SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Year ended March 31, 2023

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(831) 724-2441
579 Auto Center Dr.
Watsonville, CA 95076

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Santa Cruz Port District (the "District"), which comprise the statement of net position as of March 31, 2023, and the related statements of revenues, expenses, and change in net position and cash flows for the year then ended, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Santa Cruz Port District, as of March 31, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions – defined benefit pension plans, and the schedule of changes in the net OPEB liability and related ratios, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 RSI 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023 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 solely 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 the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Hutchinson and Bloodgood LLP

September 26, 2023

This discussion and analysis of the Santa Cruz Port District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2023. Please read in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of March 31, 2023, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $35,165,484.
- Operating revenues for the District totaled $11,171,967 for fiscal year 2023, compared to $10,821,395 for fiscal year 2022.
- Operating expenses for the District (before depreciation, amortization and non-cash OPEB liability) met budget expectations and totaled $8,479,730 ($37,154 over budget), and were approximately $913,725, or 12% higher than the prior year.
- Non-operating revenues for the District totaled $3,384,109 for fiscal year 2023, compared to $1,036,913 for fiscal year 2022. This increase is due primarily to non-cash pension income, receipt of insurance proceeds from the January 2022 tsunami, and receipt of dredging reimbursement from the U.S. Army Corps of Engineers.
- The District's net position as of March 31, 2023, totaled $35,165,484. This represents an increase of $3,796,252 or approximately 12% over the previous fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENT

The Port District is accounted for as an enterprise activity, and therefore follows the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This annual report consists of three parts – management's discussion and analysis, the basic financial statements, and notes to the financial statements. Management's discussion and analysis provides a narrative of the District's financial performance and activities for the year ended March 31, 2023. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses, and Change in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.

The *Statement of Cash Flows* presents information showing how the District's cash changed during the most recent fiscal year. It shows the sources and uses of cash.

STATEMENT OF NET POSITION

The District's net position as of March 31, 2023, totaled $35,165,484. This represents an increase of $3,796,252 or approximately 12% over the previous fiscal year. The District's financial position as of March 31, 2023, and 2022 is presented below:

	2023	2022
Assets		
Current and other assets	$ 16,053,582	$ 12,836,137
Capital assets net of depreciation	35,441,044	36,908,146
Other assets	14,239,955	1,017,008
Total Assets	65,734,581	50,761,291
Deferred outflows	2,337,567	1,036,310
	$ 68,072,148	$ 51,797,601
	31%	4%
Liabilities		
Current liabilities	$ 2,978,914	$ 2,715,995
Long-term debt	9,549,108	10,912,376
Unearned revenue	--	316,086
Net pension liability	5,417,181	2,908,996
Net OPEB liability	807,791	776,506
Total Liabilities	18,752,994	17,629,959
Deferred inflows	14,153,670	2,798,410
	$ 32,906,664	$ 20,428,369
	61%	3%
Net position		
Net investment in capital assets	$ 24,246,416	$ 24,283,200
Restricted for debt service	1,029,556	1,017,008
Unrestricted	9,889,512	6,069,024
Total net position	$ 35,165,484	$ 31,369,232
	12%	4%

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

Key changes to the statement of net position are outlined below:

Current Assets
Current assets increased $3,217,445 in FY23, which is attributable to an increase in cash and cash equivalents (including receipt of $525,000 in dredging reimbursement from the U.S. Army Corps of Engineers and $887,363 in insurance proceeds for the January 2022 tsunami) and lease receivables related to the implementation of GASB Statement No. 87 lease accounting standards (GASB 87 is discussed in more detail later in this analysis).

Deferred Outflow of Resources
Deferred outflows of resources increased by $1,301,257 in FY23, to $2,337,567. This change is primarily related to an increase in deferred outflows from pension plan as calculated per GASB Statement No. 68 (from $829,012 in FY22 to $2,146,081 in FY23), and a reduction in deferred outflows from the OPEB plan as calculated per GASB Statement No. 75 (from $207,298 in FY22 to $191,486 in FY23). Actual OPEB contribution (expense) for retirees in FY23 was $3,067.

Current and Other Liabilities
Current and other liabilities increased by $2,486,303 in FY23, to $9,203,886. This is due primarily to an increase in net pension liability. In FY23, the District's long-term portion of unearned revenue was reduced from $316,086 to $0 after cancellation of a cost sharing agreement with a not-for-profit tenant for the reconstruction of the building at 2222 East Cliff Drive. Additionally, the City of Santa Cruz released $400,000 in escrow funding to the Port District for project related costs associated with the Murray Street Bridge Seismic Retrofit Project. As of March 31, 2023, the Port District expended $121,454 in project related costs. The remaining $278,546 is recognized as an unearned revenue liability in FY23.

Long-Term Debt Obligations
Long-term debt obligations continue to decrease and were reduced from $10,912,376 in FY22 to $9,549,108 in FY23.

Deferred Inflows of Resources
Deferred inflows of resources increased by $11,355,260 in FY23, to $14,153,670. This increase is primarily due to the implementation of GASB 87 lease accounting standards. GASB Statement No. 87 requires the Port District to recognize a lease's total potential receivable as well as a deferred inflow of resources, thereby enhancing the transparency of the District's leasing activities. The total deferred amounts from leases is $13,527,701, which partially offsets the $741,113 of current lease receivable and $13,210,399 long-term lease receivable.

CAPITAL ASSETS

As of March 31, 2023, the Port District's capital assets, net of accumulated depreciation, totaled $35,441,044. The FY23 budget provided $382,000 in new funding for capital improvement projects and assigned $240,000 in existing "unallocated" Capital Improvement Plan (CIP) funds to support identified projects.

Major capital improvement project and equipment purchases in FY23 are outlined below:

- Completion of design work for the rehabilitation of the I-Dock restroom and shower facility.
- Completion of priority piling repair at the east side public pier.
- Initiation of work to complete necessary repairs and reconstruction of tsunami damaged facilities.
- Initiation of work to complete necessary repairs to the second story deck at 2222 East Cliff Drive.
- Initiation of a comprehensive condition assessment/inspection of the west side seawall.
- Installation of additional security cameras throughout the harbor.
- Upgrades to parking pay stations.

OPERATING REVENUE

Operating revenues in FY23 totaled $11,171,967[1] or approximately 110% of budgeted revenues. Operating revenues in FY23 were $350,572, or approximately 3% higher than the prior year.

<u>Visitor-Related Income</u>

Overall, visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were $1,580,866, which exceeded budget projections by $205,866. Despite exceeding budget projections, FY23 visitor-related revenue was $79,970 or 5% lower than the prior year. This decrease is attributed to a series of atmospheric river events that occurred during the winter months, as well as unseasonably wet and cool weather that extended through Spring 2023, which reduced visitorship to the harbor.

<u>Slip Rent</u>

Slip rent, at $4,801,809, met budget projections, and was approximately $111,609 higher than the prior year due to a 3.2% fee increase implemented April 1, 2022.

<u>Concession Income</u>

Concession income was significantly impacted by the COVID-19 pandemic in FY21 but saw a marked improvement in FY22 and a near return to normal in FY23. FY23 concession income of $2,111,024 was 12% or $226,024 higher than budget, and 4% higher than FY22 revenue.

<u>Boatyard Revenue</u>

Boatyard revenue in FY23, at $445,574, exceeded budget projections by $116,574. While this represents a decrease of $21,845 over the prior year, additional proceeds to support expenditures were not required in FY23.

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[1] Commencing in FY23, operating revenue is no longer reduced by the non-cash lease revenue from O'Neill Sea Odyssey.

OPERATING EXPENSES

Operating expenses (before depreciation, amortization and non-cash OPEB liability) totaled $8,479,730 and exceeded budget by $37,154. Expenses were approximately $913,725, or 12% higher than the prior year. Dredging expenses of $1,503,071 were lower than budget by $65,966. Non-dredging expenses of $6,976,659 exceeded budget by $103,120 and were $735,284 or 12% higher than the prior year. This increase in expenses is attributed to increased insurance premium costs of $443,539 or 128% and increased fuel purchases (which are offset by increased fuel sales/revenue).

DEBT ADMINISTRATION

The District's debt, acquired in 2013, is related to facilities modernization and up-front funding for acquisition of the dredge vessel *Twin Lakes.* New debt totaling $3.35 million was acquired in FY19 to fund two capital infrastructure projects, a Seawall Replacement Project at 616 Atlantic Avenue (formerly referred to as the Aldo's Seawall Replacement Project) and the Pile Removal and Replacement Project. In FY22, new debt totaling $950,000 was assumed for the purchase of 497 Lake Avenue. No new debt was incurred in FY23.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's accountability for the District's assets. If you have questions about this report or need additional financial information, contact the Santa Cruz Port District office at 135 5th Avenue, Santa Cruz, California, 95062.

SANTA CRUZ PORT DISTRICT

STATEMENT OF NET POSITION
March 31, 2023

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 14,712,539
Trade receivables	370,963
Interest receivable	90,362
Intrerest receivable, leases	36,735
Inventory	15,832
Lease receivable (Note 8)	704,378
Prepaid expenses	122,773
Total current assets	16,053,582
RESTRICTED ASSETS	
Cash and cash equivalents (Note 2)	1,029,556
NON-CURRENT ASSETS	
Lease receivable, net of current (Note 8)	13,210,399
Capital assets (Note 3)	
Nondepreciable assets:	
Land	2,201,360
Construction in progress	998,052
Depreciable assets:	
Structures and improvements	30,720,555
Docks	27,161,298
Equipment	11,361,555
Office equipment	54,374
	72,497,194
Less accumulated depreciation	37,056,150
	35,441,044
Total non-current assets	48,651,443
Total Assets	65,734,581
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts from pension plans (Note 6)	2,146,081
Deferred amounts from OPEB plan (Note 9)	191,486
Total Deferred Outflows of Resources	2,337,567
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 68,072,148

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

SANTA CRUZ PORT DISTRICT

STATEMENT OF NET POSITION
March 31, 2023

LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 316,941
Accrued interest	62,257
Payroll liabilities	284,338
Current portion of long-term debt (Note 4)	1,366,974
Unearned revenue	278,546
Prepaid slip rents	246,859
Deposits	422,999
Total current liabilities	2,978,914
LONG-TERM DEBT, less current portion (Note 4)	9,549,108
OTHER LONG-TERM LIABILITIES	
Net pension liability (Note 6)	5,417,181
Net OPEB liability (Note 9)	807,791
	6,224,972
Total Liabilities	18,752,994
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts from pension plans (Note 6)	460,211
Deferred amounts from OPEB plan (Note 9)	165,758
Deferred amounts from leases (Note 8)	13,527,701
Total Deferred Inflows of Resources	14,153,670
NET POSITION	
Net investment in capital assets	24,246,416
Restricted for:	
Debt service	1,029,556
Unrestricted	9,889,512
Total Net Position	35,165,484
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 68,072,148

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

SANTA CRUZ PORT DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
Year Ended March 31, 2023

Operating revenues:	
Charges for berthing and services	$ 9,060,943
Rent and concessions	2,111,024
	11,171,967
Operating expenses:	
Depreciation and amortization	2,184,840
Dredging operations	1,503,071
Administrative services	902,926
Grounds	909,106
Harbor patrol	806,715
Fuel services	805,610
Property management	686,549
Marina management	542,949
Parking services	388,936
Buildings	387,540
Boatyard operations	364,793
Docks, piers, marine structures	502,201
Finance and purchasing	184,083
Environmental and permitting	145,693
Rescue services	107,898
Utilities	103,385
Non-cash OPEB liability	95,254
Port commission support	55,713
Aeration	37,456
Events	22,570
Capital projects	36
Fishery support	12,014
Tsunami expense	10,486
	10,759,824
Operating income	412,143
Non-operating revenues (expenses):	
County revenues for public services	50,000
Grants	32,393
Dredging reimbursement (Note 10)	525,000
Interest income	228,918
Interest income on leases (Note 8)	439,356
Other income	605,227
Interest expense	(394,410)
Tsunami insurance reimbursement	887,363
Non-cash pension income	1,010,262
	3,384,109
Increase in net position	3,796,252
Net position, beginning	31,369,232
Net position, ending	$ 35,165,484

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

SANTA CRUZ PORT DISTRICT

STATEMENTS OF CASH FLOWS
Year Ended March 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 9,907,490
Cash paid to suppliers and employees	(8,468,481)
Net cash provided by operating activities	1,439,009
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
County revenues received for public services	50,000
Grant monies received	32,393
Government revenues received for dredge operations	525,000
Cash received from other nonoperating activities	512,327
Tsunami insurance reimbursement received	887,363
Interest received on long-term leases	402,621
Principal received from long-term leases	662,412
Net cash provided by noncapital financing activities	3,072,116
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital expenditures	(728,922)
Interest paid on long-term debt	(404,661)
Principal paid on long-term debt	(1,326,234)
Net cash used by capital and related financing activities	(2,459,817)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	147,452
Net increase in cash and cash equivalents	2,198,760
CASH AND CASH EQUIVALENTS, BEGINNING	13,543,335
CASH AND CASH EQUIVALENTS, ENDING	$ 15,742,095

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

SANTA CRUZ PORT DISTRICT

STATEMENT OF CASH FLOWS
Year Ended March 31, 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income	$ 412,143
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,184,840
Non-cash OPEB liability	95,254
(Increase) decrease in:	
Trade receivables	(177,898)
Inventory	492
Prepaid expenses	(31,248)
Deferred outflows from OPEB plan	(19,220)
Increase (decrease) in:	
Accounts payable and accrued expenses	61,225
Unearned revenue	(104,084)
Prepaid slip rents	(4,487)
Deposits	(32,604)
Deferred inflows from leases	(1,049,488)
Net cash provided by operating activities	$ 1,334,925

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION

	Current Assets	Restricted Assets	Statements of Cash Flows Total
Year ended March 31, 2023			
Cash and cash equivalents, beginning	$ 12,526,327	$ 1,017,008	$ 13,543,335
Net increase (decrease)	2,186,212	12,548	2,198,760
Cash and cash equivalents, ending	$ 14,712,539	$ 1,029,556	$ 15,742,095

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: The Santa Cruz Port District (the "District") is a political subdivision of the State of California. The District was organized on November 20, 1950, in conformity with Division 8, Part 4 of the Harbors and Navigation Code, Section 6200 et seq. The District was formed for the purpose of creating a legal entity to negotiate with various governmental agencies for the financing and construction of a small craft harbor and the subsequent operation of the facility. The District began the operation of the small craft harbor in January 1964.

Accounting Policies: The District is accounted for as an enterprise activity, and therefore follows the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Other significant accounting policies are:

Basis of Accounting: The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprise funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to certain limitations. The District has elected not to follow subsequent private-sector guidance.

The District distinguishes operating revenues and expense from non-operating items. Operating revenues and expenses generally result from fees charged to users of the harbor facilities and maintaining harbor facilities. Operating expenses include maintenance, security, dredging, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Change in Net Position.

Use of Restricted/Unrestricted Net Assets: When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

Use of Estimates: Preparing the District's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade Receivables: Trade receivables consist of tenant and slipholder rents. The District believes its receivables to be fully collectible and, accordingly, no allowance for doubtful accounts is recorded.

Interest Receivable: Interest receivable consists of accrued interest from the Local Agency Investment Fund.

Federal and State Grants: Federal and state grants for the construction, acquisition, improvement of capital assets, or assistance for dredging costs are recorded as capital contributions. Revenues for reimbursement grants are recorded when allowable expenditures are made.

Liability for Compensated Absences: The District is required to recognize a liability for employees' rights to receive compensation for future absences. This obligation consists of the vested portion of leave balances, including vacation and compensatory time off, which are payable upon retirement. The liability for compensated absences at March 31, 2023, included in payroll liabilities on the Statement of Net Position, was $164,946.

Revenues (Pledged): By resolution of the Board of Directors, all District revenues are pledged to secure debt service. The District derives its revenue principally from fees charged to users of the harbor facilities, rents, and concession fees.

Income Taxes: The District is a government agency that falls under Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

Inventory: Inventory is stated at the lower of cost or market determined by the first-in, first-out method. Inventory consists of boat supplies and merchandise for resale.

Capital Assets: District capital assets, purchased or constructed, are recorded at cost. The cost of assets built by the District includes direct costs and eligible interest. Contributed assets are recorded at fair market value at the date of contribution.

The amount of interest capitalized as part of the District-constructed assets is the difference between the interest the District must pay on the bonds and loans issued to finance improvements, and the interest the District earns on bond and loan proceeds not yet expended. The interest as defined above is capitalized until the projects are placed in service at which time any remaining interest is expensed.

The District's policy is to capitalize all assets that cost $5,000 or more, and to charge to current operations all additions under that limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period, even if greater than $5,000.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and Amortization: Depreciation expense is computed using the straight-line method over estimated useful lives ranging from three to fifty years.

Restricted Assets: Certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District to its lenders.

Net Position: Net position as shown in the Statement of Net Position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
Restricted – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments, as reduced by related outstanding debt.
Unrestricted – This amount is all remaining net position that does not meet the definition of "net investment in capital assets" or "restricted".

Implementation of New Accounting Standards: As of April 1, 2022, the District implemented GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right-to-use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As a result of implementing this standard the District recognized a lease receivable and deferred inflow of resources in the amount of $11,237,517 and $11,279,704 as of April 1, 2022, respectively. There was no restatement of net position. The additional disclosures required by this standard are included in Note 8.

Lessor Leases: The District recognizes a lease receivable and a deferred inflow of resources in the financial statements. At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (continued): The District has the following items that qualify for reporting in this category:

- Deferred outflows related to pensions and OPEB equal to employer contributions made after the measurement date of the net pension liability / total OPEB liability.
- Deferred outflows related to pensions for differences between actual and expected experiences. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plans.
- Deferred outflows from pensions resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expected remaining service lives of all employees that are provided with pensions through the pension plans.
- Deferred outflows related to pensions resulting from the net difference between projected and actual earnings on plan investments of the pension plans fiduciary net position. These amounts are amortized over five years.
- Deferred outflows related to pension plans for the changes in the employer’s proportion and differences between the employer’s contributions and the employer’s proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plans.

In addition to liabilities, the Statement of Net Position will sometimes report on a separate section for deferred inflow of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflows related to pensions for differences between actual and expected experiences. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plans.
- Deferred inflows from pensions and OPEB resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expected remaining service lives of all employees that are provided with pensions through the pension plans.
- Deferred inflows related to pensions for the changes in employer’s proportion and differences between the employer’s contributions and the employer’s proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plans.

NOTE 2. CASH AND CASH EQUIVALENTS

The District is a voluntary 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.

Subsequent to year end the majority of funds invested in LAIF were transferred to a California CLASS Prime investment account. CLASS Prime is a newly established joint powers authority pool sponsored by the California Special Districts Association and the League of California Cities.

The District's investment policy, adopted by the Port Commission on November 27, 2018, requires that all funds not required for immediate use be invested in investment vehicles authorized by the Government Code of the State.

The District has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under this statement, disclosures of these risks are required for uninsured and unregistered investments and deposits collateralized with securities held by the broker or pledging financial institution's trust department or agent, but not in the District's name. The District did not hold any investments or deposits falling into this category of risk (generally known as Category 3) at March 31, 2023.

Restricted Cash: Restricted cash consists of the following as of March 31:

Restricted cash and cash equivalents for debt service:	
Money market funds/government obligations	$ 1,029,556

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended March 31, 2023:

	March 31, 2022	Additions	Deletions and Transfers	March 31, 2023
Nondepreciable assets:				
Land	$ 2,201,360	$ --	$ --	$ 2,201,360
Construction in progress	574,372	517,509	(93,829)	998,052
Depreciable assets:				
Structures and improvements	30,705,762	14,793	--	30,720,555
Docks	27,122,552	38,746	--	27,161,298
Equipment	11,510,070	168,952	(317,467)	11,361,555
Office equipment	63,621	--	(9,247)	54,374
	72,177,737	740,000	(420,543)	72,497,194
Accumulated depreciation	(35,269,591)	(2,184,840)	398,281	(37,056,150)
	$ 36,908,146	$ (1,444,840)	$ (22,262)	$ 35,441,044

In January of 2015 the District accepted a 16,000 square foot vacated right of way along Brommer Street Extension, adjacent to lands owned by the District. Due to the very limited marketability of subject property, and the time and expense involved in getting a market appraisal, the District has opted to record the asset at zero value.

NOTE 4. LONG-TERM DEBT

Long-term debt and related current portion as of March 31, 2023, is presented below:

	March 31, 2022	Additions	Reductions	March 31, 2023
PNC Bank taxable loan	$ 845,512	$ --	$ (234,713)	$ 610,799
PNC Bank tax-exempt loan	7,774,104	--	(869,768)	6,904,336
PG&E loan	15,045	--	(13,889)	1,156
2018A Revenue Obligation	1,291,354	--	(92,978)	1,198,376
2018B Revenue Obligation	1,412,420	--	(101,694)	1,310,726
497 Lake Avenue	945,880	--	(16,898)	928,982
	12,284,315	--	(1,329,940)	10,954,375
Less revenue obligation issuance costs	(41,999)	--	3,706	(38,293)
Less current portion	(1,329,940)	(37,034)	--	(1,366,974)
	$ 10,912,376	$ (37,034)	$ (1,326,234)	$ 9,549,108

NOTE 4. LONG-TERM DEBT (Continued)

Total interest incurred and charged to expense during the year ended March 31, 2023, was $394,410.

During the fiscal year ended March 31, 2014, the District refinanced its outstanding debt with loans privately placed with PNC Bank (formerly BBVA Compass Bank). The financing package included $4,000,000 in new debt to be used to purchase a new dredge to replace the *Seabright*, which had reached the end of its useful life. The new dredge was placed in service in July 2016.

The loans also reduced the District's payback period, with payoff occurring in 2029 rather than 2042 under the prior loans. Through this combined financing and new debt, the District will realize cash flow savings of approximately $3.8 million over the 16-year life of the loans.

The PNC Bank taxable loan, in the amount of $2,384,445 was part of the refinance package noted above. Proceeds of the loan were used to payoff the existing Series 2004C revenue bonds, as well as to provide funding to payoff the OE3 pension liability. Terms of the note call for semi-annual principal and interest payments in May and November, ranging from $114,000 to $229,000, with an average payment of $140,000, including interest at 4.74% per annum. Final payment on the loan is due November 1, 2026.

The PNC Bank tax-exempt loan, in the amount of $14,418,961 was part of the refinance package noted above. Proceeds of the loan were used to pay off the existing Series 2004A revenue bonds, all of the Department of Boating and Waterways loans, as well as providing funding for the new dredge. Terms of the note call for semi-annual principal and interest payments in February and August, ranging from $547,000 to $590,000, including interest at 3.09% per annum. Final payment on the loan is due August 1, 2029.

PG&E loan – In August 2014 the District entered into an on-bill financing loan agreement with PG&E, in the amount of $120,368, for the purchase of energy efficient equipment. Terms of the loan call for monthly principal payments of $1,157, to be included in the monthly utilities bill, over a period of 104 months.

On September 1, 2018, the District entered into an installment sale agreement with PNC Bank for 2018A Revenue Obligations in the amount of $1,750,000, for the Santa Cruz Harbor Pile Replacement Project. Terms of the agreement call for semi-annual payments of $75,123 beginning February 1, 2019, including interest at the rate of 3.5% per annum. The final payment is due August 1, 2033.

On September 1, 2018, the District entered into an installment sale agreement with PNC Bank for 2018B Revenue Obligations in the amount of $1,600,000, for the Santa Cruz Harbor Seawall Replacement Project. Terms of the agreement call for semi-annual payments of $68,684 beginning February 1, 2019, including interest at the rate of 3.5% per annum. The final payment is due August 1, 2033.

The borrowing agreements with PNC Bank for the taxable and tax-exempt loans and the 2018A and 2018B revenue obligations include a restrictive covenant requiring net revenues for the fiscal year to be equal to at least 1.25 times the debt service. At March 31, 2022, the District was in compliance with the covenant.

NOTE 4. LONG-TERM DEBT (Continued)

During the year ended March 31, 2022, the District purchased property at 497 Lake Ave. The purchase price was $1,200,000, of which $950,000 was financed with the seller. The terms of the finance agreement call for monthly payments of $4,535.45 beginning January 1, 2022, including interest at the rate of 4.00% per annum. A final balloon payment of $452,500 plus any accrued interest is due December 1, 2041.

Debt service required under the notes for each of the succeeding five years and thereafter in five year increments are:

	Principal	Interest	Total
2024	$ 1,366,974	$ 344,588	$ 1,711,562
2025	1,413,057	294,301	1,707,358
2026	1,273,550	252,523	1,526,073
2027	1,241,518	212,420	1,453,938
2028	1,266,080	172,659	1,438,739
2029 Through 2033	3,534,749	363,518	3,898,267
2033 Through 2038	283,551	181,875	465,426
2039 Through 2043	574,896	77,164	652,060
	$ 10,954,375	$ 1,899,048	$ 12,853,423

NOTE 5. UNEARNED REVENUE

In 2002, the District entered into a joint venture agreement with a not-for-profit tenant to recapitalize and reconstruct the building at 2222 East Cliff Drive. The agreement stated the tenant would pay 47% of the cost of the construction project and the District would pay 53% of the cost of the project. Title for the building remains with the District. In return for the cost sharing agreement, the tenant received a 24-year lease with payment terms similar to a ground only lease which was extended through December 31, 2028.

The tenant's total contribution to the project was $1,558,239. That amount was established as unearned revenue to be amortized to concession rental income over the term of the lease. During the year ended March, 31, 2023, the lease was terminated and the remaining amount included in unearned revenue of $371,539 was recognized as a gain and included in other income.

NOTE 6. PENSION PLANS

Deferred Compensation Plan (457(a)):

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to District employees based on eligibility, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Defined Benefit Pension Plan (CalPERS):

General Information:

Plan Description: Effective April 1, 2003, the District adopted a cost-sharing multiple employer defined benefit pension plan (the Plan) that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All qualified employees are eligible to participate in the District's Plan administered by the California Public Employees' Retirement System (CalPERS).

State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The District selected its optional benefit provisions from the benefit menu when it contracted with CalPERS and adopted those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814, or on their 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.

Funding Policy: Active plan members are required to contribute a percentage of their annual covered salary. The District has a 3-tiered CalPERS plan system for miscellaneous employees – 2.5% @ 55; 2% @ 60; and 2% @ 62. Plan placement is dependent on the eligible employee's status as an existing member or new member. Depending on plan placement, active members contribute between 6.25% and 8% of their annual covered salary: 8% contribution for 2.5% @ 55; 7% contribution for 2% @ 60; and 6.25% contribution for 2% @ 62.

NOTE 6. PENSION PLANS (Continued)

Funding Policy (continued): The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS' Board of Administration. The required employer contribution rate for the 2.5% @ 55 tier was 11.59% for April 2022 – March 2023. For the 2% @ 60 tier, the employer rate was 8.65% from April 2022 – June 2022 and 8.63% from July 2022 – March 2023. For the 2% @ 62 tier, the employer rate was 7.59% from April 2022 – June 2022 and 7.47% from July 2022 - March 2023. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions:
As of March 31, 2023, the District reported a $5,417,181 net pension liability for its proportionate share of the net pension liability of the Plan.

As of March 31, 2023, the net pension liability of the Plan is measured as of June 30, 2022, 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, 2021 rolled forward to June 30, 2022 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of March 31, 2023 was as follows:

Proportion - March 31, 2022	0.0538%
Proportion - March 31, 2023	0.0469%
Change - Decrease	-0.0069%

NOTE 6. PENSION PLANS (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (continued):
For the year ended March 31, 2023, the District recognized net pension income of $387,896. At March 31, 2023, 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
Differences between actual and expected experience	$ 108,787	$ 72,861
Change in assumptions	555,103	--
Net differences between projected and actual earnings on plan investments	992,284	--
Change in employer's proportion	19,646	285,828
Differences between the employer's contributions and the employer's proportionate share of contributions	--	101,522
Pension contributions subsequent to measurement date	470,261	--
Total	$ 2,146,081	$ 460,211

The $470,261 reported as deferred outflows of resources relates to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending March 31, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will increase (decrease) recognized pension expense as follows:

Year ending March 31,	Amount
2024	$ 269,610
2025	222,241
2026	116,843
2027	606,915
	$ 1,215,609

NOTE 6. PENSION PLANS (Continued)

Actuarial Assumptions: The March 31, 2023 total pension liability was determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	6.90%
Inflation	2.30%
Salary Increase	Varies by entry age and service.
Mortality	Derived using CalPERS' Membership Data for all Funds. The mortality table was developed based on CalPERS specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.

The underlying mortality assumptions and all other actuarial assumptions used in the valuations were based on the results of a 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 6.90% for the year ended March 31, 2023. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 6.90% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.90% 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.

NOTE 6. PENSION PLANS (Continued)

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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 adjusted to account for assumed administrative expenses.

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.

Asset class	Assumed asset allocation	Real return years 1-10 (a)	Real return years 11+ (b)
Public equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

(a) An expected inflation of 2.00% used for this period.
(b) An expected inflation of 2.92% used for this period.

NOTE 6. PENSION PLANS (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, calculated using the discount rate, 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:

1% Decrease		5.90%
Net Pension Liability	$	7,966,039
Current Discount Rate		6.90%
Net Pension Liability	$	5,417,181
1% Increase		7.90%
Net Pension Liability	$	3,320,104

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

Payable to the Pension Plan: At March 31, 2023, the District had no outstanding contributions payable to the pension plan required for the year ended March 31, 2023.

NOTE 7. RISK MANAGEMENT

The District covers its liability for significant claims by purchasing workers' compensation, property, and liability insurance. While there have been no significant reductions in insurance coverage in the current year, the annual premium costs increased significantly (approximately 123%). Settlement amounts have not materially exceeded insurance coverage for the current and prior year.

NOTE 8. LEASES

The District is the lessor of land and improvements under month to month and long-term, non-cancelable operating leases, expiring in various dates through December 2043. Of the District's total capital assets, a portion of total land, structures and improvements is available for rent and concessions, and docks (berths) are available for slip licensing, while the remainder is held for District use. The District recognized $1,049,488 and $439,356 in lease revenue and interest revenue, respectively, on non-cancelable rent and concession leases for the year ended March 31, 2023.

Certain long-term, noncancelable leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

NOTE 8. LEASES (Continued)

Some leases require variable payments based on future performance of the lessee or usage of the underlying asset that are not included in the measurement of the lease receivable. Those variable payments are recognized as inflows of resources in the period in which payments are due. During the year ended March 31, 2023, the District recognized in income variable payments required to be paid by the lease agreements totaling $746,031.

Total future minimum lease payments to be received under lease agreements are as follows:

Year Ending March 31,	Principal	Interest	**Total**
2024	$ 704,378	$ 431,192	**$ 1,135,570**
2025	757,614	409,319	**1,166,933**
2026	793,593	385,779	**1,179,372**
2027	767,062	361,923	**1,128,985**
2028	788,266	337,846	**1,126,112**
2029 Through 2033	3,742,870	1,334,342	**5,077,212**
2033 Through 2038	3,086,710	774,531	**3,861,241**
2039 Through 2043	3,249,316	246,674	**3,495,990**
2044 Through 2048	24,968	336	**25,304**
	$ 13,914,777	$ 4,281,942	**$ 18,196,719**

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Public Employees' Medical and Hospital Care Act (PEMHCA)

The District administers a multiple-employer defined benefit healthcare plan (the Plan). The Plan provides medical healthcare insurance for eligible retirees and their spouses through the CalPERS Health Benefits Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). No dental, vision, or life insurance benefits are provided by the Plan. Currently there are 4 retired employees and 32 active employees participating in the Plan.

Funding Policy: There is no statutory requirement for the District to pre-fund its OPEB obligation. The District has currently chosen to pay Plan benefits on a pay-as-you-go basis and does not maintain a trust fund for its OPEB obligation. The District's fixed dollar benefit contribution cannot be less than the PEMHCA minimum for PEMHCA actives and retirees. The District accrued these benefits at the monthly statutory rate ($151 for 2023) for each participant in the PEMCHA plan. The total amount paid directly by the District to CalPERS for the District's health premium contributions under PEMHCA for retiree medical health care plan postemployment benefits for the year ending March 31, 2023 was $2,961.

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Policy (continued): Including the implicit rate subsidy of $19,220 and administrative expenses of $106, the District's total contributions to the plan for the year ended March 31, 2023, were $22,287.

Total OPEB liability: For the year ended March 31, 2023, the District's total OPEB liability was measured as of March 31, 2022 and was determined by an actuarial valuation as of April 1, 2021. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

<u>Actuarial Assumptions</u>

Valuation Date	April 1, 2021
Measurement Date	March 31, 2022
Contribution Policy	No pre-funding
Actuarial assumptions:	
Discount rate	2.73% at March 31, 2022 (Bond buyer 20-bond index)
General inflation	2.5% annually
Mortality, retirement, disability and termination	CalPERS 2000-2019 experience study
Mortality improvement	Mortality projected fully generational with Scale MP-2021
Medical trend	Non-medicare: 6.5% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare: 5.65% for 2023, decreasing to an ultimate rate of 3.75% for 2076
PEMHCA minimum increase	$149 and $151 per month in 2022 and 2023 respectively increasing 4.00% annually in 2024+
Participation at retirement	Actives: 35% in 2020, increasing to 50% in 2034 Retirees: based on current election

<u>Discount Rate</u>
The discount rates used to measure the total OPEB liability as of March 31, 2023 was 2.73%. This rate is equal to the municipal bond twenty-year bond index rate as the District's OPEB plan does not have any fiduciary net position.

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Changes in the Total OPEB Liability: The changes in the Total OPEB liability as of March 31, 2023 are as follows:

Balance at 3/31/22 (3/31/21 measurement date)	$ 776,506
Changes in the year:	
Service cost	76,692
Interest	20,274
Assumption changes	(48,735)
Benefit payments	(16,946)
Net changes	31,285
Balance at 3/31/23 (3/31/22 measurement date)	$ 807,791

Change of Assumptions
The discount rate changed from 2.4% for the measurement period ended March 31, 2021, to 2.73% for the measurement period ended March 31, 2022 as a result of the change in the municipal bond 20-year high grade rate index.

Change of Benefit Terms
There were no changes of benefit terms.

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the District, as well as what the District's total OPEB 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 discount rate:

1% Decrease		1.73%
Total OPEB Liability	$	968,476
Current Discount Rate		2.73%
Total OPEB Liability	$	807,791
1% Increase		3.73%
Total OPEB Liability	$	681,416

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Sensitivity of the Total OPEB Liability to Changes in Healthcare Trend Rates
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage point lower and 1-percentage point higher than the current healthcare trend rate:

1% Decrease		5.50%
Total OPEB Liability	$	656,389
Current Trend		6.50%
Total OPEB Liability	$	807,791
1% Increase		7.50%
Total OPEB Liability	$	1,010,220

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended March 31, 2023, the District recognized OPEB expense of $98,321. At March 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 37,717	$ 48,283
Change in assumptions	131,482	117,475
OPEB contributions made subsequent to the measurement date	22,287	--
Total	$ 191,486	$ 165,758

The OPEB contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending March 31, 2024.

Payable to the OPEB Plan: At March 31, 2023, the District had no outstanding amount of contributions to the OPEB plan required for the year ended March 31, 2023.

NOTE 10. DREDGING REIMBURSEMENT

In November, 2015, the District entered into an agreement with the Department of the Army Corps of Engineers (Corps) to reimburse the District for a portion of expected dredging costs, only if funds are specifically appropriated for that purpose. The agreement terminates on April 1, 2025. Due to the uncertainty of the availability of funds, revenue will be recorded when the funds are ultimately received. During the year ended March 31, 2023, the District received $525,000 in payments from Department of the Army Corps of Engineers for dredging operations, which occurred January-December 2022.

NOTE 11. SUBSEQUENT EVENTS

Management has evaluated its March 31, 2023 financial statements for subsequent events through September 26, 2023, the date of issuance of the financial statements. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Fiscal Years*

	March 31, 2023	March 31, 2022	March 31, 2021	March 31, 2020
Measurement date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Plan's proportion of the net pension liability	0.0469%	0.0538%	0.0430%	0.0423%
Plan's proportionate share of the net pension liability	$ 5,417,181	$ 2,908,996	$ 4,674,819	$ 4,338,392
Plan's covered - employee payroll**	$ 2,167,772	$ 2,211,919	$ 2,222,678	$ 2,239,940
Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll	249.90%	131.51%	210.32%	193.68%
Plan's proportionate share of the fiduciary net position as a percentage of the proportionate share of the Plan's total pension liability	76.68%	88.29%	75.10%	75.26%
Plan's proportionate share of aggregate employer contributions	$ 688,880	$ 584,290	$ 550,939	$ 491,504

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
None

* - Fiscal year 2016 was the first year of implementation, therefore eight years are shown.

** - For the year ending on the measurement date

SANTA CRUZ PORT DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (CONTINUED)
Last 10 Fiscal Years*

	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Plan's proportion of the net pension liability	0.0414%	0.0409%	0.0406%	0.0400%
Plan's proportionate share of the net pension liability	$ 3,990,879	$ 4,052,992	$ 3,509,957	$ 2,745,051
Plan's covered - employee payroll**	$ 2,174,449	$ 1,995,472	$ 1,730,361	$ 1,680,148
Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll	183.54%	203.11%	202.85%	163.38%
Plan's proportionate share of the fiduciary net position as a percentage of the proportionate share of the Plan's total pension liability	75.26%	73.31%	74.06%	78.40%
Plan's proportionate share of aggregate employer contributions	$ 430,069	$ 400,662	$ 365,656	$ 343,279

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
None

* - Fiscal year 2016 was the first year of implementation, therefore eight years are shown.

** - For the year ending on the measurement date

SANTA CRUZ PORT DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS
Last 10 Fiscal Years*

	March 31, 2023	March 31, 2022	March 31, 2021	March 31, 2020
Actuarially determined contribution	$ 622,001	$ 578,577	$ 528,402	$ 465,337
Contributions in relation to the actuarially determined contribution	(622,001)	(578,577)	(528,402)	(465,337)
Contribution deficiency (excess)	$ --	$ --	$ --	$ --
Covered-employee payroll**	$ 2,367,608	$ 2,141,686	$ 2,182,330	$ 2,267,137
Contributions as a percentage of covered-employee payroll	26.27%	27.02%	24.21%	20.53%

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
None

* - Fiscal year 2016 was the first year of implementation, therefore eight years are shown.

** - For the fiscal year ending on the date shown

SANTA CRUZ PORT DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS (CONTINUED)
Last 10 Fiscal Years*

	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016
Actuarially determined contribution	$ 397,547	$ 332,430	$ 309,357	$ 188,042
Contributions in relation to the actuarially determined contribution	(397,547)	(332,430)	(309,357)	(188,042)
Contribution deficiency (excess)	$ --	$ --	$ --	$ --
Covered-employee payroll**	$ 2,227,398	$ 2,160,998	$ 1,912,027	$ 1,692,156
Contributions as a percentage of covered-employee payroll	17.85%	15.38%	16.18%	11.11%

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
None

* - Fiscal year 2016 was the first year of implementation, therefore eight years are shown.

** - For the fiscal year ending on the date shown

SANTA CRUZ PORT DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years*

	March 31, 2023	March 31, 2022	March 31, 2021	March 31, 2020	March 31, 2019
Measurement date	March 31, 2022	March 31, 2021	March 31, 2020	March 31, 2019	June 30, 2018
Total OPEB liability:					
Service cost	$ 76,692	$ 79,892	$ 53,462	$ 54,348	$ 53,126
Interest on total OPEB liability	20,274	18,250	20,235	20,887	18,141
Actual vs. expected experience	--	45,917	--	(78,459)	--
Changes in assumptions	(48,735)	(87,155)	177,131	5,778	(2,705)
Benefit payments, including refunds and the implied subsidy benefit payments	(16,946)	(8,916)	(5,538)	(3,883)	(1,705)
Net change in total OPEB liability	31,285	47,988	245,290	(1,329)	66,857
Total OPEB liability - beginning of the year	776,506	728,518	483,228	484,557	417,700
Total OPEB liability - end of the year (a)	807,791	776,506	728,518	483,228	484,557
Plan fiduciary net position:					
Contributions - employer	--	--	--	--	--
Net investment income	--	--	--	--	--
Administrative expenses	--	--	--	--	--
Benefit payments, including refunds and the implied subsidy benefit payments	--	--	--	--	--
Net change in plan fiduciary net position	--	--	--	--	--
Plan fiduciary net position - beginning of the year	--	--	--	--	--
Plan fiduciary net position - end of the year (b)	--	--	--	--	--
Net OPEB Liability - Ending (a)-(b)	$ 807,791	$ 776,506	$ 728,518	$ 483,228	$ 484,557
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%	0.00%
Covered - employee payroll**	$ 2,384,186	$ 2,430,838	$ 2,458,539	$ 2,411,907	$ 2,127,435
Net OPEB liability as a percentage of covered - employee payroll	33.88%	31.94%	29.63%	20.04%	22.78%

Notes to Schedule:

Changes in Benefit Terms:
None

Change in Assumptions:
The discount rate changed from 3.79% for the measurement period ended March 31, 2019, to 2.27% for the measurement period ended March 31, 2020, to 2.40% for the period ended March 31, 2021, to 2.73% for the period ended March 31, 2022 as a result of the change in the municipal bond 20-year high grade rate index.

* - Fiscal year 2019 was the first year of implementation, therefore five years are shown.

** - For the year ending on the measurement date

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

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Santa Cruz Port District (the District), as of and for the year ended March 31, 2023, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Hutchinson and Bloodgood LLP

September 26, 2023