

**SANTA CRUZ PORT DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Years Ended
March 31, 2026
(With Comparative Amounts as of March 31, 2025)**

NIGRO & NIGRO^{PC}

SANTA CRUZ PORT DISTRICT

For the Fiscal Years Ended March 31, 2026

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Port Commissioners
Santa Cruz Port District
Santa Cruz, California

Opinion

We have audited the accompanying financial statements of the Santa Cruz Port District (District), which comprise the balance sheets as of March 31, 2026, and related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of March 31, 2026, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's 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 opinion.

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.

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Auditor's 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 auditor's report that includes our opinion. 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 generally accepted auditing standards 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 generally accepted auditing standards 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, Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, Schedule of the District's Contributions to the Pension Plan, and Schedule of Changes in the District's Total OPEB Liability and Related Ratios 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended March 31, 2025, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated August 25, 2026, 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 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 the District's internal control over financial reporting and compliance.



Walnut Creek, California
August 25, 2026

SANTA CRUZ PORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)

Management's Discussion and Analysis (MD&A) offers readers of Santa Cruz Port District's financial statements a narrative overview of the District's financial activities for the years ended March 31, 2026. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2026, the District's net position increased 15.39%, or \$5,618,601 from the prior year's net position of \$36,512,255 to \$42,130,854, as a result of the year's operations.
- In fiscal year 2026, operating revenues increased by 3.35%, or \$386,634 from \$11,527,842 to \$11,914,476 from the prior year, primarily due to a \$419,493 increase in charges for berthing and services.
- In fiscal year 2026, operating expenses before depreciation expense decreased by 12.11% or \$1,434,950 from \$11,852,551 to \$10,417,601, from the prior year, primarily due to a \$2,092,939 decrease in facilities and maintenance expense due to less repair expenses due to storm damage in the previous year.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

SANTA CRUZ PORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

Condensed Balance Sheets

	<u>March 31, 2026</u>	<u>March 31, 2025</u>	<u>Change</u>
Assets:			
Current assets	\$ 17,921,498	\$ 21,001,781	\$ (3,080,283)
Noncurrent	25,087,094	12,769,964	12,317,130
Capital assets, net	<u>40,109,615</u>	<u>36,100,974</u>	<u>4,008,641</u>
Total assets	<u>83,118,207</u>	<u>69,872,719</u>	<u>13,245,488</u>
Deferred outflows of resources	<u>1,605,116</u>	<u>1,654,792</u>	<u>(49,676)</u>
Total assets and deferred outflows of resources	<u>\$ 84,723,323</u>	<u>\$ 71,527,511</u>	<u>\$ 13,195,812</u>
Liabilities:			
Current liabilities	\$ 6,323,578	\$ 9,446,051	\$ (3,122,473)
Noncurrent liabilities	<u>24,745,456</u>	<u>13,674,933</u>	<u>11,070,523</u>
Total liabilities	<u>31,069,034</u>	<u>23,120,984</u>	<u>7,948,050</u>
Deferred inflows of resources	<u>11,523,434</u>	<u>11,894,273</u>	<u>(370,839)</u>
Net position:			
Net investment in capital assets	33,208,820	27,926,630	5,282,190
Restricted	993,475	1,081,801	(88,326)
Unrestricted	<u>7,928,560</u>	<u>7,503,823</u>	<u>424,737</u>
Total net position	<u>42,130,855</u>	<u>36,512,254</u>	<u>5,618,601</u>
Total liabilities, deferred inflows and net position	<u>\$ 84,723,323</u>	<u>\$ 71,527,511</u>	<u>\$ 13,195,812</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$42,130,855 and \$36,512,254 as of March 31, 2026, and 2025, respectively.

SANTA CRUZ PORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (48% as of March 31, 2026, and 76% as of March 31, 2025) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of fiscal years 2026 and 2025, the District showed a positive balance in its unrestricted net position of \$7,928,560 and \$7,503,823, respectively, which may be utilized in future years.

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

	<u>March 31, 2026</u>	<u>March 31, 2025</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 11,914,476	\$ 11,527,842	\$ 386,634
Non-operating revenues	<u>3,073,294</u>	<u>2,256,097</u>	<u>817,197</u>
Total revenues	<u>14,987,770</u>	<u>13,783,939</u>	<u>1,203,831</u>
Expenses:			
Operating expenses	10,513,644	11,852,551	(1,338,907)
Depreciation	2,248,092	2,100,035	148,057
Non-operating expenses	<u>320,750</u>	<u>296,226</u>	<u>24,524</u>
Total expenses	<u>13,082,486</u>	<u>14,248,812</u>	<u>(1,166,326)</u>
Capital contributions	<u>3,713,317</u>	<u>266,140</u>	<u>3,447,177</u>
Change in net position	<u>5,618,601</u>	<u>(198,733)</u>	<u>5,817,334</u>
Net position:			
Beginning of year	<u>36,512,254</u>	<u>36,710,987</u>	<u>(198,733)</u>
End of year	<u>\$ 42,130,855</u>	<u>\$ 36,512,254</u>	<u>\$ 5,618,601</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased by \$5,618,600 and decreased \$198,733 for the years ended March 31, 2026, and 2025, respectively.

SANTA CRUZ PORT DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)***FINANCIAL ANALYSIS OF THE DISTRICT (continued)****Total Revenues**

Operating revenues:	March 31, 2026	March 31, 2025	Change
Charges for berthing and services	\$ 9,468,559	\$ 9,049,066	\$ 419,493
Rents and concessions	2,445,917	2,478,776	(32,859)
Total operating revenues	11,914,476	11,527,842	386,634
Non-operating revenues:			
Investment earnings	737,486	951,333	(213,847)
Grants and contributions	1,583,166	695,756	887,410
Dredging reimbursement	630,000	525,000	105,000
Other non-operating revenues	122,642	84,008	38,634
Total non-operating revenues	3,073,294	2,256,097	817,197
Capital contributions	3,713,317	266,140	3,447,177
Total revenue	\$ 18,701,087	\$ 14,050,079	\$ 4,651,008

In fiscal year 2026, operating revenues increased by 3.35%, or \$386,634 from \$11,527,842 to \$11,914,476 from the prior year, primarily due to a \$419,493 increase in charges for berthing and services. Non-operating revenue increased by \$817,197 primarily due to an increase in grants and contributions.

Total Expenses

Operating expenses:	March 31, 2026	March 31, 2025	Change
Salaries and benefits	\$ 5,362,387	\$ 5,393,455	\$ (31,068)
Facilities and maintenance	704,398	1,872,958	(1,168,560)
Professional and legal	447,069	421,217	25,852
Materials and services	2,615,161	2,452,318	162,843
Insurance	1,288,586	1,712,603	(424,017)
Total operating expenses	10,417,601	11,852,551	(1,434,950)
Depreciation	2,248,092	2,100,035	148,057
Non-operating expenses:			
Interest expense – long-term debt	320,750	296,226	24,524
Cost of debt issuance	96,043	-	96,043
Total non-operating expenses	416,793	296,226	120,567
Total expenses	\$ 13,082,486	\$ 14,248,812	\$ (1,166,326)

In fiscal year 2026, operating expenses before depreciation expense decreased by 12.11% or \$1,434,950 from \$11,852,551 to \$10,417,601, from the prior year, primarily due to a \$2,092,939 decrease in facilities and maintenance expense due to less repair expenses due to storm damage in the previous year.

SANTA CRUZ PORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Capital Assets

<u>Description</u>	<u>March 31, 2026</u>	<u>March 31, 2025</u>
Non-depreciable assets	\$ 4,077,970	\$ 3,624,394
Depreciable assets	78,199,427	73,565,446
Accumulated depreciation	<u>(42,167,782)</u>	<u>(41,088,866)</u>
Total capital assets, net	<u>\$ 40,109,615</u>	<u>\$ 36,100,974</u>

At the end of fiscal year 2026, and 2025, the District's investment in capital assets amounted to \$40,109,615, and \$36,100,974 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$6,256,732 for various projects and equipment for the year ended March 31, 2026. See Note 5 for further information.

Debt Administration

The long-term debt of the District is summarized below:

<u>Description</u>	<u>March 31, 2026</u>	<u>March 31, 2025</u>
Long-term debt	<u>\$ 20,000,795</u>	<u>\$ 8,174,344</u>

Long-term debt increased by \$11,826,450 for the year ended March 31, 2026, due to the issuance of a new revenue obligation bond. See Note 8 for further information.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Port Director at 135 5th Avenue, Santa Cruz, CA 95062

SANTA CRUZ PORT DISTRICT*Balance Sheets**For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)*

ASSETS	2026	2025
Current assets:		
Cash and investments (Note 2)	\$ 16,350,897	\$ 19,668,347
Accrued interest receivable	3,126	3,366
Accrued interest receivable –leases	30,725	32,950
Accounts receivable	514,518	301,516
Lease receivable (Note 4)	773,501	794,671
Materials and supplies inventory	26,627	20,435
Prepaid items	222,104	180,496
Total current assets	17,921,498	21,001,781
Non-current assets:		
Restricted – cash and cash equivalents (Note 3)	14,093,475	1,081,801
Lease receivable (Note 4)	10,993,619	11,688,163
Capital assets – not being depreciated (Note 5)	4,077,970	3,624,394
Capital assets – being depreciated, net (Note 5)	36,031,645	32,476,580
Total non-current assets	65,196,709	48,870,938
Total assets	83,118,207	69,872,719
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions (Note 9)	1,371,500	1,515,801
Deferred outflows of resources related to OPEB (Note 10)	233,616	138,991
Total deferred outflows of resources	1,605,116	1,654,792
Total assets and deferred outflows of resources	\$ 84,723,323	\$ 71,527,511

SANTA CRUZ PORT DISTRICT*Balance Sheets (continued)**For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)*

LIABILITIES**Current liabilities:**

Accounts payable and accrued expenses	\$ 568,064	\$ 392,392
Customer deposits and unearned revenue (Note 6)	3,920,627	7,593,015
Accrued interest payable	102,504	40,388
Long-term liabilities – due within one year:		
Compensated absences (Note 7)	142,945	146,707
Loans payable (Note 8)	1,017,862	1,057,521
Revenue obligations payable (Note 8)	571,576	216,028
Total current liabilities	6,323,578	9,446,051

Non-current liabilities:

Long-term liabilities – due in more than one year:		
Compensated absences (Note 7)	333,537	342,316
Loans payable (Note 8)	4,000,067	5,017,929
Revenue obligations payable (Note 8)	14,411,290	1,882,866
Total OPEB liability (Note 10)	891,895	707,562
Net pension liability (Note 9)	5,108,667	5,724,260
Total non-current liabilities	24,745,456	13,674,933
Total liabilities	31,069,034	23,120,984

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to leases (Note 4)	10,410,903	11,410,945
Deferred inflows of resources related to pensions (Note 9)	826,684	156,390
Deferred inflows of resources related to OPEB (Note 10)	285,847	326,938
Total deferred inflows of resources	11,523,434	11,894,273

NET POSITION

Net investment in capital assets (Note 11)	33,208,820	27,926,630
Restricted for debt service (Note 3)	993,475	1,081,801
Unrestricted	7,928,560	7,503,823
Total net position	42,130,855	36,512,254
Total liabilities, deferred inflows of resources and net position	\$ 84,723,323	\$ 71,527,511

SANTA CRUZ PORT DISTRICT*Statements of Revenues, Expenses and Changes in Net Position**For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)*

	<u>2026</u>	<u>2025</u>
OPERATING REVENUES		
Charges for berthing and services	\$ 9,468,559	\$ 9,049,066
Rents and concessions	<u>2,445,917</u>	<u>2,478,776</u>
Total operating revenues	<u>11,914,476</u>	<u>11,527,842</u>
OPERATING EXPENSES		
Salaries and benefits	5,362,387	5,393,455
Facilities and maintenance	704,398	1,872,958
Professional and legal services	447,069	421,217
Materials and services	2,615,161	2,452,318
Insurance	<u>1,288,586</u>	<u>1,712,603</u>
Total operating expenses before depreciation	<u>10,417,601</u>	<u>11,852,551</u>
Operating income(loss) before depreciation	1,496,875	(324,709)
Depreciation expense	<u>(2,248,092)</u>	<u>(2,100,035)</u>
Operating income(loss)	<u>(751,217)</u>	<u>(2,424,744)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	737,486	951,333
Interest expense – long-term debt	(320,750)	(296,226)
Grants and contributions	1,583,166	695,756
Dredging reimbursement (Note 12)	630,000	525,000
Cost of debt issuance	(96,043)	-
Other non-operating revenues	<u>122,642</u>	<u>84,008</u>
Total non-operating revenue(expense), net	<u>2,656,501</u>	<u>1,959,871</u>
Net income(loss) before capital contributions	<u>1,905,284</u>	<u>(464,873)</u>
CAPITAL CONTRIBUTIONS		
Local capital contributions	<u>3,713,317</u>	<u>266,140</u>
Total capital contributions	<u>3,713,317</u>	<u>266,140</u>
Change in net position	5,618,601	(198,733)
Net position:		
Beginning of year	<u>36,512,254</u>	<u>36,710,987</u>
End of year	<u><u>\$ 42,130,855</u></u>	<u><u>\$ 36,512,254</u></u>

SANTA CRUZ PORT DISTRICT*Statements of Cash Flows**For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)*

	<u>2026</u>	<u>2025</u>
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 11,552,709	\$ 11,096,179
Cash paid to employees for salaries and benefits	(5,127,309)	(4,605,003)
Cash paid to vendors and suppliers for materials and services	(4,927,342)	(6,524,945)
Net cash provided by (used in) operating activities	<u>1,498,058</u>	<u>(33,769)</u>
Cash flows from non-capital financing activities:		
Grant and contribution funding	1,583,166	695,756
Dredging reimbursement	472,500	525,000
Other non-operating revenue	122,642	84,008
Net cash provided by non-capital financing activities	<u>2,178,308</u>	<u>1,304,764</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(6,191,642)	(2,380,185)
Proceeds from local capital contributions	-	2,490,377
Proceeds from revenue obligation	13,100,000	-
Cost of debt issuance	(96,043)	-
Principal paid on long-term debt	(1,273,549)	(1,413,057)
Interest paid on long-term debt	(258,634)	(296,226)
Net cash provided by (used in) capital and related financing activities	<u>5,280,132</u>	<u>(1,599,091)</u>
Cash flows from investing activities:		
Investment earnings	<u>737,726</u>	<u>951,333</u>
Net cash provided by investing activities	<u>737,726</u>	<u>951,333</u>
Net increase in cash and cash equivalents	<u>9,694,224</u>	<u>623,237</u>
Cash and cash equivalents:		
Beginning of year	<u>20,750,148</u>	<u>20,126,911</u>
End of year	<u>\$ 30,444,372</u>	<u>\$ 20,750,148</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and investments	\$ 16,350,897	\$ 19,668,347
Restricted assets – cash and cash equivalents	14,093,475	1,081,801
Total cash and cash equivalents	<u>\$ 30,444,372</u>	<u>\$ 20,750,148</u>

SANTA CRUZ PORT DISTRICT*Statements of Cash Flows (continued)**For the Years Ended March 31, 2026 (With Comparative Amounts as of March 31, 2025)*

	<u>2026</u>	<u>2025</u>
Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:		
Operating income(loss)	<u>\$ (751,217)</u>	<u>\$ (2,424,744)</u>
Adjustments to reconcile operating income(loss) to net cash provided by (used in) operating activities:		
Depreciation	2,248,092	2,100,035
Change in assets - (increase)decrease:		
Accounts receivable	(55,502)	(105,436)
Lease receivable	717,939	722,470
Materials and supplies inventory	(6,192)	(1,935)
Prepaid items	(41,608)	(50,091)
Change in deferred outflows of resources - (increase)decrease		
Deferred outflows of resources related to pensions	144,301	593,288
Deferred outflows of resources related to OPEB	(94,625)	24,582
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	175,672	(13,823)
Customer deposits and unearned revenue	(24,162)	(7,886)
Compensated absences	(12,541)	317,569
Total OPEB liability	184,333	59,329
Net pension liability	(615,593)	(60,153)
Change in deferred inflows of resources - increase(decrease)		
Deferred inflows of resources related to leases	(1,000,042)	(1,040,811)
Deferred inflows of resources related to pensions	670,294	(113,829)
Deferred inflows of resources related to OPEB	<u>(41,091)</u>	<u>(32,334)</u>
Total adjustments	<u>2,249,275</u>	<u>2,390,975</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,498,058</u></u>	<u><u>\$ (33,769)</u></u>

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Santa Cruz Port District (District) is a political subdivision of the State of California. The District is governed by an elected Board of Commissioners, each of whom is elected to serve a four-year term. 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.

The District operates as principal landlord for the purpose of assigning or leasing Port facilities and land areas. The District's principal sources of revenue are from berthing and related services, and rentals of land and facilities. Capital construction is financed through operations, grants and revenue bond debt proceeds. Daily operation of Port facilities and regular maintenance are performed by the District's regular workforce. Major maintenance and new construction projects are awarded by bid to commercial contractors.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a district election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and is based on the best information available in the circumstances.

3. Receivables and Allowance for Doubtful Accounts

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

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

4. Lease Receivable and Deferred Inflows of Resources

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. As a lessor, the District is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The District's lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

5. Materials and Supplies 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.

6. Prepaids

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

7. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Description	Estimated Lives
Wharves and docks	3-40 years
Land improvements	3-40 years
Buildings and buildings improvements	3-30 years
Equipment	3-10 years

8. Deferred Outflows/Inflows of Resources

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

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

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

9. Compensated Absences

The District's employee benefits provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination. Cash payment for all unused sick leave is available at 50% of the employee's current pay rate upon retirement or termination. The cost of vacation is recorded in the period accrued.

In accordance with GASB No. 101, Compensated Absences, leave is recognized when it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Management evaluates sick leave for other District employees to determine the amount that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This analysis includes assessing relevant factors such as historical information about the use, payment or forfeiture of compensated absences and the District's portion of Social Security and Medicare taxes.

10. Pensions

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

The following timeframes are used for pension reporting:

Valuation Date June 30, 2024

Measurement Date June 30, 2025

Measurement Period July 1, 2024 to June 30, 2025

11. Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the Total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Santa Cruz Port District Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Valuation Date March 31, 2025

Measurement Date March 31, 2025

Measurement Period April 1, 2024 to March 31, 2025

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

12. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt for those capital assets.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Use of Estimates

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

E. Grant Funding

Grants for operating assistance and capital acquisitions are included in their respective non-operating and capital contribution sections of the statement of revenues, expenses and changes in net position. Grant funds are claimed on a reimbursement basis and receivables for grant funds are recorded as the related obligations are incurred. Grant funds advanced but not yet earned are treated as unearned revenue until the respective obligations these grants were funded for are incurred.

F. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by outside parties.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 2 – CASH AND INVESTMENTS

Cash and investments were classified in the accompanying financial statements as follows:

Description	March 31, 2026
Cash and investments	\$ 16,350,897
Restricted – cash and cash equivalents	14,093,475
Total	<u>\$ 30,444,372</u>

Cash and investments consisted of the following:

Description	March 31, 2026
Cash on hand	\$ 3,200
Deposits held with financial institutions	763,953
Deposits in Local Agency Investment Fund (LAIF)	318,980
Deposits in California CLASS	28,258,766
Deposits in money-market funds	1,099,473
Total	<u>\$ 30,444,372</u>

Demand Deposits

At March 31, 2026, the carrying amount of the District's demand deposits was \$763,953, and the financial institution balance was \$1,177,243. The \$413,290 net difference as of March 31, 2026, represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

Local Agency Investment Fund (LAIF)

The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local governmental entities. PMIA policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from LAIF at any time as LAIF is highly liquid and carries a dollar-in dollar-out amortized cost methodology.

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of March 31, 2026, the District held \$318,980 in LAIF.

California Cooperative Liquid Assets Securities System (California CLASS)

The California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS provides California public agencies with a convenient method for investing in high-quality, short- to medium-term securities carefully selected to optimize interest earnings while prioritizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that governs the investment of public funds.

The management of California CLASS is under the direction of a Board of Trustees comprised of eligible Participants of the program. The Board of Trustees has appointed Public Trust Advisors, LLC to serve as the Investment Advisor and Administrator of the program and has appointed U.S. Bank as the Custodian. The District is a voluntary participant in California CLASS. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by California CLASS for the entire California CLASS portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by California CLASS. California CLASS is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis. The California Class Prime and Enhanced Cash funds receive a credit rating of AAAM (S&P Global Ratings) and AAAs/S1 (FitchRatings), respectively. For financial reporting purposes, the District considers California CLASS a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of March 31, 2026, the District held \$28,258,766 in California CLASS.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 2 – CASH AND INVESTMENTS (continued)

Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of March 31, 2026, the District held \$1,099,473, in money market funds.

Authorized Investments and Investment Policy

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions to purchases financial investments in accordance with California Government Code 53600-53610.

Fair Value Measurement Input

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the previous table.

Credit 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. As of March 31, 2026, the District's investment in the LAIF was not rated as noted in the previous table, and the District's investment in the VCPIF was rated AAAs/S-1+.

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 fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the previous table.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in LAIF, CA CLASS or money-market funds.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 3 – RESTRICTED – ASSETS AND RESTRICTED – NET POSITION

Restricted – cash and investments as of March 31st consisted of the following:

Description	March 31, 2026
Unspent proceeds from bond issuance	\$ 13,100,000
Money-market funds held for debt service reserves	993,475
Total restricted assets	14,093,475
Less: Unspent proceeds from bond issuance	(13,100,000)
Total restricted – net position	<u>\$ 993,475</u>

The District’s restricted cash and investments are funds required for debt service.

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES

Changes in the District’s lease receivable for the year ended March 31, 2026, were as follows:

Description	Balance April 1, 2024	Additions	Deductions	Adjustments	Balance March 31, 2025
State Farm	\$ 51,217	\$ -	\$ (38,143)	\$ -	\$ 13,074
O’neill Sea Odyssey	397,429	-	(23,551)	-	373,878
Santa Cruz Yacht Club	2,480,893	-	(80,678)	-	2,400,215
Pacific Yachting & Sailing	33,439	-	(14,900)	-	18,539
Chardonnay	11,146	-	(4,966)	-	6,180
Bayside Marine	349,706	-	(34,549)	-	315,157
UCSC	15,843	-	(12,615)	-	3,228
Beacon Pointe Advisors, LLC	47,875	-	(47,875)	-	-
Intero Real Estate	328,912	-	(97,330)	-	231,582
Johnny’s Harborside Restaurant	1,823,085	-	(54,448)	-	1,768,637
H&H Fresh Fish	46,146	-	(15,416)	-	30,730
Java Junction	442,673	-	(76,856)	-	365,817
Cafe El Palomar	1,573,112	-	(122,065)	-	1,451,047
Crow’s Nest Beach Market	718,596	-	(68,075)	-	650,521
Crow’s Nest	4,162,762	-	(220,021)	195,774	4,138,515
Total lease receivable	<u>\$ 12,482,834</u>	<u>\$ -</u>	<u>\$ (911,488)</u>	<u>\$ 195,774</u>	<u>\$ 11,767,120</u>

The District is the lessor of 15 individual land and improvements leases under 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 leases held by the District do not have an implicit rate of return, therefore the District used their incremental borrowing rate at as of the time the lease initiated to discount the lease revenue to the net present value.

In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease. Also, certain leasing-types are considered “volatile leases.” Those volatile leases were not extended past their initial lease period for financial statement recognition due to their volatility. Certain long-term, non-cancelable leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

The District is reporting a total lease receivable of \$11,767,120 and a total related deferred inflows of resources of \$10,410,903 for the year ending March 31, 2026. Also, the District is reporting total lease revenue of \$1,050,696 and interest revenue of \$390,477 related to lease payments received for the year ending March 31, 2026. The District's leases are summarized as follows:

State Farm

The District, on June 1, 2022, entered into a lease agreement for 50 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$145,167. As of March 31, 2026, the value of the lease receivable was \$13,074. The lease is required to make monthly fixed payments of \$2,961 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$11,844 as of March 31, 2026. The District recognized lease revenue of \$35,533 and interest revenue of \$809 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

O'Neill Sea Odyssey

The District, on June 1, 2022, entered into a lease agreement for 258 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$452,737. As of March 31, 2026, the value of the lease receivable was \$373,878. The lease is required to make monthly fixed payments of \$1,759 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$374,562 as of March 31, 2026. The District recognized lease revenue of \$21,102 and interest revenue of \$12,542 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Santa Cruz Yacht Club

The District, on May 1, 2022, entered into a lease agreement for 240 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$2,671,100. As of March 31, 2026, the value of the lease receivable was \$2,400,215. The lease is required to make monthly fixed payments of \$11,180 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$2,157,690 as of March 31, 2026. The District recognized lease revenue of \$134,157 and interest revenue of \$79,460 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Pacific Yachting and Sailing

The District, on April 1, 2022, continued a lease agreement for 62 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$72,127. As of March 31, 2026, the value of the lease receivable was \$18,539. The lease is required to make monthly fixed payments of \$1,182 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 2.42%. The value of the deferred inflow of resources was \$16,550 as of March 31, 2026. The District recognized lease revenue of \$14,185 and interest revenue of \$615 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Chardonnay

The District, on April 1, 2022, continued a lease agreement for 62 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$24,046. As of March 31, 2026, the value of the lease receivable was \$6,180. The lease is required to make monthly fixed payments of \$394 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$5,518 as of March 31, 2026. The District recognized lease revenue of \$4,729 and interest revenue of \$205 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

Bayside Marine

The District, on April 1, 2022, continued a lease agreement for 130 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$436,540. As of March 31, 2026, the value of the lease receivable was \$315,157. The lease is required to make monthly fixed payments of \$3,384 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$277,511 as of March 31, 2026. The District recognized lease revenue of \$40,611 and interest revenue of \$10,793 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

UCSC

The District, on April 1, 2022, continued a lease agreement for 51 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$48,665. As of March 31, 2026, the value of the lease receivable was \$3,228. The lease is required to make monthly fixed payments of \$973 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$2,918 as of March 31, 2026. The District recognized lease revenue of \$11,670 and interest revenue of \$220 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Beacon Pointe Advisors, LLC

The District, on April 1, 2022, continued a lease agreement for 45 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$235,126. As of March 31, 2026, the value of the lease receivable was \$0. The lease is required to make monthly fixed payments of \$5,467 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$0 as of March 31, 2026. The District recognized lease revenue of \$43,740 and interest revenue of \$368 during the fiscal year. The lessee will be evaluated by the District for future extensions and has ended as of March 31, 2026.

Intero Real Estate

The District, on April 1, 2022, continued a lease agreement for 113 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$581,398. As of March 31, 2026, the value of the lease receivable was \$231,582. The lease is required to make monthly fixed payments of \$7,962 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$207,022 as of March 31, 2026. The District recognized lease revenue of \$95,548 and interest revenue of \$6,689 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Johnny's Harborside Restaurant

The District, on April 1, 2022, continued a lease agreement for 74 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$1,950,175. As of March 31, 2026, the value of the lease receivable was \$1,768,637. The lease is required to make monthly fixed payments of \$8,403 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$1,554,468 as of March 31, 2026. The District recognized lease revenue of \$100,830 and interest revenue of \$58,476 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

H&H Fresh Fish

The District, on April 1, 2022, continued a lease agreement for 70 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$85,885. As of March 31, 2026, the value of the lease receivable was \$30,730. The lease is required to make monthly fixed payments of \$1,244 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$27,373 as of March 31, 2026. The District recognized lease revenue of \$14,931 and interest revenue of \$915 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Java Junction

The District, on April 1, 2022, continued a lease agreement for 97 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$641,389. As of March 31, 2026, the value of the lease receivable was \$365,817. The lease is required to make monthly fixed payments of \$6,679 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$327,287 as of March 31, 2026. The District recognized lease revenue of \$80,152 and interest revenue of \$9,709 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Café El Palomar

The District, on April 1, 2022, continued a lease agreement for 112 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$1,877,309. As of March 31, 2026, the value of the lease receivable was \$1,451,047. The lease is required to make monthly fixed payments of \$12,771 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$1,277,135 as of March 31, 2026. The District recognized lease revenue of \$153,256 and interest revenue of \$49,139 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Crow's Nest Beach Market

The District, on April 1, 2022, continued a lease agreement for 132 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$882,899. As of March 31, 2026, the value of the lease receivable was \$650,521. The lease is required to make monthly fixed payments of \$6,686 for the first 12-month period, then increases annually based on the CPI index. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was \$568,304 as of March 31, 2026. The District recognized lease revenue of \$80,231 and interest revenue of \$22,230 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

Crow's Nest

The District, on April 1, 2022, continued a lease agreement for 248 months as lessor for the use of District property. An initial lease receivable was recorded in the amount of \$4,547,441. As of March 31, 2026, the value of the lease receivable was \$4,138,515. The lease is required to make monthly fixed payments of \$18,335 for the first 12-month period, then increases annually based on the CPI index. As of March 31, 2026 the lease interest rate increased from 3.26% to 4.12% and the lease receivable and deferred inflow of resources balances were adjusted accordingly. The value of the deferred inflow of resources was \$3,602,721 as of March 31, 2026. The District recognized lease revenue of \$220,022 and interest revenue of \$138,307 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period.

Minimum future lease receipts are as follows:

Fiscal Year	Principal	Interest	Total
2027	\$ 773,501	\$ 367,106	\$ 1,140,607
2028	794,775	343,475	1,138,250
2029	734,860	319,763	1,054,623
2030	718,997	319,763	1,038,760
2031	755,859	296,562	1,052,421
2032-2036	3,455,849	1,118,712	4,574,561
2037-2041	3,469,576	585,298	4,054,874
2042-2044	1,063,703	76,120	1,139,823
Total	11,767,120	\$ 3,426,799	\$ 15,193,919
Current	(773,501)		
Long-term	<u>\$ 10,993,619</u>		

Changes in the District's deferred inflows of resources related to leases for March 31, 2026, were as follows:

Description	Balance April 1, 2024	Additions	Deductions	Adjustments	Balance March 31, 2025
State Farm	\$ 47,377	\$ -	\$ (35,533)	\$ -	\$ 11,844
O'Neill Sea Odyssey	395,664	-	(21,102)	-	374,562
Santa Cruz Yacht Club	2,291,847	-	(134,157)	-	2,157,690
Pacific Yachting & Sailing	30,735	-	(14,185)	-	16,550
Chardonay	10,247	-	(4,729)	-	5,518
Bayside Marine	318,122	-	(40,611)	-	277,511
UCSC	14,588	-	(11,670)	-	2,918
Beacon Pointe Advisors, LLC	43,740	-	(43,740)	-	-
Intero Real Estate	302,570	-	(95,548)	-	207,022
Johnny's Harborside Restaurant	1,655,298	-	(100,830)	-	1,554,468
H&H Fresh Fish	42,304	-	(14,931)	-	27,373
Java Junction	407,439	-	(80,152)	-	327,287
Cafe El Palomar	1,430,391	-	(153,256)	-	1,277,135
Crow's Nest Beach Market	648,535	-	(80,231)	-	568,304
Crow's Nest	3,772,088	-	(188,267)	18,900	3,602,721
Total lease receivable	<u>\$ 11,410,945</u>	<u>\$ -</u>	<u>\$ (1,018,942)</u>	<u>\$ 18,900</u>	<u>\$ 10,410,903</u>

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

The amounts reported as deferred inflows of resources related to leases for the year ended March 31, 2026, will be amortized in future periods as follows:

Amortization Period Fiscal Year Ended March 31	Deferred Inflows of Resources
2027	\$ 974,516
2028	941,503
2029	846,285
2030	830,360
2031	756,888
Thereafter	6,061,351
	<u>\$ 10,410,903</u>

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended March 31, 2026, were as follows:

Description	Balance April 1, 2025	Additions	Deletions/ Transfers	Balance March 31, 2026
Non-depreciable assets:				
Land	\$ 2,201,360	\$ -	\$ -	\$ 2,201,360
Construction-in-process	1,423,034	733,450	(279,874)	1,876,610
Total non-depreciable assets	<u>3,624,394</u>	<u>733,450</u>	<u>(279,874)</u>	<u>4,077,970</u>
Depreciable assets:				
Structures and improvements	33,552,205	1,822,185	-	35,374,390
Docks	28,378,419	3,538,958	(743,300)	31,174,077
Equipment	11,580,448	422,766	(413,155)	11,590,059
Office equipment	54,374	19,247	(12,720)	60,901
Total depreciable assets	<u>73,565,446</u>	<u>5,803,156</u>	<u>(1,169,175)</u>	<u>78,199,427</u>
Accumulated depreciation:				
Structures and improvements	(23,376,181)	(633,267)	-	(24,009,448)
Docks	(11,790,580)	(1,095,736)	743,300	(12,143,016)
Equipment	(5,867,731)	(518,613)	413,155	(5,973,189)
Office equipment	(54,374)	(475)	12,720	(42,129)
Total accumulated depreciation	<u>(41,088,866)</u>	<u>(2,248,091)</u>	<u>1,169,175</u>	<u>(42,167,782)</u>
Total depreciable assets, net	<u>32,476,580</u>	<u>3,555,065</u>	<u>-</u>	<u>36,031,645</u>
Total capital assets, net	<u>\$ 36,100,974</u>	<u>\$ 4,288,515</u>	<u>\$ (279,874)</u>	<u>\$ 40,109,615</u>

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
 March 31, 2026

NOTE 6 – CUSTOMER DEPOSITS AND UNEARNED REVENUE

Customer deposits and unearned revenue consisted of the following:

Description	March 31, 2026
Prepaid slip rent	\$ 244,053
Slip and key deposits	442,841
Unearned revenue – Murray St. Bridge Project	<u>3,233,733</u>
Total	<u>\$ 3,920,627</u>

On August 10, 2021, The District entered into an agreement with the City of Santa Cruz. The agreement grants the city possession and use of portions of District property for the purpose of constructing the Murray Street Bridge seismic retrofit and barrier replacement project. Per the agreement, the city acquired both permanent and temporary easements, the City deposited \$5,149,000 into an escrow account with First American Title Company. \$345,818 is for the purchase of a permanent easement, with the remaining \$4,803,182 to be used by the District for curative work to reconfigure the port as necessary to continue operations. In the fiscal year ending March 31, 2025, the District received an additional \$2,490,377 from the City of Santa Cruz for the Murray Street Bridge project

The District recorded the initial \$4,803,182 as deferred revenue and will recognize revenue as the costs are incurred for the curative work. In the fiscal year ending March 31, 2026, the District recognized \$3,648,226 in capital contributions related to the agreement.

NOTE 7 – COMPENSATED ABSENCES

As of March 31, 2026, the total liability for compensated absences was \$476,482, of which \$142,945 is expected to be paid within one year and is reported as a current liability.

Balance April 1, 2025	Net Change	Balance March 31, 2026	Due Within One Year	Due in More Than One Year
\$ 489,023	\$ (12,541)	\$ 476,482	\$ 142,945	\$ 333,537

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 8 – LONG-TERM DEBT

Changes in long-term debt for the year ended March 31, 2026, were as follows:

Long-Term Debt	Balance April 1, 2025	Additions/ Adjustments	Payments/ Amortization	Balance March 31, 2026	Current Portion	Non-Current Portion
497 Lake avenue loan	\$ 893,093	\$ -	\$ (19,048)	\$ 874,045	\$ 19,824	\$ 854,221
PNC bank loan– taxable	99,656	-	(84,893)	14,763	14,763	-
PNC bank loan– non-taxable	5,082,701	-	(953,580)	4,129,121	983,275	3,145,846
Loans payable	6,075,450	-	(1,057,521)	5,017,929	1,017,862	4,000,067
Revenue obligation payable – 2018A	1,096,438	-	(112,851)	983,587	116,835	866,752
Revenue obligation payable – 2018B	1,002,456	-	(103,177)	899,279	106,821	792,458
Revenue obligations payable, net – 2018	2,098,894	-	(216,028)	1,882,866	223,656	1,659,210
Revenue obligation payable – 2026	-	13,100,000	-	13,100,000	347,920	12,752,080
Total long-term debt	\$ 8,174,344	\$ 13,100,000	\$ (1,273,549)	\$ 20,000,795	\$ 1,589,438	\$ 18,411,357

497 Lake Avenue Loan Payable

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.

Annual debt service requirements for loan payable are as follows:

Fiscal Year	Principal	Interest	Total
2027	\$ 19,824	\$ 34,601	\$ 54,425
2028	20,632	33,793	54,425
2029	21,473	32,953	54,426
2030	22,348	32,078	54,426
2031	23,258	31,167	54,425
2032-2036	131,300	140,827	272,127
2037-2041	160,316	111,811	272,127
2042	474,894	13,890	488,784
Total	874,045	\$ 431,120	\$ 1,305,165
Less: current	(19,824)		
Non-current	\$ 854,221		

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 8 – LONG-TERM DEBT (continued)

PNC Bank Loans – Taxable and Non-Taxable

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. The proceeds of the loan were used to pay off the existing Series 2004C revenue bonds, as well as to provide funding to pay off the OE3 pension liability. The 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.

Annual debt service requirements for loan payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ 14,763	\$ 525	\$ 15,288
Total	14,763	525	15,288
Less: current	(14,763)		
Non-current	\$ -		

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. The 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. Annual debt service requirements for loan payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ 983,275	\$ 119,994	\$ 1,103,269
2028	1,013,895	89,374	1,103,269
2029	1,045,468	57,801	1,103,269
2030	1,086,483	16,787	1,103,270
Total	4,129,121	\$ 283,956	\$ 4,413,077
Less: current	(983,275)		
Non-current	\$ 3,145,846		

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 8 – LONG-TERM DEBT (continued)

Revenue Obligations Payable – 2018A and 2018B

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. Annual debt service requirements for the 2018A Revenue Obligation payable are as follows:

Fiscal Year	Principal	Interest	Total
2027	\$ 116,835	\$ 33,412	\$ 150,247
2028	120,961	29,287	150,248
2029	125,231	25,016	150,247
2030	129,653	20,595	150,248
2031	134,230	16,017	150,247
2032-2034	356,677	18,942	375,619
Total	983,587	\$ 143,269	\$ 1,126,856
Less: current	(116,835)		
Non-current	\$ 866,752		

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. Annual debt service requirements for the 2018B Revenue Obligation payable are as follows:

Fiscal Year	Principal	Interest	Total
2027	\$ 106,821	\$ 30,548	\$ 137,369
2028	110,592	26,777	137,369
2029	114,497	22,872	137,369
2030	118,540	18,830	137,370
2031	122,725	14,644	137,369
2032-2034	326,104	17,318	343,422
Total	899,279	\$ 130,989	\$ 1,030,268
Less: current	(106,821)		
Non-current	\$ 792,458		

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, 2026, the District was in compliance with the covenant.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
 March 31, 2026

NOTE 8 – LONG-TERM DEBT (continued)

Revenue Obligations Payable – 2026

On March 1, 2016, the District entered into an installment sale agreement with Flagstar Public Funding Corp. to finance the Santa Cruz Harbor Repair Project through the issuance of \$13,100,000 of 2026 Revenue Obligations. The agreement requires semiannual debt service payments of \$68,684 beginning August 1, 2026, including interest at a rate of 4.12% per annum. In addition, a final balloon payment of \$8,362,796, plus any accrued interest, is due on February 1, 2037. In connection with the issuance of the Revenue Obligations, the District incurred approximately \$96,043 in debt issuance costs. In accordance with applicable accounting standards, these costs were expensed in the period incurred.

Annual debt service requirements for the 2026 Revenue Obligation payable are as follows:

Fiscal Year	Principal	Interest	Total
2027	\$ 347,920	\$ 479,751	\$ 827,671
2028	290,640	525,386	816,026
2029	336,816	513,411	850,227
2030	386,658	499,535	886,193
2031	532,686	483,604	1,016,290
2032-2036	3,011,280	2,070,169	5,081,449
2037	8,194,000	337,593	8,531,593
Total	13,100,000	\$ 4,909,449	\$ 18,009,449
Less: current	(347,920)		
Non-current	\$ 12,752,080		

The borrowing agreements with Flagstar Public Funding Corp. for the taxable and tax-exempt loans, as well as the 2026 Revenue Obligations, contain a rate covenant requiring the District to maintain net revenues of at least 1.25 times annual debt service. As of March 31, 2026, the District was in compliance with this covenant.

NOTE 9 – PENSION PLAN

Summary

The following balances on the balance sheet will be addressed in this footnote as follows:

Description	2026
Pension related deferred outflows	\$ 1,371,500
Net pension liability	5,108,667
Pension related deferred inflows	826,684

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
 March 31, 2026

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan

The Plan

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	Miscellaneous Plans		
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3
Hire date	Prior to January 1, 2013	With prior service On or after January 1, 2013	Without prior service On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0 @ 60	2.0 @ 62
Benefit vesting schedule	5-years or service	5-years or service	5-years or service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.0%	1.0% to 2.0%
Required member contribution rates	8.00%	7.000%	7.750%
Required employer contribution rates – FY 2025	13.410%	10.150%	7.870%

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2025 Annual Actuarial Valuation Reports. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

At June 30, 2025, (Measurement Date) the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1 & 2	PEPRA Tier 3	
Active members	11	21	32
Transferred and terminated members	14	27	41
Retired members and beneficiaries	27	2	29
Total plan members	52	50	102

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

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

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 nonindustrial disability benefits after five years of service. The death benefit is one of the following the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each Plan are applied as specified by the Public Employees’ Retirement Law.

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of March 31 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.

Contributions for the fiscal year ended March 31, 2026, were as follows:

Contribution Type	Miscellaneous Plans			Total
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3	
Contributions – employer	\$ 607,915	\$ 31,166	\$ 159,756	\$ 798,837

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

Proportionate Share of Net Pension Liability and Pension Expense

The District’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2025, and the total pension liability for each Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2024, rolled forward to June 30, 2025, 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 plans relative to the projected contributions of all participating employers, actuarially determined.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 9 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (continued)

The following table shows the District's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2025 (MD):

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2024 (Measurement Date)	\$ 21,130,751	\$ 15,406,491	\$ 5,724,260
Balance as of June 30, 2025 (Measurement Date)	\$ 21,965,130	\$ 16,856,463	\$ 5,108,667
Change in Plan Net Pension Liability	\$ 834,379	\$ 1,449,972	\$ (615,593)

The District's proportionate share percentage of the net pension liability for the June 30, 2025, measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		
	<u>Fiscal Year Ending March 31, 2026</u>	<u>Fiscal Year Ending March 31, 2025</u>	<u>Change Increase/ (Decrease)</u>
Measurement Date	June 30, 2025	June 30, 2024	
Percentage of Risk Pool Net Pension Liability	0.128060%	0.080070%	0.047990%
Percentage of Plan (PERF C) Net Pension Liability	0.049940%	0.047200%	0.002740%

For the year ended March 31, 2026, the District recognized pension expense of \$1,116,109. At March 31, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 646,839	\$ -
Difference between actual and proportionate share of employer contributions	109,643	-
Adjustment due to differences in proportions	2,876	(135,425)
Differences between expected and actual experience	612,141	-
Differences between projected and actual earnings on pension plan investments	-	(691,259)
Total Deferred Outflows/(Inflows) of Resources	\$ 1,371,499	\$ (826,684)

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 9 – PENSION PLAN (continued)

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

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 3.8 years.

An amount of \$646,839 was reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2027.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at March 31, 2026 will be recognized as a reduction to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2027	\$ 628,745
2028	(159,514)
2029	(307,373)
2030	(263,882)
Total	<u>\$ (102,024)</u>

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2025 (the measurement dates), the total pension liability was determined by rolling forward the June 30, 2024 total pension liability. The June 30, 2025 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
 March 31, 2026

NOTE 9 – PENSION PLAN (continued)

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

Long-term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Assumed Asset Allocation	Real Return ^{1,2}
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Estate	15.0%	3.21%
Leverage	-5.0%	-0.59%
	100.0%	

¹ An expected inflation of 2.30% is used for this period.

² Figures are based on the 2021 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
March 31, 2026

NOTE 9 – PENSION PLAN (continued)

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

Subsequent Events

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

For the year ended March 31, 2026, (Measurement Date June 30, 2025) were as follows:

Plan Type	Plan's Net Pension Liability		
	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
CalPERS – Miscellaneous Plan	\$ 8,072,811	\$ 5,108,667	\$ 2,669,207

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Summary

The following balances on the balance sheet will be addressed in this footnote as follows:

Description	2026
OPEB related deferred outflows	\$ 233,616
Total other post-employment benefits obligation	891,895
OPEB related deferred inflows	285,847

A. General Information about the OPEB Plan

Plan description

The District provides other post-retirement health care, vision care, dental care and life insurance benefits, in accordance with the Board of Port Commissioners employee benefit resolutions, to all employees who retire from the District and meet the age and years of service requirements as specified in such resolutions. Retired Port Commissioners are subject to additional eligibility requirements as specified in Government Code Section 53201.

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.

To be eligible for benefits the employee must retire directly from the District under CalPERS (age 50 with 5 years of service, or disability retirement). The plan provides for a \$2,000 annual benefit, with the District providing the excess of \$2,000 per year over the PEMHCA minimum unequal benefit for retirement at age 60 with 20 years of service, with the benefit stopping at age 65.

Employees covered by benefit terms

As of March 31, 2025 measurement the following employees were covered by the benefit terms:

	2025
Inactive plan members or beneficiaries currently receiving benefit payments	4
Inactive plan members entitled to but not yet receiving benefit payments	16
Active plan members	32
Total	52

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 (\$157 for 202) 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, 2026 was \$5,369.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

A. General Information about the OPEB Plan (continued)

Contributions

Benefit provisions and contribution requirements are established and may be amended through agreements and memorandums of understanding between the District and its employees. The plan does not require employee contributions. Administrative costs of this plan are financed by the District. For fiscal year ended March 31, 2026, the measurement period, the District's contributions totaling \$11,753, included \$4,208 in premium payments and an implied subsidy of \$7,545, and \$153 in administrative expenses.

B. Total OPEB Liability

The District's Total OPEB liability was measured as of March 31, 2025, and 2024, and the total OPEB liability used to calculate the Total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total OPEB liability in the March 31, 2025, and 2024 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	March 31, 2025
Measurement Date	March 31, 2025
Actuarial Cost Method	Entry age normal, level percentage of payroll
Asset Valuation Method	Market value of assets as of the measurement date
Actuarial Assumptions:	
Discount Rate	4.45%
Long-Term Expected	
Rate of Return on Investments	3.50%
Inflation	2.50%
Payroll increases	2.75%
Healthcare Trend Rates	Non-Medicare - 7.50% for 2027, decreasing to an ultimate rate of 3.53% in 2075. Medicare - 5.80% for 2027, decreasing to an ultimate rate of 3.53% in 2075.
Morbidity	CalPERS 2000-2019 Experience Study
Mortality	Projected fully generational with Scale MP-2021
Disability	CalPERS 2000-2023 Experience Study
Retirement	CalPERS 2000-2023 Experience Study
Percent Married	80% of future retirees would enroll a spouse

Discount Rate

For OPEB Plans That Are Not Administered through Trusts that meet the Criteria in Paragraph 4, GASB 75 requires a discount rate that is a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The discount rate used to measure the District's Total OPEB liability is based on the Fidelity GO AA 20 Year Municipal Index. The discount rate increased from 3.58% to 4.45% for the year ended March 31, 2026.

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
 March 31, 2026

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

B. Total OPEB Liability (continued)

Discount Rate (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Percentage of Portfolio</u>	<u>Assumed Gross Return</u>
Global Equities	59.0%	5.500%
Global Debt Securities	25.0%	2.350%
Inflation Protected Securities	5.0%	1.500%
REITs	8.0%	3.650%
Commodities	3.0%	1.750%

Rolling periods of time for all asset classes were used in combination to appropriately reflect correlation between asset classes. That means that the average returns for any asset class don't necessarily reflect the averages over time individually but reflect the return for the asset class for the portfolio average. Geometric means were used.

C. Changes in the Total OPEB Liability

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Total OPEB Liability</u>
Balance at March 31, 2025	<u>\$ 707,562</u>	<u>\$ -</u>	<u>\$ 707,562</u>
Changes for the year:			
Service cost	59,574	-	59,574
Interest	27,254	-	27,254
Changes in assumptions	51,451	-	51,451
Changes in experience	57,807	-	57,807
Benefit payments	(11,753)	-	(11,753)
Net changes	<u>184,333</u>	<u>-</u>	<u>184,333</u>
Balance at March 31, 2026	<u><u>\$ 891,895</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 891,895</u></u>

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 one percentage-point lower or one percentage-point higher than the current discount rate:

Sensitivity of the Total OPEB liability to changes in the discount rate for the fiscal year ended March 31, 2026:

<u>1% Decrease 3.5%</u>	<u>Discount Rate 4.5%</u>	<u>1% Increase 5.5%</u>
<u><u>\$ 1,016,432</u></u>	<u><u>\$ 891,895</u></u>	<u><u>\$ 787,877</u></u>

SANTA CRUZ PORT DISTRICT
Notes to Financial Statements
 March 31, 2026

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

C. Changes in the Total OPEB Liability (continued)

Sensitivity of the Total OPEB liability to changes in the healthcare cost 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 cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Sensitivity of the Total OPEB liability to changes in the healthcare trend rate for March 31, 2026:

1% Decrease	Healthcare Cost	1% Increase
3.5%	Trend Rates	5.5%
	4.5%	
<u>\$ 763,132</u>	<u>\$ 891,895</u>	<u>\$ 1,053,104</u>

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended March 31, 2026, the District recognized OPEB expense of \$76,879. At March 31, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions made after the measurement date	\$ 28,262	\$ -
Changes in assumptions	77,969	(102,640)
Differences between expected and actual experience	127,385	(183,207)
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 233,616</u>	<u>\$ (285,847)</u>

The District reported \$28,262 in 2026 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending March 31, 2026.

SANTA CRUZ PORT DISTRICT*Notes to Financial Statements**March 31, 2026*

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)**D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in fiscal year 2026 as follows:

Amortization Period Fiscal Year Ended March 31	Deferred Outflows/(Inflows) of Resources
2027	\$ (10,102)
2028	(10,097)
2029	(9,831)
2030	(5,644)
2031	(6,123)
Thereafter	(38,696)
Total	<u>\$ (80,493)</u>

NOTE 11 – NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets consisted of the following as of March 31:

Description	March 31, 2026	March 31, 2025
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 4,077,970	\$ 3,624,394
Capital assets, net – being depreciated	36,031,645	32,476,580
Loans payable – current	(1,017,862)	(1,057,521)
Loans payable – non-current	(4,000,067)	(5,017,929)
Revenue obligation payable – current	(571,576)	(216,028)
Revenue obligation payable – non-current	(14,411,290)	(1,882,866)
Unspent proceeds from bond issuance (Note 3)	13,100,000	
Total net investment in capital assets	<u>\$ 33,208,820</u>	<u>\$ 27,926,630</u>

NOTE 12 – 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 ended on April 1, 2025, and a subsequent renewal agreement was executed on July 24, 2025, which remains in effect in perpetuity. 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, 2026, the District received \$630,000 in payments from the Department of the Army Corps of Engineers for dredging operations.

NOTE 13 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the accompanying financial statements.

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and terrorism. The District has purchased various commercial and marine insurance policies to manage the potential liabilities that may occur from the previously named sources.

All coverage and limits are subject to the terms, conditions and exclusions provided in each insurance policy.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. While there were no reductions in the District's insurance coverage during the years ending March 31, 2025, and 2024, a reduction in marine general liability coverage limits was required in fiscal year 2026 due to increasingly high renewal rates. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of March 31, 2026, 2025 and 2024.

NOTE 15 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT No. 102)

The District's operations are significantly dependent on revenue generated from berthing fees, rental agreements, and concession contracts. For the fiscal year ended March 31, 2026, approximately 100% of the District's operating revenue was derived from these three sources combined.

This revenue concentration subjects the District to a risk of loss due to external economic or environmental factors that could adversely affect maritime commerce, tourism, and related port activity. Events such as shipping industry downturns, natural disasters, global trade disruptions, or regulatory changes may have a material impact on berthing activity. Similarly, rental and concession revenues are sensitive to fluctuations in tenant occupancy, retail/tourism activity, and overall economic conditions.

SANTA CRUZ PORT DISTRICT

Notes to Financial Statements

March 31, 2026

NOTE 15 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT No. 102) (continued)

The District continuously monitors these risk exposures and maintains reserve policies and diversified lease agreements to mitigate the potential impacts. However, management recognizes that the reliance on a limited number of revenue streams may pose a financial risk should there be a significant decline in any one category.

This disclosure is provided in accordance with GASB Statement No. 102, Risk Disclosures, to inform users of the financial statements of the potential financial impact associated with the District's reliance on certain revenue sources.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of harbor and port facilities as well as buildings and land improvements. The financing of such construction contracts is being provided by a combination of debt, the District's replacement reserves and advances for construction.

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such an audit could lead to requests for reimbursements from the grantor agencies for expenditures disallowed under the terms of the grant. The Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 17 – SUBSEQUENT EVENTS

In accordance with the provisions surrounding subsequent events, the District's management has evaluated events and transactions for potential recognition or disclosure through August 25, 2026, the date the financial statements were available to be issued.

Required Supplementary Information

SANTA CRUZ PORT DISTRICT*Schedule of the District's Proportionate Share of the Plan's (PERF C) Net Pension Liability
For the Year Ended March 31, 2026***Last Ten Fiscal Years****California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2016	0.040600%	\$ 3,509,957	\$ 1,730,361	202.85%	74.06%
June 30, 2017	0.040900%	4,052,992	1,995,472	203.11%	73.31%
June 30, 2018	0.041400%	3,990,879	2,174,449	183.54%	75.26%
June 30, 2019	0.042300%	4,338,392	2,239,940	193.68%	75.26%
June 30, 2020	0.043000%	4,674,819	2,222,678	210.32%	75.10%
June 30, 2021	0.053800%	2,908,996	2,211,919	131.51%	88.29%
June 30, 2022	0.046900%	5,417,181	2,167,772	249.90%	76.68%
June 30, 2023	0.046370%	5,784,413	2,437,310	237.33%	71.06%
June 30, 2024	0.047200%	5,724,260	2,581,495	221.74%	72.91%
June 30, 2025	0.049940%	5,108,667	2,858,043	178.75%	76.74%

Notes to Schedule:**Benefit Changes:**

There were no changes in benefits.

Changes in Assumptions:**From fiscal year June 30, 2016 to June 30, 2017:**

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2022:

There were no significant changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023:

The discount rate was reduced from 7.15% to 6.90% and inflation from 2.50% to 2.30%.

From fiscal year June 30, 2023 to June 30, 2024:

There were no significant changes in assumptions.

From fiscal year June 30, 2024 to June 30, 2025:

There were no significant changes in assumptions.

SANTA CRUZ PORT DISTRICT*Schedule of the District's Contributions to the Pension Plan
For the Year Ended March 31, 2026***Last Ten Fiscal Years****California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
March 31, 2017	\$ 309,357	\$ (309,357)	\$ -	\$ 1,912,027	16.18%
March 31, 2018	332,430	(332,430)	-	2,160,998	15.38%
March 31, 2019	397,547	(397,547)	-	2,227,398	17.85%
March 31, 2020	465,337	(465,337)	-	2,267,137	20.53%
March 31, 2021	528,402	(528,402)	-	2,182,330	24.21%
March 31, 2022	578,577	(578,577)	-	2,141,686	27.02%
March 31, 2023	608,408	(622,001)	(13,593)	2,367,608	26.27%
March 31, 2024	625,908	(647,550)	(21,642)	2,564,315	25.25%
March 31, 2025	613,814	(633,814)	(20,000)	2,581,495	24.55%
March 31, 2026	793,275	(830,885)	(37,610)	2,858,043	29.07%

Notes to Schedule:

Fiscal Year	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
March 31, 2017	June 30, 2015	Entry Age	Fair Value	2.75%	7.65%
March 31, 2018	June 30, 2016	Entry Age	Fair Value	2.75%	7.15%
March 31, 2019	June 30, 2017	Entry Age	Fair Value	2.50%	7.15%
March 31, 2020	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
March 31, 2021	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
March 31, 2022	June 30, 2020	Entry Age	Fair Value	2.50%	7.15%
March 31, 2023	June 30, 2021	Entry Age	Fair Value	2.30%	6.90%
March 31, 2024	June 30, 2022	Entry Age	Fair Value	2.30%	6.90%
March 31, 2025	June 30, 2023	Entry Age	Fair Value	2.30%	6.90%
March 31, 2026	June 30, 2024	Entry Age	Fair Value	2.30%	6.90%

Amortization Method

Level percentage of payroll, closed

Salary Increases

Depending on age, service, and type of employment

Investment Rate of Return

Net of pension plan investment expense, including inflation

Retirement Age

50 years (2.0%@55), 52 years (2.0%@60), 52 years (2.0%@62)

Mortality

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

SANTA CRUZ PORT DISTRICT

Schedule of Changes in the District's Total OPEB Liability and Related Ratios For the Year Ended March 31, 2026

Fiscal Year Ended Measurement Date	Last Ten Fiscal Years*				
	March 31, 2026	March 31, 2025	March 31, 2024	March 31, 2023	March 31, 2022
	March 31, 2025	March 31, 2024	March 31, 2023	March 31, 2022	March 31, 2021
Total OPEB liability:					
Service cost	\$ 59,574	\$ 58,944	\$ 72,711	\$ 76,692	\$ 79,892
Interest	27,254	24,483	23,735	20,274	18,250
Changes in assumptions	51,451	(8,757)	(129,336)	(48,735)	(87,155)
Differences between expected and actual experience	57,807	-	(104,487)	-	45,917
Benefit payments	(11,753)	(15,341)	(22,181)	(16,946)	(8,916)
Net change in total OPEB liability	184,333	59,329	(159,558)	31,285	47,988
Total OPEB liability - beginning	707,562	648,233	807,791	776,506	728,518
Total OPEB liability - ending	891,895	707,562	648,233	807,791	776,506
District's total OPEB liability	\$ 891,895	\$ 707,562	\$ 648,233	\$ 807,791	\$ 776,506
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%	0.00%
Covered payroll	\$ 2,917,053	\$ 2,815,656	\$ 2,609,237	\$ 2,384,186	\$ 2,430,838
District's total OPEB liability as a percentage of covered payroll	30.58%	25.13%	24.84%	33.88%	31.94%

Notes to Schedule:

Benefit Changes:

Measurement Date March 31, 2021 – There were no changes of benefits terms.
Measurement Date March 31, 2022 – There were no changes of benefits terms.
Measurement Date March 31, 2023 – There were no changes of benefits terms.
Measurement Date March 31, 2024 – There were no changes of benefits terms.
Measurement Date March 31, 2025 – There were no changes of benefits terms.

Changes in Assumptions:

Measurement Date March 31, 2021– The discount rate rate increased from 2.27% to 2.40%.
Measurement Date March 31, 2022– The discount rate rate increased from 2.40% to 2.73%.
Measurement Date March 31, 2023– The discount rate rate increased from 2.73% to 3.50%.
Measurement Date March 31, 2024– The discount rate rate increased from 3.50% to 3.58%.
Measurement Date March 31, 2025– The discount rate rate increased from 3.58% to 4.45%.

* Fiscal year 2019 was the first year of implementation; therefore, only eight years are shown.

SANTA CRUZ PORT DISTRICT

Schedule of Changes in the District's Total OPEB Liability and Related Ratios (continued) *For the Year Ended March 31, 2026*

	Last Ten Fiscal Years*		
Fiscal Year Ended	<u>March 31, 2021</u>	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Measurement Date	<u>March 31, 2020</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Total OPEB liability:			
Service cost	\$ 53,462	\$ 54,348	\$ 53,126
Interest	20,235	20,887	18,141
Changes in assumptions	177,131	5,778	(2,705)
Differences between expected and actual experience	-	(78,459)	-
Benefit payments	<u>(5,538)</u>	<u>(3,883)</u>	<u>(1,705)</u>
Net change in total OPEB liability	245,290	(1,329)	66,857
Total OPEB liability - beginning	<u>483,228</u>	<u>484,557</u>	<u>417,700</u>
Total OPEB liability - ending	<u>728,518</u>	<u>483,228</u>	<u>484,557</u>
District's total OPEB liability	<u>\$ 728,518</u>	<u>\$ 483,228</u>	<u>\$ 484,557</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered payroll	<u>\$ 2,458,539</u>	<u>\$ 2,411,907</u>	<u>\$ 2,127,435</u>
District's total OPEB liability as a percentage of covered payroll	<u>29.63%</u>	<u>20.04%</u>	<u>22.78%</u>

Notes to Schedule:

Benefit Changes:

Measurement Date March 31, 2018 – There were no changes of benefits terms.
Measurement Date March 31, 2019 – There were no changes of benefits terms.
Measurement Date March 31, 2020 – There were no changes of benefits terms.

Changes in Assumptions:

Measurement Date March 31, 2018 – There were no changes in assumptions.
Measurement Date March 31, 2019– There were no changes in assumptions.
Measurement Date March 31, 2020– The discount rate rate decreased from 3.79% to 2.27%.

* Fiscal year 2019 was the first year of implementation; therefore, only eight years are shown.

Measurement Date March 31, 2025– The discount rate rate increased from 3.58% to 4.45%.

Supplementary Information

SANTA CRUZ PORT DISTRICT
Schedule of Operating Expenses
For the Years Ended March 31, 2026

	<u>March 31, 2026</u>	<u>March 31, 2025</u>
Operating Expenses		
Dredging operations	\$ 1,739,315	\$ 1,685,197
Administrative services	940,347	1,014,110
Grounds	1,171,770	1,171,496
Harbor patrol	914,168	845,520
Fuel services	581,039	454,957
Property management	1,003,718	1,121,498
Marina management	689,192	684,284
Parking services	436,159	425,709
Buildings	492,992	491,360
Boatyard operations	412,571	396,430
Docks, piers, marine structures	771,136	873,297
Finance and purchasing	248,960	236,270
Environmental services	153,190	83,371
Rescue services	120,675	124,960
Utilities	129,674	117,745
Port commission support	62,481	60,756
Aeration	48,097	111,743
Events	29,285	21,468
Minor projects	610	196
Fishery support	4,179	6,856
Tsunami expense	197,630	1,446,900
CalPERS pension expense/(credit)	199,002	419,307
Other post-employment benefits expense	71,411	59,122
Total operating expenses before depreciation	<u>10,417,601</u>	<u>11,852,552</u>
Depreciation	<u>2,248,092</u>	<u>2,100,035</u>
Total operating expenses	<u><u>\$ 12,665,693</u></u>	<u><u>\$ 13,952,587</u></u>

Other Independent Auditors' Reports



**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 Port 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 financial statements of Santa Cruz Port District as of and for the year ended March 31, 2026, and the related notes to the financial statements, which collectively comprise Santa Cruz Port District's basic financial statements, and have issued our report thereon dated August 25, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Cruz Port District's internal control over financial reporting (internal control) as a basis for designing audit procedures 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 Santa Cruz Port District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Santa Cruz Port 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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Cruz Port District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.



Walnut Creek, California
August 25, 2026