	2,861,351	2,471,208
Oyster Point Marina	1,776,724	1,724,398
Depreciation and amortization	1,665,110	2,285,281
Total operating expenses	8,623,363	8,164,965
Operating income (loss)	(4,642,303)	(4,167,897)
NONOPERATING REVENUES (EXPENSES):		
Capital grants	61,337	271,420
Investment earnings	99,749	75,043
Reimbursements	19,659	4,872
Property taxes	5,653,906	5,266,831
County administrative fees	(46,437)	(45,131)
Gain (loss) on disposition of capital assets	785,571	95,049
Termination benefits	(621,945)	(224,746)
Interest expense	(272,574)	(350,616)
LAFCO fees	(6,182)	(5,516)
Total nonoperating revenues (expenses)	5,673,084	5,087,206
Income (loss) before contributions	1,030,781	919,309
Capital contributions:		
Federal contributions	-	2,124,194
City of South San Francisco contributions	-	2,000,000
Total capital contributions	-	4,124,194
Net Income	1,030,781	5,043,503
CHANGE IN NET POSITION:		
Beginning of year	46,425,616	41,382,113
Adjustment	(3,511,131)	-
Beginning of year, as adjusted	42,914,485	-
End of year	\$ 43,945,266	\$ 46,425,616

The accompanying notes are an integral part of these basic financial statements.

San Mateo County Harbor District

Statement of Cash Flows

For the year ended June 30, 2015

(with comparative amounts for the year ended June 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,133,253	\$ 3,749,477
Payments to suppliers	(3,035,778)	(2,522,733)
Payments to or on behalf of employees	(4,065,443)	(3,597,973)
Net cash provided (used) by operating activities	(2,967,968)	(2,371,229)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	5,607,469	5,221,700
Receipts from capital grants	61,337	271,420
Receipts from reimbursements	19,659	4,872
Payments to LAFCO	(6,182)	(5,516)
Net cash provided (used) by noncapital financing activities	5,682,283	5,492,476
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	-	(2,247,656)
Interest payments on long-term debt	-	(538,531)
Capital contributions	-	2,000,000
Acquisition and construction of capital assets	(233,882)	(1,809,454)
Proceeds from the sale of assets	1,046,558	95,049
Net cash provided (used) by capital and related financing activities	812,676	(2,500,592)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	93,725	75,130
Net cash provided (used) by investing activities	93,725	75,130
Net increase (decrease) in cash and cash equivalents	3,620,716	695,785
CASH AND INVESTMENTS:		
Beginning of year	13,980,280	13,284,495
End of year	\$ 17,600,996	\$ 13,980,280
Reconciliation to Statement of Net Position:		
Cash and investments	\$ 15,810,502	\$ 12,204,651
Restricted cash and investments	1,790,494	1,775,629
Total cash and investments	\$ 17,600,996	\$ 13,980,280
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating loss	\$ (4,642,303)	\$ (4,167,897)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,665,110	2,285,281
Pension expense	(350,426)	-
Change in assets and liabilities:		
Accounts receivable	146,562	(107,425)
Prepaid expenses	(15,628)	30,984
Accounts payable and accrued liabilities	266,558	(301,042)
Accrued payroll	11,296	23,883
Deposits and unearned revenue	5,631	(140,166)
Termination benefits payable	-	1
Accrued vacation and sick leave	(54,768)	5,152
Net cash provided (used) by operating activities	\$ (2,967,968)	\$ (2,371,229)

There was no noncash capital and related financing activity for the year ended June 30, 2015.

The accompanying notes are an integral part of these basic financial statements.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of San Mateo County Harbor District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprises classified as proprietary fund types. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The following is a summary of the more significant policies:

A. Description of the Reporting Entity

The District is organized under the Harbor and Navigation provisions of the general laws of the State of California and is governed by a five-member Board of Commissioners elected at large by the registered voters of the District. The District is located in the unincorporated area of Princeton along the Pacific Ocean in San Mateo County and South San Francisco, but encompasses the entire County.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the District's Board of Commissioners. The District is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, Net Position, revenues, and expenses of the District only.

As defined by GASB Statements No. 14 and 39, *The Financial Reporting Entity*, the District is not financially accountable for any other entity other than itself, nor are there any other entities for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete.

In addition, based upon the above criteria, the District is not aware of any entity which would be financially accountable for the District which would result in the District being considered a component of the entity.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting

On the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as Net Position.

District funds are classified as enterprise funds, which account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, and cash flow from operations.

C. Cash and Investments

For the purposes of the Statement of Net Position and Statement of Cash Flows, “cash equivalents and investments” includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less.

Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2.

D. Capital Assets

Capital assets are carried at cost or estimated cost if actual cost was not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Depreciation is calculated on a straight-line basis using the following useful life schedule:

Asset	Useful Life
Autos and trucks	3 to 10 years
Boats and radar	3 to 10 years
Signs	10 years
Breakwater	40 years
Utilities	20 years
Channels	20 years
Launch Ramps	20 years
Piers	50 years
Bulkheads	50 years
Buildings and improvements	10 to 40 years
Docks	30 years
Parking Lots	10 to 25 years
Walkways/Paths	25 to 30 years
Machinery and Equipment	3 to 10 years

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Capital Assets, continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

E. Property Taxes

The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent (1%) of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than two percent (2%) per year unless the property is sold, transferred, or improved. The State Legislature has determined the method of distribution of receipts from a one percent (1%) tax levy among the counties, cities, school districts, and other districts.

San Mateo County assesses, bills for, and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien dates	March 1	March 1
Levy dates	July 1	July 1
Due dates	50% on November 1 and 50% on March 1	July 1
Delinquent as of	December 10 (for November) and April 10 (for March)	August 31

The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue when received in the fiscal year of levy because of the adoption of the “alternate method of property tax distribution,” known as the Teeter Plan, by the District and the County of San Mateo (County). The Teeter Plan authorizes the Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid. The County remits tax monies to the District in three installments, as follows:

- 55% remitted on December 15
- 40% remitted on April 15
- 5% remitted on June 15

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Accrued Vacation and Sick Leave

The liability for vested vacation (PTO) is recorded as an expense when the hours are earned. When PTO is used it offsets the PTO liability account. Unused balances of PTO are carried over from year to year but cannot exceed 480 hours. District employees sick leave accrues from year to year with no cap. Employees can use their sick leave upon the approval of a physicians note or documented FMLA supporting information.

G. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

H. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

2. CASH AND INVESTMENTS

A. Composition

The District's cash and temporary investments are carried at market, and include:

	June 30, 2015			June 30, 2014
	FDIC insured	Not rated	Fair Value	
Cash in bank	\$ 250,000	\$ 897,465	\$ 1,147,465	\$ 735,647
Petty cash	-	2,300	2,300	2,300
Local Agency Investment Fund (LAIF)	-	6,902	6,902	6,885
San Mateo County Treasury	-	16,444,329	16,444,329	13,235,448
Total	<u>\$ 250,000</u>	<u>\$ 17,350,996</u>	<u>\$ 17,600,996</u>	<u>\$ 13,980,280</u>
Financial Statement presentation:				
Cash and investments			\$ 15,810,502	\$ 12,204,651
Restricted cash and investments			<u>1,790,494</u>	<u>1,775,629</u>
Total			<u>\$ 17,600,996</u>	<u>\$ 13,980,280</u>

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

A. Composition, Continued

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District's name and places the District ahead of general creditors of the institution pledging the collateral. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Authorized Investments

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded.

The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio
California Local Agency Investment Fund	N/A	None
U.S. Treasury Obligations	5 years	None
Negotiable Certificates of Deposit	1 year	30%

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

C. Fair Value of Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method, which includes any adjustments in interest/investment income.

D. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures, or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
State and Local Agency Bonds	5 years	A
U.S. Treasury Obligations	5 years	Aaa
U.S. Agency Securities	5 years	Aaa
Bankers' Acceptances	180 days	A-1
Commercial Paper	270 days	A-1+
Money Market Funds	N/A	Aam
Non-negotiable Certificates of Deposit	1 year	AAA
Repurchase Agreements	30 days	A
Medium Term Notes	5 years	AA
Negotiable Certificates of Deposit	5 years	AA
California Local Agency Investment Fund	N/A	None
San Francisco Public Utilities Commission (SFPUC)	N/A	None
San Mateo County Treasury	N/A	None

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

E. Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015, these investments matured in an average of 239 days.

The District invests in the San Mateo County Treasury (County), which sponsors an investment pool to invest funds of the County and external public entities, such as the District. The County's pool activity is governed by California Government Code Sections 27000.1 and 53607 as well as the County's Investment Policy, which delegate the County Treasurer to invest in securities issued by the United States, certain corporate bonds and notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, the State of California Local Agency Investment Fund, and securities lending transactions. Participants' equity in the County's investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Interest payments, accrued interest, accreted discounts, amortized premiums, and realized capital gains and losses, net of administrative fees, are apportioned to pool participants every quarter.

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. The District's only investments are in the California Local Agency Investment Fund and San Mateo County Treasury which are not rated at June 30, 2015.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation for the years ended June 30, 2014, and 2015, were as follows:

	Balance July 1, 2014	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2015
Capital Assets					
Nondepreciable:					
Land	\$ 13,108,381	\$ -	\$ (27,361)	\$ -	\$ 13,081,020
Construction in progress	790,124	233,882	(209,019)	(25,245)	789,742
Total nondepreciable assets	<u>13,898,505</u>	<u>233,882</u>	<u>(236,380)</u>	<u>(25,245)</u>	<u>13,870,762</u>
Depreciable:					
Autos and trucks	126,092	-	-	-	126,092
Boats and radar	572,944	-	-	-	572,944
Signs	74,519	-	-	-	74,519
Breakwater	20,482,765	-	-	-	20,482,765
Utilities	212,405	-	(38,957)	223,348	396,796
Channels	4,893,160	-	(27,397)	-	4,865,763
Launch Ramps	4,030,623	-	-	-	4,030,623
Piers	7,709,427	-	-	-	7,709,427
Bulkheads	747,397	-	-	-	747,397
Buildings and improvements	8,773,840	-	(35,134)	(67,267)	8,671,439
Docks	8,389,670	-	-	(156,081)	8,233,589
Parking Lots	3,221,069	-	(38,164)	-	3,182,905
Walkways/Paths	1,096,199	-	(4,873)	-	1,091,326
Machinery and Equipment	333,247	25,245	(46,652)	-	311,840
Total depreciable assets	<u>60,663,357</u>	<u>25,245</u>	<u>(191,177)</u>	<u>-</u>	<u>60,497,425</u>
Less: accumulated depreciation	<u>(29,148,332)</u>	<u>(1,665,110)</u>	<u>166,569</u>	<u>-</u>	<u>(30,646,873)</u>
Total depreciable assets (net)	<u>31,515,025</u>	<u>(1,639,865)</u>	<u>(24,608)</u>	<u>-</u>	<u>29,850,552</u>
Total capital assets	<u>\$ 45,413,530</u>	<u>\$ (1,405,983)</u>	<u>\$ (260,988)</u>	<u>\$ (25,245)</u>	<u>\$ 43,721,314</u>

Beginning values reflect amounts as valued on a consolidated basis. The total valuation amounts are presented in representative categories and have been redistributed to reflect balances at June 30, 2015.

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2014	Retirements	Balance June 30, 2015	Due Within One Year
California Department of Boating and Waterways, 4.5%, due 12/31/19	\$ 19,777,000	\$ 5,933,269	\$ -	\$ 5,933,269	\$ 979,573
Total long-term debt	<u>\$ 19,777,000</u>	5,933,269	<u>\$ -</u>	5,933,269	<u>\$ 979,573</u>
Amount due within one year		-		(979,573)	
Total Long-term due after one year		<u>\$ 5,933,269</u>		<u>\$ 4,953,696</u>	

	Original Issue Amount	Balance July 1, 2013	Retirements	Balance June 30, 2014	Due Within One Year
California Department of Boating and Waterways, 4.5%, due 12/31/19	\$ 19,777,000	\$ 8,180,926	\$ (2,247,657)	\$ 5,933,269	\$ -
Total long-term debt	<u>\$ 19,777,000</u>	8,180,926	<u>\$ (2,247,657)</u>	5,933,269	<u>\$ -</u>
Amount due within one year		(1,017,263)		-	
Total Long-term due after one year		<u>\$ 7,163,663</u>		<u>\$ 5,933,269</u>	

B. California Division of Boating and Waterways

The District has thirteen loans outstanding from the California Division of Boating and Waterways (Division) for construction projects at Oyster Point Marina/Park and at Pillar Point Harbor. The interest rate for all fifteen loans was adjusted to 4.50 percent as of January 1, 1993. The total original loans and debt obligation of the District amounted to \$19,473,934.

On May 14, 1997 the District received a three-year loan deferral from the Division. There were no principal or interest payments due for three years. At the end of the deferral period, the loans and deferred interests were re-amortized over the remaining life of the loans.

On July 18, 2001, the District executed an "Approval of Concept" agreement with the Division in order to receive another live-year moratorium on the principal portions of the debt service payments for the years 2002 through 2005. The District made interest only payments from 2001 through 2005. Beginning 2006, the District made principal and interest payments on the outstanding loan balance.

Effective October 12, 2004 the District entered into a Consolidated Loan Agreement consolidating the seventeen previous separate loans into one loan with the Division. The collateral to secure payment of the consolidated loan, and any future loans, is all property tax revenues received by the District and a restricted account with the San Mateo County Treasury having a beginning balance of \$1,500,000.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

The restricted cash is reported as a current asset and the current balance includes portfolio income earned. In addition, the District has assigned the rents and leases from Pillar and Oyster Point harbors to the Division to secure performance of the tenants leasing berths in the event of default on the consolidated loan agreement by the District.

On June 24, 2009 the District entered into an agreement with the Water Emergency Transit Authority (WETA) and the City of South San Francisco to build a commuter ferry terminal at Oyster Point Marina. The construction of the ferry terminal required the removal of 134 of the 589 berths at Oyster Point Marina. In return for the loss of the physical docks and future revenue stream of those docks, WETA agreed to pay \$3.66 million to the District to pay down the loan with the Division. Accordingly, the loan with the Division was re-amortized on December 31, 2008.

On June 2, 2014, the District revised their payment schedule and made a onetime early payment. The District did not make a payment in fiscal year 2014-15 as a result of the early payment.

C. Repayment Schedule

Future annual repayment requirements as of June 30, 2015 are as follows:

Year Ending June 30,	California Department of Boating and Waterways	
	Principal	Interest
2016	979,573	413,520
2017	1,165,522	227,572
2018	1,219,066	174,028
2019	1,275,069	118,024
2020	1,294,039	59,448
Total	<u>\$ 5,933,269</u>	<u>\$ 992,592</u>
Due within one year	\$ 979,573	\$ 413,520
Due after one year	4,953,696	579,072
Total	<u>\$ 5,933,269</u>	<u>\$ 992,592</u>

5. NET POSITION

Net Position is restricted for debt service for the California Division of Boating and Waterways in the amount of \$1,790,494.

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, Continued

6. INSURANCE

The District purchases commercially available insurance with the following maximum coverage:

Program	Deductible
Auto	\$1,000,000
General Liability	\$1,000,000 to \$2,000,000
Docks and Piers	\$21,900,000
Building	\$3,362,122
Workers' compensation	\$1,000,000
Employers' liability	\$2,000,000
Commercial Umbrella - Excess	\$10,000,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years.

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

General Information about the Pension Plans

Plan Descriptions - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous and Miscellaneous PEPRA Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 with five years of total service are eligible to retire at age 50 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 each plan are applied as specified by the Public Employees' Retirement Law.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), CONTINUED

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>
	Prior to
	January 1, 2013
Hire date	2.5% @ 55
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	50 - 55
Retirement age	
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%
Required employee contribution rates	8%
Required employer contribution rates	20.66%
	<u>PEPRA Miscellaneous</u>
	On or after
	January 1, 2013
Hire date	2% @ 62
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	52 - 67
Retirement age	
Monthly benefits, as a % of eligible compensation	1.0% to 2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	6.25%

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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$ 426,077
Contributions - employee (paid employer)	129,884

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), CONTINUED

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 3,016,578
PEPRA Miscellaneous	-
Total Net Pension Liability	<u>\$ 3,016,578</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>PEPRA - Miscellaneous</u>
Proportion - June 30, 2013	N/A	N/A
Proportion - June 30, 2014	0.04848%	0.00000%
Change - Increase (Decrease)	N/A	N/A

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), CONTINUED

For the year ended June 30, 2015, the District recognized pension expense of \$226,734. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Pension contributions subsequent to measurement date	\$ 555,961	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of the contributions	47,515	-
Net differences between projected and actual earnings on plan investments	-	768,802
Total	<u>603,476</u>	<u>\$ 768,802</u>

\$555,961 reported as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in 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 Ended 30-Jun	
2016	\$ (401,160)
2017	202,316
2018	202,316
2019	161,854
2020	-
Thereafter	-

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), CONTINUED

Actuarial Assumptions -The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	30-Jun-13
Measurement	30-Jun-14
Actuarial Cost Method	Entry -Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	Varies by Entry Age and Service
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	XXX

- (1) Depending on age, service, and type of employment
- (2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate -The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), CONTINUED

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

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

(b) An expected inflation of 3.0% used for this period.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), CONTINUED

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 each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease Net Pension Liability	6.50% \$ 4,901,602
Current Discount Rate Net Pension Liability	7.50% \$ 3,016,578
1% Increase Net Pension Liability	8.50% \$ 1,452,187

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

Payable to the Pension Plan

At June 30, 2015, the District reported a payable of \$21,198 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

9. TERMINATION BENEFITS

A. Plan Description

Employees hired prior to July 1, 2009 that were employed with the District after January 1, 1981, are entitled to continue to receive health, dental, life insurance and vision benefits upon leaving District employment if they were not terminated for good cause and had a minimum of twelve years of service to the District at time of termination. These benefits may only be collected for a period of time that is equal to half of the time the employee was employed with the District. The current balance in termination benefits payable as of June 30, 2015 is \$3,594,992.

10. COMMITMENTS AND CONTINGENCIES

The District is subject to general risk and exposure due to normal operations in the course of business. These risks involve various claims against the District, both asserted and unasserted, all of which management considers to be immaterial to these financial statements.

San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, Continued

11. SUBSEQUENT EVENTS

The District paid off the remaining balance on the loan balance to the California Division of Boating and Waterways. The loan payoff amount was \$5,017,663.58, which included the remaining principal amount and the accrued interest up to the day of the payoff.

REQUIRED SUPPLEMENTARY INFORMATION

San Mateo County Harbor District
Required Supplementary Information - Schedule of Contributions
 Miscellaneous Plan
 Last 10 Fiscal Years*

	<u>2014</u>
Contractually required contribution (actuarially determined)	\$ 376,892
Contributions in relation to the actuarially determined contributions	<u>(376,892)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 2,000,338
Contribution as a percentage of covered-employee payroll	18.84%

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* - Fiscal year 2015 was the first year of implementation, therefore only the first year was available.

San Mateo County Harbor District
Required Supplementary Information - Schedule of the District's Proportionate
Share of the Net Pension Liability

Miscellaneous Plan
 Last 10 Fiscal Years*

	2014
Plan's Proportion of the Net Pension Liability/(Asset)	0.04848%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,016,578
Plan's Covered-Employee Payroll	\$ 2,000,338
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	150.80%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	78.77%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 302,665

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* - Fiscal year 2015 was the first year of implementation, therefore only the first year was available.

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ADDITIONAL INFORMATION

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Harbor Commissioners
For the year ended June 30, 2015

(with comparative totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
OPERATING EXPENSES:		
Advertising and promotion	7,066	19,546
Contractual services	322,416	155,556
Dues and subscriptions	-	433
Insurance	14,398	14,456
Office expense	3,269	1,328
Postage	21	17
Salaries and benefits	103,786	103,970
Training, seminars and professional development	5,838	3,934
Travel, conferences and meetings	8,699	5,498
Elections	513,378	188,487
Total operating expenses	<u>978,871</u>	<u>493,225</u>
Operating income (loss)	<u>(978,871)</u>	<u>(493,225)</u>
NONOPERATING REVENUES (EXPENSES):		
Termination benefits	(8,530)	25,050
Shared revenues	987,401	468,175
Total nonoperating revenues (expenses)	<u>978,871</u>	<u>493,225</u>
Income before contributions	<u>-</u>	<u>-</u>
Net Income (Loss)	-	-
CHANGE IN NET POSITION:		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Administration
For the year ended June 30, 2015

(with comparative totals for the year ended June 30, 2014)

	2015	2014
OPERATING EXPENSES:		
Advertising and promotion	568	1,899
Auto expenses	1,562	1,048
Bank charges	596	560
Contractual services	213,506	141,498
Dues and subscriptions	17,280	12,976
Insurance	13,754	605
Office expense	16,052	12,978
Personnel expenses	40,893	1,521
Postage	1,890	2,853
Rent	97,392	98,106
Repairs and maintenance	1,931	6,039
Salaries and benefits	920,393	897,164
Telephone and communications	10,770	10,321
Training, seminars and professional development	1,471	1,536
Travel, conferences and meetings	3,249	1,749
Depreciation and amortization	299	14,571
Total operating expenses	1,341,606	1,205,424
Operating income (loss)	(1,341,606)	(1,205,424)
NONOPERATING REVENUES (EXPENSES):		
Capital grants	34,739	-
Investment earnings	99,749	75,043
Reimbursements	1,756	1,136
Property taxes	5,653,906	5,266,831
County administrative fees	(46,437)	(45,131)
Gain (loss) on disposition of capital assets	18,924	95,049
Termination benefits	(54,547)	(1,061)
Shared revenues	(3,329,521)	862,576
LAFCO fees	(6,182)	(5,516)
Total nonoperating revenues (expenses)	2,372,387	6,248,927
Net Income	1,030,781	5,043,503
CHANGE IN NET POSITION:		
Beginning of year	46,425,616	41,382,113
End of year	\$ 47,456,397	\$ 46,425,616

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Pillar Point Harbor
For the year ended June 30, 2015

(with comparative totals for the year ended June 30, 2014)

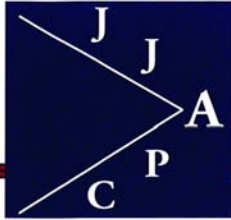
	2015	2014
OPERATING REVENUES:		
Berth rental	\$ 1,648,279	\$ 1,558,965
Launching fees	100,589	88,325
Mooring fees	37,541	42,346
Recreational vehicles	58,005	37,311
Rents and concessions	471,529	457,280
Transient berths and dockage	81,022	85,796
Other operating revenues	76,465	110,805
Total operating revenues	2,473,430	2,380,828
OPERATING EXPENSES:		
Advertising and promotion	6,865	10,076
Auto expenses	401	256
Bad debts (recoveries)	10,903	20,944
Bank charges	20,863	17,519
Contractual services	239,242	168,864
Dues and subscriptions	262	138
Insurance	123,565	112,167
Office expense	8,776	19,389
Personnel expenses	114	80
Postage	3,979	3,091
Rent	14,867	3,828
Repairs and maintenance	346,805	-
Operating expenses	66,218	225,929
Salaries and benefits	1,579,281	1,525,379
Sewer fees	46,687	44,129
Telephone and communications	27,599	25,140
Training, seminars and professional development	6,045	538
Travel, conferences and meetings	730	681
Uniforms	8,665	9,721
Utilities	287,286	276,766
Vessel destruction	62,198	6,573
Depreciation and amortization	601,962	821,391
Total operating expenses	3,463,313	3,292,599
Operating income (loss)	(989,883)	(911,771)
NONOPERATING REVENUES (EXPENSES):		
Reimbursements	17,733	3,736
Gain (loss) on disposition of capital assets	766,647	-
Termination benefits	(343,328)	(218,844)
Shared revenues	688,496	1,297,291
Interest expense	(139,665)	(170,412)
Total nonoperating revenues (expenses)	989,883	911,771
Net Income	-	-
CHANGE IN NET POSITION:		
Beginning of year	-	-
End of year	\$ -	\$ -

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Oyster Point Marina
For the year ended June 30, 2015

(with comparative totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Berth rental	\$ 1,070,604	\$ 1,147,867
Dock box fees	6,450	6,380
Launching fees	22,607	21,748
Rents and concessions	311,308	371,029
Transient berths and dockage	79,855	41,879
Other operating revenues	16,806	27,337
Total operating revenues	<u>1,507,630</u>	<u>1,616,240</u>
OPERATING EXPENSES:		
Advertising and promotion	5,383	5,116
Auto expenses	262	117
Bad debts	32,133	49,259
Bank charges	15,433	12,289
Contractual services	211,049	185,467
Dues and subscriptions	183	138
Insurance	123,565	112,167
Office expense	5,093	13,317
Personnel expenses	242	80
Postage	2,903	3,053
Equipment rental	2,558	3,828
Repairs and maintenance	54,701	43,686
Operating expenses	30,550	38,638
Salaries and benefits	1,068,085	1,100,496
Telephone and communications	18,267	14,452
Training, seminars and professional development	4,605	1,790
Travel, conferences and meetings	444	495
Uniforms	7,246	6,748
Utilities	108,492	109,142
Vessel destruction	85,530	24,120
Depreciation and amortization	1,062,849	1,449,319
Total operating expenses	<u>2,839,573</u>	<u>3,173,717</u>
Operating income (loss)	<u>(1,331,943)</u>	<u>(1,557,477)</u>
NONOPERATING REVENUES (EXPENSES):		
Capital grants	26,598	271,420
Reimbursements	170	-
Termination benefits	(215,540)	(29,891)
Shared revenues	1,653,624	(2,628,042)
Interest expense	(132,909)	(180,204)
Total nonoperating revenues (expenses)	<u>1,331,943</u>	<u>(2,566,717)</u>
Income before contributions	<u>-</u>	<u>(4,124,194)</u>
Capital contributions:		
Federal contributions	-	2,124,194
City of South San Francisco contributions	-	2,000,000
Total capital contributions	<u>-</u>	<u>4,124,194</u>
Net Income	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION:		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>

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JJACPA, Inc.

A Professional Accounting Services Corp.

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 of the
San Mateo County Harbor District
South San Francisco, California

We have audited, in accordance with the auditing standard 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 San Mateo County Harbor District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 19, 2016.

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 internal control 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that

have not been identified. We did identify certain deficiencies in internal control, described in the separate schedule of findings and responses that we consider to be significant deficiencies, Finding 2015-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

May 19, 2016

JJACPA, Inc.

**JJACPA, Inc.
Dublin, CA**