

SAN MATEO COUNTY HARBOR DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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**SAN MATEO COUNTY HARBOR DISTRICT
 BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2017 and 2016**

TABLE OF CONTENTS

INTRODUCTORY SECTION:

Table of Contents i

Elected Officials and Administrative Personnel ii

FINANCIAL SECTION:

Independent Auditor's Report 1

Management's Discussion and Analysis 5

Basic Financial Statements:

Statements of Net Position 14

Statements of Revenues, Expenses, and Changes in Net Position 15

Statements of Cash Flows 16

Notes to Basic Financial Statements 17

Required Supplementary Information:

Schedule of Plan's Proportionate Share of the Net Pension Liability and
 Related Ratios as of the Measurement Date 34

Schedule of Contributions 35

Supplemental Information:

Statement of Revenues, Expenses, and Changes in Net Position
 Administration 39

Statement of Revenues, Expenses, and Changes in Net Position
 Pillar Point Harbor 40

Statement of Revenues, Expenses, and Changes in Net Position
 Oyster Point Marina 42

***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*** 45

BOARD OF COMMISSIONERS

Tom Mattusch - President
Virginia Chang Kiraly - Vice President
Robert Bernardo - Secretary
Edmundo Larenas - Treasurer
Sabrina Brennan - Commissioner

MANAGEMENT

Steve McGrath - General Manager

Prepared by the
Finance Department

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
San Mateo County Harbor District
El Granada, 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 years ended June 30, 2017 and June 30, 2016, 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 the 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. 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the of the District as of June 30, 2017 and 2016, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statement No. 82 – Pension Issues – an amendment of GASB Statements No. 67, no. 68 and No. 73, which became effective during the year ended June 30, 2017 as noted in the Pension-Related Required Supplementary Information. There was no material effect on the financial statements.

The emphasis of this matter does not constitute modifications to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and other required supplementary information as listed in the Table of Contents 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 District’s basic financial statements. The Introductory Section and Supplemental Information Section, listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information 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 April 20, 2018, 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.

Maze + Associates

Pleasant Hill, California
April 20, 2018

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San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2017

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, 2017. 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 14-16) and the footnotes (pages 17- 32).

Financial Highlights

At June 30, 2017, the District's Net Position increased \$2,275,701 to \$37,842,018 from \$35,566,317 in 2016. The District continues to remain in a strong financial position as of June 30, 2017. The increase in Net Position is mainly due to the increase in cash inflows that occurred during the year. The amount of combined cash inflows from Property Taxes and Harbor Operations outweighed the cash outflows during the year.

The District's income before contributions increased \$392,650 (20%) from 2016 with total income before contributions of \$2,275,701 in 2017 compared to \$1,883,051 in 2016 mainly due to a decrease in non-operating expenses.

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, 2017

Management's Discussion and Analysis

Financial Analysis of the District as a Whole

	Net Position		Increase (Decrease)	Percent Change
	As of June 30, 2017 and 2016			
	2017	2016		
Assets and Deferred Outflows of Resources:				
Current assets	\$ 17,775,391	\$ 15,012,514	\$ 2,762,877	18.4%
Non-current assets	31,191,191	31,623,251	(432,060)	(1.4)%
Deferred Outflows of Resources	1,632,913	1,083,588	549,325	50.7%
Total assets and deferred outflows of resources	<u>50,599,495</u>	<u>47,719,353</u>	<u>2,880,142</u>	<u>6.0%</u>
Liabilities and Deferred Inflows of Resources:				
Current liabilities	1,080,329	952,869	127,460	13.4%
Non-current liabilities	11,453,756	10,812,284	641,472	5.9%
Deferred Inflows of Resources	223,392	387,883	(164,491)	(42.4)%
Total liabilities and deferred inflows of resources	<u>12,757,477</u>	<u>12,153,036</u>	<u>604,441</u>	<u>5.0%</u>
Net position:				
Net investment in capital assets	31,191,191	31,623,251	(432,060)	(1.4)%
Restricted/Unrestricted net position:				
Unrestricted	6,650,827	3,943,066	2,707,761	68.7%
Total net position	<u>\$ 37,842,018</u>	<u>\$ 35,566,317</u>	<u>\$ 2,275,701</u>	<u>6.4%</u>

This schedule is prepared from the District's Statement of Net Position (page 14), 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 is 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, 2017

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, 2017 and 2016			
	2017	2016	Increase (Decrease)	Percent Change
Operating revenues	\$ 4,304,421	\$ 4,162,604	\$ 141,817	3.4%
Non-operating revenues	6,696,814	6,560,326	136,488	2.1%
Total Revenues	11,001,235	10,722,930	278,305	2.6%
Operating expenses	8,802,591	7,423,192	1,379,399	18.6%
Non-operating expenses	(77,057)	1,416,687	(1,493,744)	(105.4)%
Total Expenses	8,725,534	8,839,879	(114,345)	(1.3)%
Net income before contributions	2,275,701	1,883,051	392,650	20.9%
Capital Contributions	-	-	-	-
Change in net position	2,275,701	1,883,051	392,650	20.9%
Net position:				
Beginning of year	35,566,317	43,945,266	(8,378,949)	(19.1)%
Adjustment	-	(10,262,000)	10,262,000	(100.0)%
Beginning of year, as restated	35,566,317	33,683,266	1,883,051	5.6%
End of year	<u>\$ 37,842,018</u>	<u>\$ 35,566,317</u>	<u>\$ 2,275,701</u>	<u>6.4%</u>

While the Statement of Net Position shows the change in our Net Position, the operating results are reflected in the Statement of Revenues, Expenses, and Changes in Net Position (page 15). This statement provides answers to the nature and source of the change in our Net Position. The decrease in non-operating expenses in FY 2016-17 is primarily due to the restatement (capital asset adjustment) that occurred in FY 2015-16. The District's Operating Expenses increased due to the Election cost, increases in Legal Fees, and increases in Salaries and Benefits during the year.

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2017**

Management’s Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

Net Position increased by \$2,275,701 as detailed below:

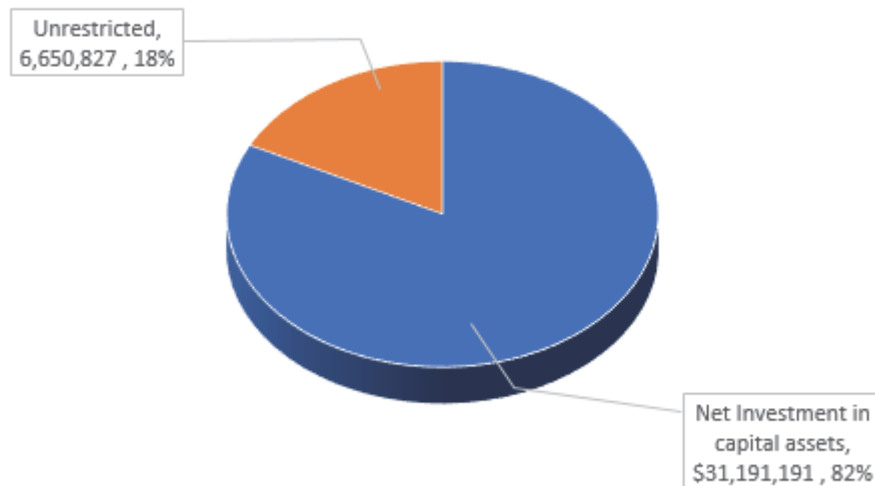
**Analysis of Net Position
As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net position:				
Net Investment in capital assets	\$ 31,191,191	\$ 31,623,251	\$ (432,060)	(1.4)%
Restricted				
Unrestricted	<u>6,650,827</u>	<u>3,943,066</u>	<u>2,707,761</u>	<u>68.7%</u>
Total	<u>\$ 37,842,018</u>	<u>\$ 35,566,317</u>	<u>\$ 2,275,701</u>	<u>6.4%</u>

The change in Net Position is primarily due to increased cash flows that occurred throughout the year. Cash inflows collected from Property Taxes and Harbor Operations outweighed the total cash outflows during the year.

The following is a graphic illustration of Net Position:

Analysis of \$37,842,018 in Net Position



San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

Revenue Source	FY 2016-2017		FY 2015-2016		Increase/ (Decrease)	Percentage Increase/ (Decrease)
	Total	Percentage of Total Revenue	Total	Percentage of Total Revenue		
Berth rental/slip fees (berth rental, mooring fees, transient berths and dockage)	\$ 3,206,453	29.1%	\$ 3,118,852	32.0%	\$ 87,601	2.8%
Rents and concessions	737,383	6.7%	752,606	7.7%	(15,223)	(2.0)%
Launching fees	96,086	0.9%	106,722	1.1%	(10,636)	(10.0)%
Events and permits	55,507	0.5%	35,740	0.4%	19,767	55.3%
Other operating (dock box, RV, other)	259,368	2.4%	325,471	3.3%	(66,103)	(20.3)%
Property tax	6,415,569	58.3%	6,014,913	61.7%	400,656	6.7%
Gain (loss) on disposition of assets	4,240	0.0%	(972,071)	(10.0)%	976,311	(100.4)%
Investment earnings	137,914	1.3%	123,968	1.3%	13,946	11.2%
Capital Grants	92,955	0.8%	244,658	2.5%	(151,703)	(62.0)%
Totals	\$ 11,005,475	100.0%	\$ 9,750,859	100.0%	\$ 1,254,616	12.9%

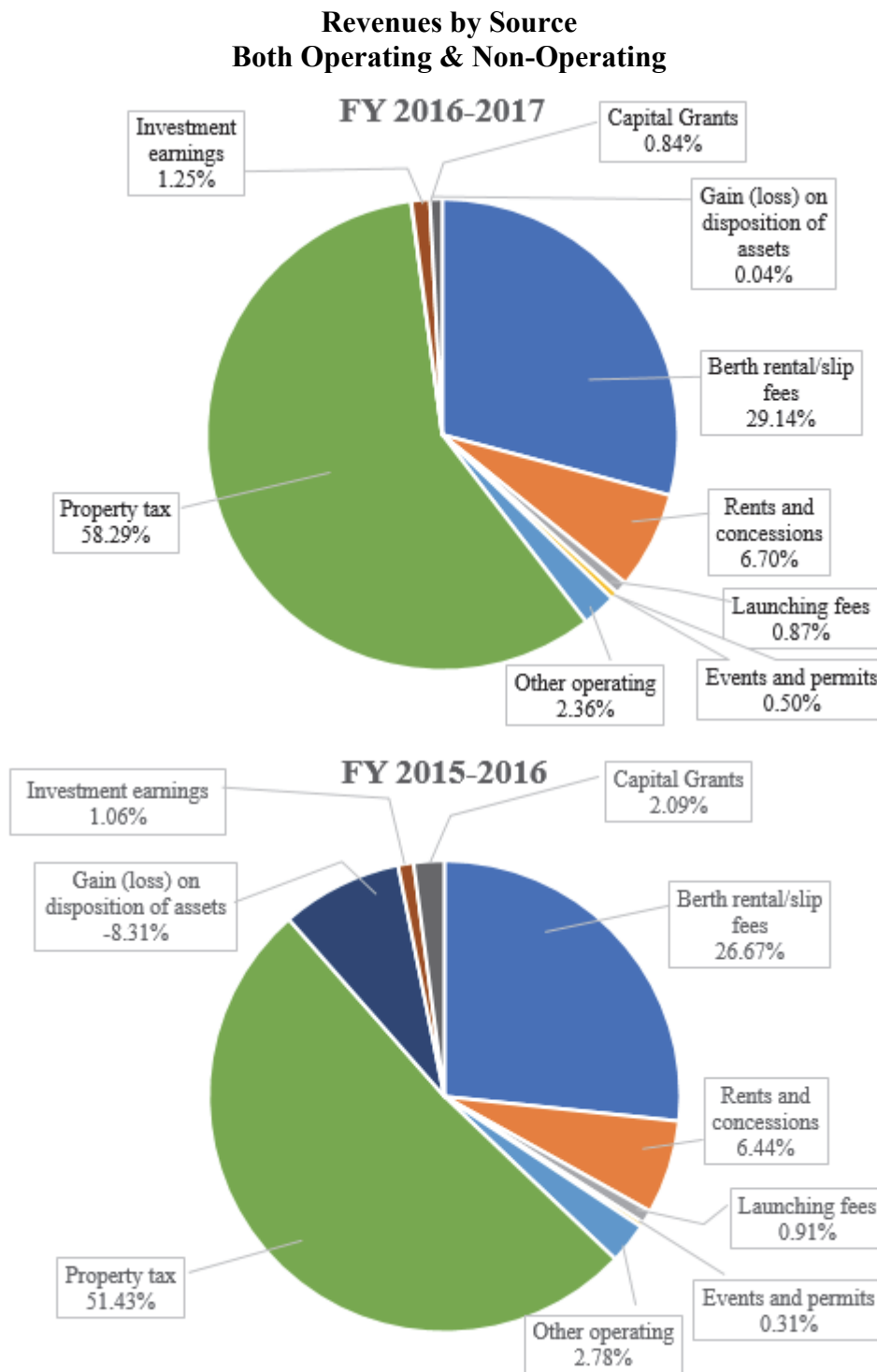
Revenues from the District's harbor activities increased due to a slight increase in berth and transient rentals. Most other revenue streams did not change much year over year. The District saw an overall increases in property tax revenue from San Mateo County due to rising property values. The large increase in Gain (loss) on disposition of assets in the chart above is primarily due to the restatement (capital asset adjustment) that was made in FY 2015-16 which resulted in a loss. There were no sales of capital assets in FY 2016-17. Grant revenue decreased in FY 2016-17 compared to the previous year because the District did not receive certain state mandated cost grant revenue as it did in FY2015-16.

**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2017**

Management's Discussion and Analysis

Financial Analysis of the District as a Whole, Continued

The following is a graphic illustration of revenues by source:



**San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2017**

Management’s Discussion and Analysis

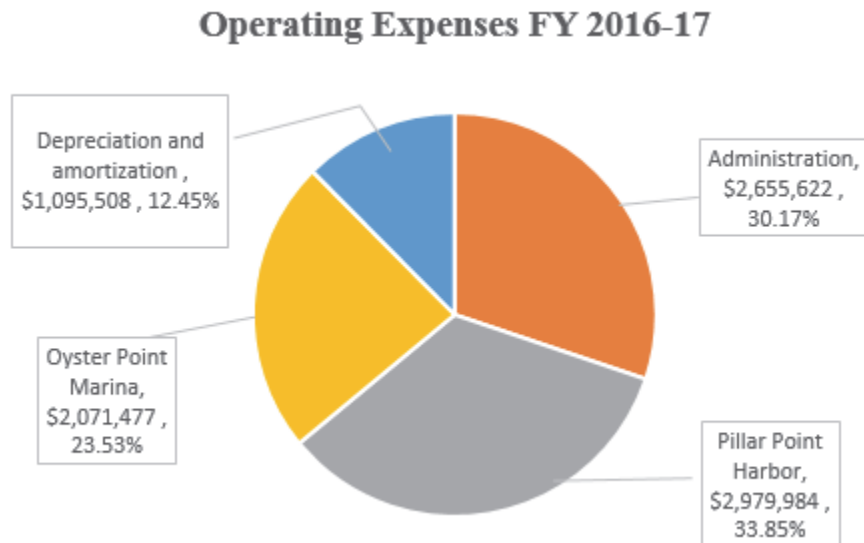
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$1,379,399 as detailed below:

Operating Expenses				
For the years ended June 30, 2017 and 2016				
	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating expenses:				
Administration	\$ 2,655,622	\$ 2,086,350	\$ 569,272	27.3%
Pillar Point Harbor	2,979,984	2,514,261	465,723	18.5%
Oyster Point Marina	2,071,477	1,708,077	363,400	21.3%
Depreciation and amortization	<u>1,095,508</u>	<u>1,114,504</u>	<u>(18,996)</u>	<u>(1.7)%</u>
Total	<u><u>\$ 8,802,591</u></u>	<u><u>\$ 7,423,192</u></u>	<u><u>\$ 1,379,399</u></u>	<u><u>18.6%</u></u>

Administration operating expenses increased in FY2016-17 mostly due to the District’s consolidation with the San Mateo County election. District-wide, legal services increased due to increased legal activity. Pillar Point Harbor salaries & benefits increased due to salary increases and the hiring of two additional operations staff. Oyster Point Marina increased in repairs and maintenance due to repaving of parking lots, and salaries and benefits increased due to salary increases and the hiring of two additional operations staff.

The following is a graphic illustration of 2016-17 operating expenses:



San Mateo County Harbor District
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis

Cash Flows

Cash flows have increased \$2,852,083 which is mainly the result of inflows from non-capital financing activities exceeding cash outflows from operating and investing activities. As the District continues to plan but not implement necessary capital maintenance on the harbors, cash flows will continue to increase in the near term. There are no financing activities in FY 2016-17 due to the District paying off all its long-term debt in April 2016.

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 front 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 revenues are dependent on several factors including the strength of the fishing season and the strength of tourism. 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. The District will experience a decrease in lease revenue at Oyster Point Marina beginning in September 2017, due to the pending development and lease terminations between the District and the City of South San Francisco. This decrease is reflected in the 2017/18 adopted budget. On execution of the 2011 MOU between both parties, the City paid the District \$2.6 million in anticipation of the lost revenue, and those funds were used to improve the facilities. Since the District decided to pay off the outstanding long-term debt, it has freed up nearly \$1.4 million per year in cash 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

Steve McGrath, General Manager

BASIC FINANCIAL STATEMENTS

SAN MATEO COUNTY HARBOR DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and investments (Note 2)	\$ 17,447,445	\$ 14,595,362
Accounts receivables:		
Customers	131,288	202,504
Interest	43,484	29,743
Other	55,000	71
Prepaid expenses and deposits	98,174	184,834
Total current assets	17,775,391	15,012,514
NON-CURRENT ASSETS		
Capital assets (Note 3):		
Land	13,081,020	13,081,020
Construction in progress	712,419	83,971
Depreciable assets	44,813,320	44,799,581
Less accumulated depreciation	(27,415,568)	(26,341,321)
Total non-current assets	31,191,191	31,623,251
TOTAL ASSETS	48,966,582	46,635,765
DEFERRED OUTFLOWS OF RESOURCES		
Pension related (Note 7)	1,632,913	1,083,588
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 50,599,495	\$ 47,719,353
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 430,464	\$ 290,711
Accrued payroll	51,452	47,314
Customer deposit	335,672	295,677
Unearned revenue (Note 4)	262,741	319,167
Total current liabilities	1,080,329	952,869
NON-CURRENT LIABILITIES		
Unearned revenue (Note 4)	3,061,091	3,127,636
Compensated absences	250,467	216,971
Termination benefits payable (Note 8)	3,644,385	3,776,869
Net pension liability (Note 7)	4,497,813	3,690,808
Total non-current liabilities	11,453,756	10,812,284
TOTAL LIABILITIES	12,534,085	11,765,153
DEFERRED INFLOWS OF RESOURCES		
Pension related (Note 7)	223,392	387,883
NET POSITION (Note 5)		
Net investment in capital assets	31,191,191	31,623,251
Unrestricted	6,650,827	3,943,066
TOTAL NET POSITION	37,842,018	35,566,317
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 50,599,495	\$ 47,719,353

See accompanying notes to financial statements

SAN MATEO COUNTY HARBOR DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Berth Rental	\$ 3,206,453	\$ 3,118,852
Launching fees	96,086	106,722
Recreational vehicles	104,970	76,406
Rents and concessions	737,383	752,606
Events and permits	55,507	35,740
Other operating revenues	<u>104,022</u>	<u>72,278</u>
Total operating revenues	<u>4,304,421</u>	<u>4,162,604</u>
OPERATING EXPENSES		
Administration	2,655,622	2,086,350
Pillar Point Harbor	2,979,984	2,514,261
Oyster Point Marina	2,071,477	1,708,077
Depreciation and amortization	<u>1,095,508</u>	<u>1,114,504</u>
Total operating expenses	<u>8,802,591</u>	<u>7,423,192</u>
Operating income (loss)	<u>(4,498,170)</u>	<u>(3,260,588)</u>
NONOPERATING REVENUES (EXPENSES)		
Capital grants	92,955	244,658
Investment earnings	137,914	123,968
Property taxes	6,415,569	6,014,913
Gain (loss) on disposition of capital assets	4,240	(972,071)
Termination benefits	132,484	(181,877)
Interest expense	-	(205,049)
Payments to other agencies	(59,667)	(57,690)
Miscellaneous revenue	<u>50,376</u>	<u>176,787</u>
Total nonoperating revenues (expenses)	<u>6,773,871</u>	<u>5,143,639</u>
CHANGES IN NET POSITION	<u>2,275,701</u>	<u>1,883,051</u>
NET POSITION, BEGINNING OF YEAR	35,566,317	33,683,266
NET POSITION, END OF YEAR	<u>\$ 37,842,018</u>	<u>\$ 35,566,317</u>

See accompanying notes to financial statements

**SAN MATEO COUNTY HARBOR DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,306,967	\$ 4,266,810
Payments to suppliers	(3,430,579)	(3,292,638)
Payments to or on behalf of employees	(4,002,244)	(3,466,191)
Other receipts and payments	50,376	-
Net cash provided (used) by operating activities	(3,075,480)	(2,492,019)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	6,415,569	5,965,526
Receipts from capital grants	92,955	244,658
Payments to other agencies	(59,667)	(4,487)
Net cash provided (used) by noncapital financing activities	6,448,857	6,205,697
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	-	(5,933,269)
Interest payments on long-term debt	-	(205,049)
Acquisitions and construction on capital assets	(663,448)	(250,504)
Proceeds from the sale of assets	4,240	(454,458)
Net cash provided (used) by capital and related financing activities	(659,208)	(6,843,280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	137,914	123,968
Net cash provided (used) in investing activities	137,914	123,968
Net increase (decrease) in cash and cash equivalents	2,852,083	(3,005,634)
CASH AND INVESTMENTS:		
Beginning of year	14,595,362	17,600,996
End of year	17,447,445	14,595,362
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$4,498,170)	(\$3,087,617)
Nonoperating income (loss), other than those from financing, capital related, or investing activities	182,860	-
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,095,508	1,114,504
Change in assets, liabilities, deferred outflows of resources and deferred inflows of resources:		
(Increase) in accounts receivable	2,546	(68,765)
(Increase) in prepaid expenses	86,660	(145,456)
(Decrease) in accounts payable and accrued liabilities	139,753	(181,795)
(Decrease) in accrued payroll	4,138	(73,843)
(Decrease) in deposits and unearned revenue	(82,976)	(70,455)
(Decrease) in termination benefits payable	(132,484)	181,877
Increase in accrued vacation and sick leave	33,496	5,133
(Decrease) in net pension liability and related deferred inflows and outflows	93,189	(165,602)
Net cash (used) by operating activities	\$ (3,075,480)	\$ (2,492,019)

See accompanying notes to financial statements

SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the San Mateo County Harbor District (District) have been prepared in conformity with generally accepted accounting principles 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. The District is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The more significant of the District's accounting policies are described below.

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body 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, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

A. Description of the Entity and its Programs

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 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 from operations.

D. Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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	50 years
Utilities	20 years
Channels	20 years
Launch Ramps	20 years
Piers	25 to 50 years
Bulkheads	50 years
Buildings and improvements	10 to 40 years
Docks	20 to 30 years
Parking Lots	10 to 25 years
Walkways/Paths	25 to 30 years
Machinery and Equipment	3 to 20 years

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.

F. 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 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

SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (continued)

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

G. 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. For “represented” employees, unused balances of PTO are carried over from year to year but cannot exceed 480 hours. For “management” employees, unused balances of PTO are carried over from year to year but cannot exceed 540 hours. District employees’ sick leave accrues from year to year with no cap. Employees can use their sick leave upon the approval of a physician’s note or documented FMLA supporting information.

H. 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.

I. Deferred Outflows of Resources

In addition to assets, the statement of financial position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until that time.

J. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Governmental Accounting Standards Board Statement Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 77 - Tax Abatement Disclosures. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose information about the agreements, including (1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients, (2) the gross dollar amount of taxes abated during the period, and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The statement is effective for the 2016-2017 fiscal year. This Statement had no impact on the District's financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers who employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement had no impact on the District's financial statements.

Governmental Accounting Standards Board Statement (GASB) No. 80 - Blending Requirements for Certain Component Unit –an amendment to GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, The Financial Reporting Entity. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units – an amendment to GASB Statement No. 14. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 and had no impact on the District's financial statements.

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Governmental Accounting Standards Board Statement Pronouncements (Continued)

Governmental Accounting Standards Board Statement (GASB) No. 82, - *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25, GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27, and GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement had no significant impact on the District's financial statements.

L. Reclassification

For the year ended June 30, 2017, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2017 presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

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

	2017	2016
Cash in bank	\$ 1,191,118	\$ 1,075,087
Investments	16,254,077	13,518,025
Cash on hand	2,250	2,250
	\$ 17,447,445	\$ 14,595,362

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

A. Summary of Cash and Investments (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	Authorized Limit (%)	Minimum Credit Quality
Local Agency Bonds	5 Years	None	N/A
U.S. Treasury Bills, Notes, or Bonds	5 Years	None	N/A
State Warrants	5 Years	None	N/A
Notes & Bonds of other Local Agencies	5 Years	None	N/A
U.S. Agencies	5 Years	None	N/A
Bankers Acceptance	180 Days	40%	N/A
Prime Commercial Paper	270 Days	25%	A1, P1
Negotiable Certificates of Deposit	5 Years	30%	N/A
Repurchase Agreement (A)	1 Year	20%	N/A
Medium Term Corporate Notes	5 Years	30%	A
Money Market Mutual Funds & Mutual Funds (B)	5 Years	20%	AAA
Collateralized Bank Deposits	5 Years	None	N/A
Mortgage Pass-Through Securities	5 Years	20%	AAA
Local Agency Investment Fund (LAIF)	N/A	None	N/A
County Pooled Investment Funds	N/A	None	N/A

(A) See California Government Code 53601 (I) for limits on the use of Reverse Repurchase Agreements

(B) Mutual Funds maturity may be defined as the weighted average maturity. Under SEC Regulations, Money Market Mutual funds must have an average maturity of 90 days or less

SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. Interest Rate Risk

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

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity date:

Investment Type	June 30, 2017		June 30, 2016
	12 Months or less	Total	
California Local Agency Investment Fund	\$ 6,972	\$ 6,972	\$ 6,927
San Mateo County Investment Fund	16,247,105	16,247,105	13,511,098
Total Investments	<u>\$ 16,254,077</u>	<u>16,254,077</u>	<u>13,518,025</u>
Cash in banks and on hand		1,193,368	1,077,337
Total Cash and Investments		<u>\$ 17,447,445</u>	<u>\$ 14,595,362</u>

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, 2017 and 2016, respectively, these investments matured in an average of 194 and 167 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.

SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

D. Fair Value Hierarchy

The San Mateo County Investment Fund and the Local Agency Investment Fund are exempt from fair value hierarchy.

E. Credit 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. The District's only investments are in the California Local Agency Investment Fund and San Mateo County Investment Fund which are not rated at June 30, 2017 and 2016.

NOTE 3 – CAPITAL ASSETS

Changes in capital assets and depreciation for the years ended June 30, 2017 and 2016 were as follows:

	Balance June 30, 2016,	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2017
Capital assets					
Nondepreciable					
Land	\$ 13,081,020	\$ -	\$ -	\$ -	\$ 13,081,020
Construction in progress	83,971	628,448	-	-	712,419
Total capital assets not being depreciated	<u>13,164,991</u>	<u>628,448</u>	<u>-</u>	<u>-</u>	<u>13,793,439</u>
Depreciable					
Autos and Trucks	115,994	-	(21,261)	-	94,733
Boats and radar	537,775	-	-	-	537,775
Breakwater	12,896,267	-	-	-	12,896,267
Utilities	636,669	-	-	-	636,669
Launch Ramps	3,957,424	-	-	-	3,957,424
Piers	6,216,940	-	-	-	6,216,940
Bulkheads	100,000	-	-	-	100,000
Buildings and improvements	5,494,528	-	-	-	5,494,528
Docks	11,271,880	-	-	-	11,271,880
Parking lots	2,102,389	-	-	-	2,102,389
Walkways/Paths	1,191,625	-	-	-	1,191,625
Machinery and equipment	278,090	35,000	-	-	313,090
Total capital assets being depreciated:	<u>44,799,581</u>	<u>35,000</u>	<u>(21,261)</u>	<u>-</u>	<u>44,813,320</u>
Accumulated depreciation	<u>(26,341,321)</u>	<u>(1,095,508)</u>	<u>21,261</u>	<u>-</u>	<u>(27,415,568)</u>
Total depreciable assets (net)	<u>18,458,260</u>	<u>(1,060,508)</u>	<u>-</u>	<u>-</u>	<u>17,397,752</u>
Total capital assets	<u>\$ 31,623,251</u>	<u>\$ (432,060)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,191,191</u>

Beginning values reflects 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, 2017.

SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (Continued)

	June 30, 2015, as Restated	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2016
Capital assets					
Nondepreciable					
Land	\$ 13,081,020	\$ -	\$ -	\$ -	\$ 13,081,020
Construction in progress	502,714	153,075	(369,075)	(202,743)	83,971
Total capital assets not being depreciated	13,583,734	153,075	(369,075)	(202,743)	13,164,991
Depreciable					
Autos and Trucks	115,994	-	-	-	115,994
Boats and radar	537,775	-	-	-	537,775
Signs	-	-	-	-	-
Breakwater	12,896,267	-	-	-	12,896,267
Utilities	636,669	-	-	-	636,669
Channels	-	-	-	-	-
Launch Ramps	3,957,424	-	-	-	3,957,424
Piers	6,216,940	-	-	-	6,216,940
Bulkheads	100,000	-	-	-	100,000
Buildings and improvements	5,890,528	-	-	(396,000)	5,494,528
Docks	11,271,880	-	-	-	11,271,880
Parking lots	2,102,389	-	-	-	2,102,389
Walkways/Paths	988,882	-	-	202,743	1,191,625
Machinery and equipment	258,710	97,429	(78,049)	-	278,090
Total capital assets being depreciated:	44,973,458	97,429	(78,049)	(193,257)	44,799,581
Accumulated depreciation	(25,097,871)	(1,114,503)	61,142	(190,089)	(26,341,321)
Total depreciable assets (net)	19,875,587	(1,017,074)	(16,907)	(383,346)	18,458,260
Total capital assets	\$ 33,459,321	\$ (863,999)	\$ (385,982)	\$ (586,089)	\$ 31,623,251

NOTE 4 – UNEARNED REVENUE

On September 10, 2009, the District entered into an Oyster Point Marina lease agreement with Department of Boating and Waterways (DBW) for a period of fifty-five (55) years. Conditionally, the DBW received a payment in the amount of \$3,660,000 from California Emergency Management Agency on the Water Emergency Transportation Authority's (WETA) behalf. This payment was allocated to the District's outstanding debt principal of the consolidated loan agreement between the District and DBW. The District recognizes income for this payment proportionally over the life of the lease and on an annual basis. As of June 30, 2017, the District's total unearned revenues related to this payment were \$3,323,832 of which \$3,061,091 was related to WETA.

NOTE 5 – NET POSITION

The District's Reserve Policy requires minimum reserves to equal at least 20% of annual revenue projections, 50% of which shall be unassigned.

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 6 – RISK MANAGEMENT

The District insurance, workers’ compensation, and employer’s liability through the Special District Risk Management Authority risk pool (SDRMA). SDRMA is a risk pooling self-insurance authority, created under the provisions of California Government Code Section 6500, et. seq. The purpose of SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. Maximum coverage and deductible amounts are as follows:

Type of Coverage	Coverage Limit	Retention/Deductible
Property	\$ 1,000,000,000	1,000
Boiler & Machinery	100,000,000	1,000
Pollution	1,000,000	1,000
Cyber	Limits on File	1,000
Mobile Equipment	1,000,000,000	No deductible
General Liability	10,000,000	500
Employee/Public Officials Dishonesty	1,000,000	No deductible
Auto Liability	10,000,000	1,000
Trailer	Limits on File	No deductible
Employers' Liability	5,000,000	No deductible
Workers' Compensation	Statutory	No deductible

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

NOTE 7 – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS)

General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Rate Plan. The District’s Miscellaneous Rate Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees’ Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The District sponsors two miscellaneous rate plans. 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 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 the plan are applied as specified by the Public Employees’ Retirement Law. The Pension Reform Act of 2013 (PEPRA) Assembly Bill 340 is applicable to employees new to CalPERS hires after December 31, 2012.

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 7 – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

The Plan’s provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous</u>
	Prior to January 1, 2013	PEPRA On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	2.0-2.5%	1.0-2.0%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	9.498%	6.555%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The District’s required contribution for the unfunded liability and side fund was \$280,618 in fiscal year 2017.

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 the Plan 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, 2017, the contributions recognized as part of pension expense for the Plan were \$472,273.

Net Pension Liability – 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 CalPERS Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of June 30, 2017 and 2016, the District reported a net pension liability of \$4,497,813 and \$3,690,808, respectively, for its proportionate share of the net pension liability of the Plan as follows:

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 7 – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The District’s proportion of the net pension liability was based on projection of the District’s long-term share of contributions to the pension 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 as of June 30, 2015 and 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.13453%
Proportion - June 30, 2016	0.12948%
Change - Increase (Decrease)	-0.00505%

For the year ended June 30, 2017, the District recognized pension expense of \$565,462. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 472,273	\$ -
Differences between actual and expected experience	14,952	(3,426)
Changes in assumptions	-	(141,460)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	409,438	(78,506)
Net differences between projected and actual earnings on plan investments	736,250	-
Total	\$ 1,632,913	\$ (223,392)

\$472,273 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, 2017. 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 June 30	Annual Amortization
2018	\$ 239,797
2019	196,293
2020	310,462
2021	190,696

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 7 – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

Actuarial Assumptions - For the measurement period ended June 30, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The total pension liability for the measurement date June 30, 2016 was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
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	7.50% (1)
Mortality	Derived using CalPERS' Membership Data for all Funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Net of pension plan investment expenses, including inflation

(2) 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 CalPERS 2014 experience study report available on CalPERS website.

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

Change of Assumptions - GASB 68, paragraph 68 states that the long 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% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

Discount Rate - The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.65% 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% 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.

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.

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 7 – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) (Continued)

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	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for these periods.

(b) An expected inflation of 3.0% used for these periods.

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 next 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 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	6.65%
Net Pension Liability	\$ 6,697,239
Current Discount Rate	7.65%
Net Pension Liability	\$ 4,497,813
1% Increase	8.65%
Net Pension Liability	\$ 2,680,097

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

**SAN MATEO COUNTY HARBOR DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

NOTE 8 – 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 following table shows the components of the District’s annual termination benefits payable, the amount actually benefits paid, and changes in the District’s Net obligation as of June 30, 2017 and 2016, respectively:

	2017	2016
Annual required contribution (ARC)	\$ 25,419	\$ 369,010
Annual cost (Expense)	25,419	369,010
Benefits paid	(157,903)	(187,133)
Increase in net obligation	(132,484)	181,877
Net obligation beginning of year	3,776,869	3,594,992
Net obligation (asset) - end of year	\$ 3,644,385	\$ 3,776,869

NOTE 9 – 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.

REQUIRED SUPPLEMENTARY INFORMATION

San Mateo County Harbor District
a Cost-Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2017
Last 10 Years*

Schedule of the Plan's Proportionate Share of
the Net Pension Liability
and Related Ratios as of the Measurement Date
Last 10 Years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Plan's proportion of the Net Pension Liability	0.04848%	0.13453%	0.10624%
Plan's proportionate share of the Net Pension Liability	\$ 3,016,578	\$ 3,690,808	\$ 4,497,813
Plan's Covered Payroll	\$ 2,064,270	\$ 2,000,338	\$ 2,022,481
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	146.13%	184.51%	222.39%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	78.77%	75.27%	82.08%

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

**San Mateo County Harbor District
 Cost-Sharing Multiple Employer Defined Pension Plan - Miscellaneous Plans
 For the Fiscal Year Ended June 30, 2017**

**Schedule of Contributions
 Last 10 Years***

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 376,892	\$ 409,949	\$ 474,656
Contributions in relation to the actuarially determined contributions	(376,892)	(409,949)	(464,656)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 2,000,338</u>	<u>\$ 2,022,481</u>	<u>\$ 2,361,865</u>
Contributions as a percentage of covered payroll	18.84%	20.27%	20.10%

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

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SUPPLEMENTAL INFORMATION

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San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Administration
For the year ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
OPERATING EXPENSES:		
Advertising and promotion	\$ 3,085	\$ 8,120
Bank charges	509	523
Contractual services	510,509	644,824
Claims settlement	-	97,750
Dues and subscriptions	15,565	12,874
Insurance	21,770	19,460
IT	79,937	60,032
Legal fees	214,956	270,085
Office expense	0	0
Personnel expenses	2,401	17,819
Operating expenses	36,937	28,922
Rent	87,900	84,337
Repairs and maintenance	3,408	3,636
Salaries and benefits	900,016	826,300
Training, seminars and professional development	25,606	12,421
Elections	752,490	0
Miscellaneous expense	533	(753)
Total operating expenses	<u>2,655,622</u>	<u>2,086,350</u>
Operating income (loss)	<u>(2,655,622)</u>	<u>(2,086,350)</u>
NONOPERATING REVENUES (EXPENSES):		
Capital grants	-	101,272
Investment earnings	137,914	123,968
Property taxes	1,709,562	6,014,913
Termination benefits	146,703	68,142
Shared revenues	708,570	(2,285,020)
Payments to other agencies	(59,667)	(57,690)
Miscellaneous revenue	5,667	3,816
Total nonoperating revenues (expenses)	<u>2,648,749</u>	<u>3,969,401</u>
Net Income	(6,873)	1,883,051
CHANGE IN NET POSITION:		
Beginning of year	<u>48,360,577</u>	<u>46,477,526</u>
End of year	<u>\$ 48,353,704</u>	<u>\$ 48,360,577</u>

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Pillar Point Harbor
For the year ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Berth rental, transient fees and dockage	\$ 1,856,832	1,823,059
Launching fees	74,250	87,765
Recreational vehicles	104,970	76,406
Rents and concessions	422,549	443,070
Events and permits	53,867	33,730
Other operating revenues	72,266	49,010
Total operating revenues	<u>2,584,734</u>	<u>2,513,040</u>
OPERATING EXPENSES:		
Advertising and promotion	5,243	6,627
Bad debts (recoveries)	52,903	48,948
Bank charges	32,958	29,037
Contractual services	139,023	66,889
Claim settlements	4,140	-
Dues and subscriptions	200	-
Insurance	53,208	115,461
IT	48,527	52,101
Legal Fees	154,309	42,254
Office expense	-	-
Personnel expenses	1,966	1,409
Operating expenses	101,387	89,371
Repairs and maintenance	194,218	150,961
Salaries and benefits	1,897,233	1,560,141
Travel, training, seminars and professional development	10,683	4,422
Utilities	275,604	317,577
Vessel destruction	-	24,104
Miscellaneous expenses	8,382	4,959
Depreciation and amortization	456,578	467,146
Total operating expenses	<u>3,436,562</u>	<u>2,981,407</u>
Operating income (loss)	<u>(851,828)</u>	<u>(468,367)</u>

	2017	2016
NONOPERATING REVENUES (EXPENSES):		
Capital grants	44,379	86,006
Property Taxes	2,837,074	-
Gain (loss) on disposition of capital assets	4,240	(620,195)
Termination benefits	(45,209)	(233,318)
Shared revenues	(416,972)	1,168,889
Interest expense	-	(104,997)
Miscellaneous revenue	40,085	171,982
Total nonoperating revenues (expenses)	2,463,597	468,367
Net Income	1,611,769	-
CHANGE IN NET POSITION:		
Beginning of year	(2,712,992)	(2,712,992)
End of year	<u>\$ (1,101,223)</u>	<u>\$ (2,712,992)</u>

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
Oyster Point Marina
For the year ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Berth rental, transient fees and dockage	\$ 1,349,621	\$ 1,295,793
Launching fees	21,836	18,957
Rents and concessions	314,834	309,536
Events and permits	1,640	2,010
Other operating revenues	31,756	23,268
Total operating revenues	<u>1,719,687</u>	<u>1,649,564</u>
OPERATING EXPENSES:		
Advertising and promotion	3,323	4,474
Bad debts	33,201	63,645
Bank charges	20,450	19,733
Contractual services	139,682	111,160
Dues and subscriptions	200	-
Insurance	34,903	115,461
IT	31,389	35,987
Legal fees	49,094	71,425
Personnel expenses	2,199	684
Miscellaneous expenses	110	809
Repairs and maintenance	156,826	44,449
Operating expenses	53,338	39,685
Salaries and benefits	1,335,818	1,027,315
Travel, training, seminars and professional development	13,150	5,595
Utilities	145,494	106,866
Vessel destruction	52,300	60,789
Depreciation and amortization	638,930	647,358
Total operating expenses	<u>2,710,407</u>	<u>2,355,435</u>
Operating income (loss)	<u>(990,720)</u>	<u>(705,871)</u>

	2017	2016
NONOPERATING REVENUES (EXPENSES):		
Capital grants	48,576	57,380
Property taxes	1,868,933	-
Gain (loss) on disposition of capital assets	-	(351,876)
Termination benefits	30,990	(16,701)
Shared revenues	(291,598)	1,116,131
Interest expense	-	(100,052)
Miscellaneous revenue	4,624	989
Total nonoperating revenues (expenses)	1,661,525	705,871
Net Income	670,805	-
CHANGE IN NET POSITION:		
Beginning of year	(7,549,008)	(7,549,008)
End of year	<u>\$ (6,878,203)</u>	<u>\$ (7,549,008)</u>

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

To the Board of Commissioners of the
San Mateo County Harbor District
El Granada, 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 basic financial statements of the San Mateo County Harbor District (District), South San Francisco, California, as of and for the year ended June 30, 2017 and the related notes to the financial statements, and have issued our report thereon dated April 20, 2018. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed on the Status of Prior Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated April 20, 2018, which is an integral part of our audit and should be read in conjunction with this report, to be material weaknesses.

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. We consider the deficiencies listed on the Status of Prior Year Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated April 20, 2018, which is an integral part of our audit and should be read in conjunction with this report, to be significant deficiencies.

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 testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated April 20, 2018, which is an integral part of our audit and should be read in conjunction with this report. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
April 20, 2018