

SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Years ended March 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Santa Cruz Port District (the District), which comprise the statements of net position as of March 31, 2022 and 2021, and the related statements of revenues, expenses, and change in net position and cash flows for the years then ended, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Santa Cruz Port District, as of March 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions – defined benefit pension plans, and the schedule of changes in the net OPEB liability and related ratios, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



September 27, 2022

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

Our discussion and analysis of the Santa Cruz Port District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended March 31, 2022 and 2021. Please read in conjunction with the District's basic financial statements.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Concerns related to the spread of COVID-19 and the related containment measures intended to mitigate its impacts created substantial disruption on both the global and local economy. Financial impacts associated with the District's COVID-19 mitigation response measures were most prevalent in FY21.

While there continues to be uncertainty regarding the duration and magnitude of the pandemic, COVID-19 restrictions around the world have eased. In FY22, the District recognized an almost near return to normal operation and demonstrated continued financial growth despite the challenging conditions.

The January 15, 2022, tsunami caused significant damage to infrastructure, including pilings, landside electrical transformers, and restroom and shower facility buildings. While the Port District's application for disaster recovery assistance with the California Governor's Office of Emergency Services (CalOES) was not approved, the District has been successful in facilitating repairs and maintaining services to its slip renters with minimal disruption while more extensive recovery efforts are planned.

FINANCIAL HIGHLIGHTS

During FY16, the Commission adopted a Reserve Policy and an annual contribution goal to the Capital Improvement Program (CIP) fund. In FY21, due to COVID-19 related impacts, the District's annual contributions to the CIP and Reserve Fund were eliminated. Funding contributions were reestablished in FY22.

Reserve Policy

The Reserve Policy provides that the District will strive to hold in reserve an amount equal to 25 percent of the District's annual operating expenses in the current fiscal year's adopted general fund budget. The District recognizes that reserve fund amounts may fluctuate and may need to be rebuilt over time as needed. The reserve fund will generally come from one-time revenue and from excess revenues over expenditures. The use of reserves shall generally be limited to unanticipated, non-recurring needs, not for normal or recurring annual operating expenditures.

The District's FY22 budget funded a \$76,139 contribution to the reserve fund, to bring the fund balance up to \$1,964,831. Despite the unforeseen financial impacts associated with the January 15, 2022, tsunami, reserve funding remained intact and was not utilized in FY22. As of March 31, 2022, the unrestricted Reserve Fund balance totaled \$1,964,831 (23% of the District's annual operating expense, which includes \$187,859 in unanticipated tsunami-related expenditures).

Capital Improvement Program (CIP)

The CIP fund contribution goal was set at \$500,000 annually to fund current and future infrastructure maintenance and improvements. In February 2020, the Commission elected to increase the funding contribution to \$750,000, whenever practicable. The FY22 budget funded \$500,000 to the CIP fund, with the Unallocated CIP project fund identified as an available funding source for unanticipated project needs (if any) during the fiscal year. As of April 1, 2021, the Unallocated CIP balance was \$374,639.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

Priorities for capital investment focused on the following:

- Completion of north harbor paving repairs
- Acquisition of a new Moose Boat patrol vessel
- Installation of aluminum gangways for southeast area docks
- Re-roofing of the District's maintenance building
- Completion of Fishery Pier inspection
- Acquisition of a new maintenance workboat (*Big Red*)
- Initiation of conceptual design planning for the Port District-owned property on the northwest corner of 7th and Brommer
- Initiation of electrical service upgrades at 333 Lake Avenue

\$52,842 from the Unallocated CIP was utilized for north harbor paving repairs, and a funding reallocation of \$65,000 from the Unallocated CIP to the 7th and Brommer Reconnaissance Fund was approved on September 28, 2021. As of March 31, 2022, the Unallocated CIP totaled \$256,797.

US Army Corps of Engineers Memorandum of Agreement

The District finalized a Memorandum of Agreement (MOA) with the US Army Corps of Engineers (Corps) in FY16. The District had taken over responsibility for maintenance dredging from the Corps in 1986. That agreement provided funding for the purchase of the District's original dredge *Seabright*, and a small annual contribution for operations and maintenance costs through July 2013. The District began work on a successor agreement in 2008. The agreement provides that the Corps will contribute up to \$385,000 per year toward the dredging operation, provided funding is available in either the President's budget or the Corps' annual work plan. This annual amount is based on 35% of average annual dredge operation and maintenance expense which the MOA set at \$1,100,000 for calendar years 2015 – 2019. The MOA provides for an adjustment to the annual reimbursement amount based on the actual average expenses for the first 5 years of the MOA. The Corps has reviewed and approved the District's verification of expenses for calendar years 2015 – 2019 and subsequently increased the annual reimbursement amount to \$525,000 annually for calendar years 2020 – 2024, subject to funding availability.

The District received \$665,000 in revenue from the Corps in FY22, which includes the annual contribution of \$525,000 for calendar year 2021, and \$140,000 in shortfall funding for calendar year 2020.

Boatyard

The District continues to operate the Santa Cruz Harbor Boatyard (SCHB) which opened in April 2014, as a Do-It-Yourself facility. Boaters may perform their own work or hire contractors from a list of registered contractors authorized to work in the yard. The District, as permittee, manages and documents the work of boat owners and contractors for reporting to various regulatory agencies. The District has invested in equipment, rehabilitation of the marine ways, supplies and training to ensure safety, compliance with permits and best management practices for stormwater run-off and sanitary sewer discharges.

Staffing

The District's full-time equivalent staffing was reduced from twenty-nine (29) to twenty-eight (28) positions in FY21 as a result of COVID-19. This staffing reduction remained in place in FY22.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

Employee Labor Contracts

Effective January 1, 2022, the District entered into three-year Memorandums of Understanding (MOUs) with the Harbor Employees Association and the Operating Engineers Union (Local 3) on salaries and benefits. The MOUs reflect comparable labor market findings from an updated Classification and Compensation Study, which was completed with oversight by Public Sector Personnel Consultants (PSPC) in 2021.

Effective January 1, 2022, the District entered into a three-year salary and benefits agreement with the Harbor Management Group.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

Fiscal Year Ended March 31, 2022

Operating Revenues

Operating revenues were \$10,887,939; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$10,821,395, or about 111% of budgeted revenues. Operating revenues in FY22 were \$1,366,061, or approximately 14% higher than the prior year, which demonstrates that visitor-related income sources, like RV park and Parking, are rebounding after the COVID-19 pandemic.

Overall, visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$1,660,836, which is \$501,148 or 43% higher than the prior year. FY22 Launch revenue remained consistent with FY21 revenue, but visitor berthing increased over FY21 by approximately 73% and was more than double budget projections due to increased commercial and recreational demand. As a result of the increased commercial and recreational vessel activity, fuel sales were \$880,263, which is \$304,750 or 53% higher than the prior year. Slip rent, at \$4,690,200, met budget projections, and was approximately \$8,042 higher than the prior year. Slip rent revenue remained consistent with FY21 slip rent revenue, as no slip rent increase was implemented for FY22.

Concession income was significantly impacted by the COVID-19 pandemic in FY21, but saw a marked improvement in FY22. FY22 concession income of \$2,023,819 was 20% or \$338,819 higher than budget, and 24% higher than FY21 revenue. A portion of the increase, \$32,166, is attributable to unanticipated revenue received for the period January through March 2022, under an Amended and Restated Lease between O'Neill Sea Odyssey and the District. Additionally, in October 2021, the Port Commission authorized the purchase of a commercial property carrying a professional-administrative zoning status located at 497 Lake Avenue. Concession income generated from the newly acquired property totaled \$5,600 in FY22. The remaining \$301,053 is attributable to increased restaurant performance after various State and local COVID-19 restrictions and mandates were lifted.

Boatyard revenue in FY22 was \$467,419 an increase of \$117,358 over the prior year, or approximately 34% higher, due in part to higher demand and efficient yard oversight.

The overall increase in operating revenues in FY22 is primarily attributable to increases in visitor berthing, parking, fuel, RV park, and boatyard income.

Operating Expenses

Operating expenses (before depreciation, amortization and non-cash pension and OPEB liability) were \$7,566,005, \$293,318, or approximately 4% under budget, and approximately \$871,218, or 13% higher than the prior year. Dredging expenses of \$1,324,630 were also lower than budget and \$32,592 lower than the prior year. Non-dredging expenses of \$6,241,375 were lower than budget, and \$903,810 higher, or approximately 17% higher than the prior year, when significant cutbacks were approved as part of the District's COVID-19 pandemic response measures. Unanticipated tsunami expenses totaled \$187,859 in FY22.

Net Position

The District's net position as of March 31, 2022, is \$31,369,232. This is an increase of \$1,264,144 or approximately 4% higher than the March 31, 2021, net position of \$30,105,088.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended March 31, 2022 and 2021

Other key changes in the statement of net position are as follows:

Current Assets increased \$1,599,409 in FY22, attributable to an increase in cash and cash equivalents.

Deferred outflows of resources decreased by \$35,957 in FY22, to \$1,036,310. This change is primarily related to a reduction in pension asset deferred outflows as calculated per GASB Statement No. 68 (from \$897,876 in FY21 to \$829,012), and an increase in OPEB asset deferred outflows as calculated per GASB Statement No. 75 (from \$174,391 in FY21 to \$207,298). Actual OPEB contribution (expense) for retirees in FY22 was \$2,363.

The Current and Other Liabilities decreased by \$1,639,639 in FY22, to \$6,717,583. This is due primarily to a decrease in net pension liability of \$1,765,823.

Even with the assumption of new debt for 497 Lake Avenue, long-term debt obligations continue to decrease. Long-term debt obligations decreased from \$11,292,731 in FY21 to \$10,912,376 in FY22, or approximately 3% as bond financing secured with BBVA Compass Bank in 2013, and other long-term debt is paid down.

Deferred inflows of resources increased by \$2,574,245 in FY22, to \$2,798,410. This increase is primarily due to the change in pension and OPEB liability deferred inflows as calculated per GASB Statement No's. 68 and 75.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

Fiscal Year Ended March 31, 2021

Operating Revenues

Operating revenues were \$9,521,878; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$9,455,334, or about 97% of budgeted revenues, which is notable, considering the economic challenges faced during the COVID-19 pandemic. Operating revenues in FY21 were \$291,782, or approximately 3% lower than the prior year. Some visitor-related income sources suffered as a result of the COVID-19 pandemic (i.e., RV park and parking), while other visitor-related income sources (i.e., visitor berthing and launch) exceeded budget projections. Overall, visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$1,159,688, \$67,886, or 5.5% lower than the prior year. Launch revenue increased over FY20 by approximately 55% and was more than double budget projections due to increased demand. Fuel sales were \$575,513, which falls below budget projections by \$114,487. Despite this shortfall, the fuel program was more profitable than in prior years, due in part to a combination of higher visitorship by commercial and recreational vessels, launch activity, improved product pricing management, and decreased expenses (including labor), as a result of the COVID-19 pandemic. Slip rent, at \$4,679,394, exceeded budget by \$100,430, or 2%, and was approximately \$181,806 higher, or 4% greater than the prior year due to reduced vacancy (expeditious filling of slips upon turnover, temporary/interim berthing arrangements).

FY21 concession income was significantly impacted by the COVID-19 pandemic, as temporary restaurant closures and reductions to dine-in seating capacity were mandated by State and local authorities. FY21 concession income of \$1,635,555 was 12% or \$230,765 lower than budget, and 14% lower than FY20 revenue.

Boatyard revenue in FY21 was \$350,061 an increase of \$13,713 over the prior year, or approximately 4% higher, due in part to higher demand and increased commercial fishing activity.

The 3% overall decrease in operating revenues in FY21 is primarily attributable to decreases in RV park, parking, fuel, and concession income, as a result of the COVID-19 pandemic and associated mitigation measures. Additionally, the Port District's emergency response to the CZU Lightning Complex Fire further impacted RV revenue, as RV park spaces in the north harbor were made available for exclusive use by Santa Cruz area fire evacuees for a two-month period.

Operating Expenses

Operating expenses (before depreciation, amortization and non-cash pension and OPEB liability) were \$6,694,787, \$1,369,621, or approximately 17% under budget, and approximately \$148,076, or 2% lower than the prior year. Non-dredging expenses of \$5,337,565 were lower than budget, and \$134,262 lower, or approximately 2% less than the prior year. Dredging expenses of \$1,357,222 were also lower than budget and \$12,448 lower than the prior year. The reduction in overall operating expenses across all programs is due to cutbacks approved as part of the COVID-19 pandemic and response measures adopted by the Port Commission in April 2020, as well as a concerted effort by staff to minimize spending during the pandemic to offset anticipated revenue losses.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

Fiscal Year Ended March 31, 2021 (Continued)

Net Position

The District's net position as of March 31, 2021, is \$30,105,088. This is an increase of \$530,140 or approximately 2% higher than the March 31, 2020, net position of \$29,574,948.

Other key changes in the statement of net position are as follows:

Current Assets increased \$827,292 in FY21, attributable to an increase in cash and cash equivalents.

Deferred outflows of resources increased by \$133,963 in FY21, to \$1,072,267. This increase is primarily related to a reduction in pension asset deferred outflows as calculated per GASB Statement No. 68 (from \$927,507 in FY20 to \$897,876), and an increase in OPEB asset deferred outflows as calculated per GASB Statement No. 75 (from \$10,797 in FY20 to \$174,391). Actual OPEB contribution (expense) for retirees in FY21 was \$1,655.

The Current and Other Liabilities increased by \$617,832 in FY21, to \$8,357,222. This is due primarily to increases in net pension and OPEB liability, and an overall increase in current liabilities including accounts payable and accrued expenses, deposits and prepaid slip rents.

Long term debt obligations decreased from \$12,563,188 in FY20 to \$11,292,731 in FY21, or approximately 10% as bond financing secured with BBVA Compass Bank in 2013, and other long term debt is paid down.

Deferred inflows of resources decreased by \$183,757 in FY21, to \$224,165. This decrease was primarily due to the change in pension and OPEB liability deferred inflows as calculated per GASB Statement No's. 68 and 75.

Net pension liability and net OPEB liability combined, increased \$581,717, from \$4,821,620 in FY20, to \$5,403,337 in FY21 (See Notes 6 and 9).

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

USING THIS ANNUAL REPORT

This annual report consists of management's discussion and analysis, the basic financial statements, and notes to the financial statements. Management's discussion and analysis provides a narrative of the District's financial performance and activities for the year ended March 31, 2022. The basic financial statements provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

- The *Statement of Net Position* presents information on all of the District's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The *Statement of Revenues, Expenses, and Change in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.
- The *Statement of Cash Flows* presents information showing how the District's cash changed during the most recent fiscal year. It shows the sources and uses of cash.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2022 and 2021

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net position:

	2022	2021	2020
Assets			
Current and other assets	\$ 12,836,137	\$ 11,236,728	\$ 10,409,436
Capital assets net of depreciation	36,908,146	36,653,161	37,921,137
Other assets	1,017,008	1,017,050	1,016,571
Total Assets	50,761,291	48,906,939	49,347,144
Deferred outflows	1,036,310	1,072,267	938,304
	<u>\$ 51,797,601</u>	<u>\$ 49,979,206</u>	<u>\$ 50,285,448</u>
	4%	-1%	
Liabilities			
Current liabilities	\$ 2,715,995	\$ 2,571,255	\$ 2,468,596
Long-term debt	10,912,376	11,292,731	12,563,188
Unearned revenue	316,086	382,630	449,174
Net pension liability	2,908,996	4,674,819	4,338,392
Net OPEB liability	776,506	728,518	483,228
Total Liabilities	17,629,959	19,649,953	20,302,578
Deferred inflows	2,798,410	224,165	407,922
	<u>\$ 20,428,369</u>	<u>\$ 19,874,118</u>	<u>\$ 20,710,500</u>
	3%	-4%	
Net position			
Net investment in capital assets	\$ 24,283,200	\$ 23,637,093	\$ 23,543,068
Restricted for debt service	1,017,008	1,017,050	1,016,571
Unrestricted	6,069,024	5,450,945	5,015,309
Total net position	<u>\$ 31,369,232</u>	<u>\$ 30,105,088</u>	<u>\$ 29,574,948</u>
	4%	2%	

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

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2022 and 2021

CAPITAL ASSETS AND DEBT ADMINISTRATION

Fiscal Year Ended March 31, 2022

Capital Assets

Priorities for capital investment in FY22 focused on completing north harbor paving repairs, installing aluminum gangways for southeast harbor docks; completing the acquisition of a new patrol vessel; initiating conceptual design planning for Port District-owned property at 7th and Brommer; re-roofing the District's maintenance building; acquiring a new maintenance work boat; initiating electrical service upgrades at 333 Lake Avenue; and initiating tsunami recovery efforts.

Debt Administration

The District's debt acquired in 2013, is related to facilities modernization and up-front funding for acquisition of the new dredge vessel *Twin Lakes*. New debt totaling \$3.35 million was acquired in FY19 to fund two capital infrastructure projects, a Seawall Replacement Project at 616 Atlantic Avenue (formerly referred to as the Aldo's Seawall Replacement Project) and the Pile Removal and Replacement Project. In FY22, new debt totaling \$950,000 was assumed for the purchase of 497 Lake Avenue.

The District's debt at March 31, 2022, totaled \$12,242,316. This represents a decrease of \$324,578 or approximately 3%, from FY21's total debt of \$12,566,894.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2022 and 2021

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Fiscal Year Ended March 31, 2021

Capital Assets

Priorities for capital investment in FY21 focused on concluding construction activities for the Seawall Replacement Project at 616 Atlantic Avenue; completing Phase 3 of the Pile Removal and Replacement Project; acquiring aluminum gangways for southeast harbor docks; initiating a site assessment for the District property at 7th and Brommer, and a market study assessing development opportunities for County-owned property at 7th and Brommer; and acquisition of a new water taxi.

Debt Administration

The District's debt acquired in 2013, is related to facilities modernization and up-front funding for acquisition of the new dredge vessel *Twin Lakes*. New debt totaling \$3.35 million was acquired in FY19 to fund two capital infrastructure projects, a Seawall Replacement Project at 616 Atlantic Avenue (formerly referred to as the Aldo's Seawall Replacement Project) and the Pile Removal and Replacement Project. The District's debt at March 31, 2021, totaled \$12,566,894. This represents a decrease of \$1,259,457 or approximately 9%, from FY20's total debt of \$13,862,351.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2022 and 2021

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SANTA CRUZ PORT DISTRICT

STATEMENTS OF NET POSITION March 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,526,327	\$ 10,991,416
Trade receivables	193,065	180,128
Interest receivable	8,896	10,841
Inventory	16,324	8,781
Prepaid expenses	91,525	45,562
	<u>12,836,137</u>	<u>11,236,728</u>
RESTRICTED ASSETS		
Cash and cash equivalents (Note 2)	<u>1,017,008</u>	<u>1,017,050</u>
CAPITAL ASSETS (Note 3)		
Nondepreciable assets:		
Land	2,201,360	1,349,360
Construction in progress	574,372	570,268
Depreciable assets:		
Structures and improvements	30,705,762	30,057,168
Docks	27,122,552	27,023,464
Equipment	11,510,070	10,884,518
Office equipment	63,621	73,114
	<u>72,177,737</u>	<u>69,957,892</u>
Less accumulated depreciation	<u>35,269,591</u>	<u>33,304,731</u>
	<u>36,908,146</u>	<u>36,653,161</u>
	<u>50,761,291</u>	<u>48,906,939</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension plans (Note 6)	829,012	897,876
Deferred amounts from OPEB plan (Note 9)	<u>207,298</u>	<u>174,391</u>
	<u>1,036,310</u>	<u>1,072,267</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 51,797,601</u>	<u>\$ 49,979,206</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF NET POSITION

March 31, 2022 and 2021

	2022	2021
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 300,949	\$ 213,884
Accrued interest	72,508	82,466
Payroll liabilities	239,105	229,613
Current portion of long-term debt (Note 4)	1,329,940	1,274,163
Current portion of unearned revenue (Note 5)	66,544	66,544
Prepaid slip rents	251,346	258,639
Deposits	455,603	445,946
Total current liabilities	<u>2,715,995</u>	<u>2,571,255</u>
LONG-TERM DEBT, less current portion (Note 4)	<u>10,912,376</u>	<u>11,292,731</u>
OTHER LONG-TERM LIABILITIES		
Unearned revenue, less current portion (Note 5)	316,086	382,630
Net pension liability (Note 6)	2,908,996	4,674,819
Net OPEB liability (Note 9)	776,506	728,518
Total Liabilities	<u>4,001,588</u>	<u>5,785,967</u>
Total Liabilities	<u>17,629,959</u>	<u>19,649,953</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension plans (Note 6)	2,661,589	158,902
Deferred amounts from OPEB plan (Note 9)	136,821	65,263
Total Deferred Inflows of Resources	<u>2,798,410</u>	<u>224,165</u>
NET POSITION		
Net investment in capital assets	24,283,200	23,637,093
Restricted for:		
Debt service	1,017,008	1,017,050
Unrestricted	6,069,024	5,450,945
Total Net Position	<u>31,369,232</u>	<u>30,105,088</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 51,797,601</u>	<u>\$ 49,979,206</u>

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

SANTA CRUZ PORT DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION Years Ended March 31, 2022 and 2021

	2022	2021
Operating revenues:		
Charges for berthing and services	\$ 8,864,120	\$ 7,886,323
Rent and concessions	2,023,819	1,635,555
	<u>10,887,939</u>	<u>9,521,878</u>
Operating expenses:		
Depreciation and amortization	2,187,657	2,159,280
Dredging operations	1,324,630	1,357,222
Administrative services	663,892	753,848
Grounds	790,109	733,457
Harbor patrol	712,258	669,826
Fuel services	740,950	427,765
Property management	669,573	515,497
Marina management	495,234	483,428
Parking services	352,771	248,637
Non-cash pension liability	805,728	190,116
Buildings	321,331	323,175
Boatyard operations	326,087	303,551
Docks, piers, marine structures	320,346	269,258
Finance and purchasing	183,581	194,674
Environmental and permitting	95,646	139,893
Rescue services	104,968	84,414
Utilities	97,358	86,067
Non-cash OPEB liability	101,318	81,221
Port commission support	107,746	56,586
Aeration	49,913	40,795
Events	13,111	--
Capital projects	54	1,630
Fishery support	8,588	5,064
Tsunami expense	187,859	--
	<u>10,660,708</u>	<u>9,125,404</u>
Operating income	<u>227,231</u>	<u>396,474</u>
Non-operating revenues (expenses):		
County revenues for public services	50,000	50,000
Grants	619,189	23,801
Dredging reimbursement (Note 10)	665,000	385,000
Interest income	30,375	80,131
Other income	83,001	38,570
Interest expense	(410,652)	(443,836)
	<u>1,036,913</u>	<u>133,666</u>
Increase in net position	<u>1,264,144</u>	<u>530,140</u>
Net position, beginning	<u>30,105,088</u>	<u>29,574,948</u>
Net position, ending	<u>\$ 31,369,232</u>	<u>\$ 30,105,088</u>

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

SANTA CRUZ PORT DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 10,810,822	\$ 9,594,945
Cash paid to suppliers and employees	<u>(7,537,633)</u>	<u>(6,648,246)</u>
Net cash provided by operating activities	<u>3,273,189</u>	<u>2,946,699</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County revenues received for public services	50,000	50,000
Grant monies received	28,425	23,801
Government revenues received for dredge operations	665,000	385,000
Cash received from other nonoperating activities	<u>126,141</u>	<u>47,333</u>
Net cash provided by noncapital financing activities	<u>869,566</u>	<u>506,134</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(2,485,782)	(900,067)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	590,764	--
Interest paid on long-term debt	(420,610)	(453,750)
Issuance of long-term debt	950,000	--
Principal paid on long-term debt	<u>(1,274,578)</u>	<u>(1,295,457)</u>
Net cash used by capital and related financing activities	<u>(2,640,206)</u>	<u>(2,649,274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	<u>32,320</u>	<u>117,513</u>
Net increase in cash and cash equivalents	1,534,869	921,072
CASH AND CASH EQUIVALENTS, BEGINNING	<u>12,008,466</u>	<u>11,087,394</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 13,543,335</u>	<u>\$ 12,008,466</u>

SANTA CRUZ PORT DISTRICT

STATEMENT OF CASH FLOWS

Years Ended March 31, 2022 and 2021

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 227,231	\$ 396,474
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,187,657	2,159,280
Non-cash pension liability	805,728	190,116
Non-cash OPEB liability	101,318	81,221
(Increase) decrease in:		
Trade receivables	(12,937)	65,422
Inventory	(7,543)	1,482
Prepaid expenses	(45,963)	(10,985)
Deferred outflows from OPEB plan	(14,679)	(7,340)
Increase (decrease) in:		
Accounts payable and accrued expenses	96,557	63,384
Unearned revenue	(66,544)	(66,544)
Prepaid slip rents	(7,293)	66,654
Deposits	9,657	7,535
Net cash provided by operating activities	<u>\$ 3,273,189</u>	<u>\$ 2,946,699</u>

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

	Current Assets	Restricted Assets	Statements of Cash Flows Total
Year ended March 31, 2022			
Cash and cash equivalents, beginning	\$ 10,991,416	\$ 1,017,050	\$ 12,008,466
Net increase (decrease)	<u>1,534,911</u>	<u>(42)</u>	<u>1,534,869</u>
Cash and cash equivalents, ending	<u>\$ 12,526,327</u>	<u>\$ 1,017,008</u>	<u>\$ 13,543,335</u>
Year ended March 31, 2021			
Cash and cash equivalents, beginning	\$ 10,070,823	\$ 1,016,571	\$ 11,087,394
Net increase	<u>920,593</u>	<u>479</u>	<u>921,072</u>
Cash and cash equivalents, ending	<u>\$ 10,991,416</u>	<u>\$ 1,017,050</u>	<u>\$ 12,008,466</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Liability for Compensated Absences: The District is required to recognize a liability for employees' rights to receive compensation for future absences. This obligation consists of the vested portion of leave balances, including vacation and compensatory time off, which are payable upon retirement. The liability for compensated absences at March 31, 2022 and 2021, included in payroll liabilities on the Statement of Net Position, was \$135,706 and \$129,276, respectively.

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

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

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

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

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

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments, as reduced by related outstanding debt.

Unrestricted – This amount is all remaining net position that does not meet the definition of “net investment in capital assets” or “restricted”.

Upcoming Accounting Standards: GASB has issued the following statements which may impact the District’s financial reporting requirement in the future:

- GASB 87 - “Leases”, effective for periods beginning after June 15, 2021.

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

The District has the following items that qualify for reporting in this category:

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (continued):

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

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

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

NOTE 2. CASH AND CASH EQUIVALENTS

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

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 2. CASH AND CASH EQUIVALENTS (Continued)

The District has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under this statement, disclosures of these risks are required for uninsured and unregistered investments and deposits collateralized with securities held by the broker or pledging financial institution's trust department or agent, but not in the District's name. The District did not hold any investments or deposits falling into this category of risk (generally known as Category 3) at March 31, 2022.

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

	2022	2021
Restricted cash and cash equivalents for debt service:		
Money market funds/government obligations	<u>\$ 1,017,008</u>	<u>\$ 1,017,050</u>

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended March 31, 2022:

	March 31, 2021	Additions	Deletions and Transfers	March 31, 2022
Nondepreciable assets:				
Land	\$ 1,349,360	\$ 852,000	\$ --	\$ 2,201,360
Construction in progress	570,268	203,913	(199,809)	574,372
Depreciable assets:				
Structures and improvements	30,057,168	648,594	--	30,705,762
Docks	27,023,464	17,332	81,756	27,122,552
Equipment	10,884,518	763,947	(138,395)	11,510,070
Office equipment	73,114	--	(9,493)	63,621
	<u>69,957,892</u>	<u>2,485,786</u>	<u>(265,941)</u>	<u>72,177,737</u>
Accumulated depreciation	<u>(33,304,731)</u>	<u>(2,180,286)</u>	<u>215,426</u>	<u>(35,269,591)</u>
	<u>\$ 36,653,161</u>	<u>\$ 305,500</u>	<u>\$ (50,515)</u>	<u>\$ 36,908,146</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 3. CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets for the year ended March 31, 2021:

	March 31, 2020	Additions	Deletions and Transfers	March 31, 2021
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	3,197,517	308,182	(2,935,431)	570,268
Depreciable assets:				
Structures and improvements	29,668,008	389,160	--	30,057,168
Docks	24,113,526	2,909,938	--	27,023,464
Equipment	11,864,219	228,218	(1,207,919)	10,884,518
Office equipment	<u>153,680</u>	<u>--</u>	<u>(80,566)</u>	<u>73,114</u>
	70,346,310	3,835,498	(4,223,916)	69,957,892
Accumulated depreciation	<u>(32,425,173)</u>	<u>(2,159,280)</u>	<u>1,279,722</u>	<u>(33,304,731)</u>
	<u>\$ 37,921,137</u>	<u>\$ 1,676,218</u>	<u>\$ (2,944,194)</u>	<u>\$ 36,653,161</u>

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 4. LONG-TERM DEBT

Long-term debt and related current portion as of March 31, 2022 and 2021, is presented below:

	March 31, 2021	Additions	Reductions	March 31, 2022
PNC Bank taxable loan	\$ 1,074,252	\$ --	\$ (228,740)	\$ 845,512
PNC Bank tax-exempt loan	8,617,606	--	(843,502)	7,774,104
PG&E loan	28,934	--	(13,889)	15,045
2018A Revenue Obligation	1,381,161	--	(89,807)	1,291,354
2018B Revenue Obligation	1,510,646	--	(98,226)	1,412,420
497 Lake Avenue	--	950,000	(4,120)	945,880
	<u>12,612,599</u>	<u>950,000</u>	<u>(1,278,284)</u>	<u>12,284,315</u>
Less revenue obligation issuance costs	(45,705)	--	3,706	(41,999)
Less current portion	<u>(1,274,163)</u>	<u>(55,777)</u>	<u>--</u>	<u>(1,329,940)</u>
	<u>\$ 11,292,731</u>	<u>\$ 894,223</u>	<u>\$ (1,274,578)</u>	<u>\$ 10,912,376</u>

Total interest incurred and charged to expense during the years ended March 31, 2022 and 2021, was \$410,652 and \$443,836, respectively.

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

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

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

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 4. LONG-TERM DEBT (Continued)

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

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

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

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

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

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

	Principal	Interest	Total
2023	\$ 1,329,940	\$ 396,018	\$ 1,725,958
2024	1,366,974	344,588	1,711,562
2025	1,413,057	294,301	1,707,358
2026	1,273,550	252,523	1,526,073
2027	1,241,518	212,420	1,453,938
2028-2032	4,500,218	496,353	4,996,571
2033-2037	553,403	198,033	751,436
2038-2042	605,655	100,830	706,485
	<u>\$ 12,284,315</u>	<u>\$ 2,295,066</u>	<u>\$ 14,579,381</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 5. UNEARNED REVENUE

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

The tenant's total contribution to the project was \$1,558,239. That amount was established as unearned revenue and will be amortized to concession rental income over the term of the lease. Since inception of the lease agreement the District has recognized \$1,175,609 of the unearned revenue as rental income. Of the remaining \$382,630, \$66,544 is considered current and \$316,086 is considered long-term.

NOTE 6. PENSION PLANS

Deferred Compensation Plan (457(a)):

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

Defined Benefit Pension Plan (CalPERS):

General Information:

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

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

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 6. PENSION PLANS (Continued)

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

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS’ Board of Administration. The required employer contribution rate for the 2.5% @ 55 tier was 10.823% for April 2020 – June 2020, 11.742% for July 2020 – June 2021 and 11.59% from July 2021 – March 2022. For the 2% @ 60 tier, the employer rate was 8.081% from April 2020 – June 2020, 8.794% from July 2020 – June 2021 and 8.65% from July 2021 – March 2022. For the 2% @ 62 tier, the employer rate was 6.985% from April 2020 – June 2020, 7.732% from July 2020 – June 2021 and 7.59% from July 2021 - March 2022. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

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

As of March 31, 2022 and 2021, the District reported a \$2,908,996 and \$4,674,819 net pension liability for its proportionate share of the net pension liability of the Plan, respectively.

As of March 31, 2022, the net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. As of March 31, 2021, the net pension liability of the Plan is measured as of June 30, 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The District’s proportionate share of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District’s proportionate share of the net pension liability for the Plan as of March 31, 2022 was as follows:

Proportion - March 31, 2021	0.0430%
Proportion - March 31, 2022	0.0538%
Change - Increase	0.0108%

The District’s proportionate share of the net pension liability for the Plan as of March 31, 2021 was as follows:

Proportion - March 31, 2020	0.0423%
Proportion - March 31, 2021	0.0430%
Change - Increase	0.0007%

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 6. PENSION PLANS (Continued)

For the year ended March 31, 2022, the District recognized pension expense of \$1,384,306. At March 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	\$ 326,213	\$ --
Net differences between projected and actual earnings on plan investments	--	2,539,400
Change in employer's proportion	60,960	44,966
Differences between the employer's contributions and the employer's proportionate share of contributions	--	77,223
Pension contributions subsequent to measurement date	441,839	--
Total	<u>\$ 829,012</u>	<u>\$ 2,661,589</u>

The \$441,839 reported as deferred outflows of resources relates to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending March 31, 2023.

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

Year ending March 31,	Amount
2023	\$ (478,276)
2024	(515,244)
2025	(579,137)
2026	(701,759)
	<u>\$ (2,274,416)</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
 Years Ended March 31, 2022 and 2021

NOTE 6. PENSION PLANS (Continued)

For the year ended March 31, 2021, the District recognized pension expense of \$718,517. At March 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
	<u> </u>	<u> </u>
Differences between actual and expected experience	\$ 240,908	\$ --
Change in assumptions	--	33,343
Net differences between projected and actual earnings on plan investments	138,872	--
Change in employer's proportion	106,463	16,629
Differences between the employer's contributions and the employer's proportionate share of contributions	--	108,930
Pension contributions subsequent to measurement date	<u>411,633</u>	<u>--</u>
 Total	 <u>\$ 897,876</u>	 <u>\$ 158,902</u>

The \$411,633 reported as deferred outflows of resources relates to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending March 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will increase (decrease) recognized pension expense as follows:

Year ending March 31,	Amount
<u> </u>	<u> </u>
2022	\$ 24,524
2023	131,699
2024	104,512
2025	<u>66,606</u>
	<u>\$ 327,341</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
 Years Ended March 31, 2022 and 2021

NOTE 6. PENSION PLANS (Continued)

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

	March 31, 2022	March 31, 2021
Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial assumptions:		
Discount rate	7.15%	
Inflation	2.50%	
Salary Increase	Varies by entry age and service.	
Mortality	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvement using Society of Actuaries Scale 90% of Scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.	
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.	

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

Discount Rate: The discount rate used to measure the total pension liability was 7.15% for the years ended March 31, 2022 and 2021. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 6. PENSION PLANS (Continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

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

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

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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 6. PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>March 31, 2022</u>	<u>March 31, 2021</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 5,254,458	\$ 6,937,862
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 2,908,996	\$ 4,674,819
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 970,036	\$ 2,804,938

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

Payable to the Pension Plan: At March 31, 2022, the District had no outstanding contributions payable to the pension plan required for the year ended March 31, 2022.

NOTE 7. RISK MANAGEMENT

The District covers its liability for significant claims by purchasing workers' compensation, property, and liability insurance. There have been no significant reductions in insurance coverage in the current year. Settlement amounts have not materially exceeded insurance coverage for the current and prior year.

NOTE 8. OPERATING LEASES

The District is the lessor of land and improvements under operating leases expiring in various years through 2032. 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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 8. OPERATING LEASES (Continued)

Following is a summary of property held for lease at March 31:

	2022	2021
Land	\$ 2,076,703	\$ 1,224,703
Structures and improvements	28,897,512	28,248,918
Docks	27,086,302	26,987,214
	<u>58,060,517</u>	<u>56,460,835</u>
Less accumulated depreciation and amortization	<u>28,702,861</u>	<u>27,076,407</u>
	<u>\$ 29,357,656</u>	<u>\$ 29,384,428</u>

Minimum future lease income to be received on non-cancelable rent and concession leases as of March 31, 2022, for each of the next 5 years and in the aggregate is:

2023	\$ 909,906
2024	687,927
2025	568,052
2026	437,030
2027	403,387
Thereafter	<u>1,775,995</u>
	<u>\$ 4,782,297</u>

Minimum future lease income does not include contingent rentals that may be received under certain leases based on the volume of business conducted by the lessee. Contingent rental income on non-cancelable leases for the years ended March 31, 2022 and 2021, totaled approximately \$770,724 and \$396,202, respectively.

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Public Employees' Medical and Hospital Care Act (PEMHCA)

The District administers a multiple-employer defined benefit healthcare plan (the Plan). The Plan provides medical healthcare insurance for eligible retirees and their spouses through the California Public Employees' Retirement System (CalPERS) Health Benefits Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). No dental, vision, or life insurance benefits are provided by the Plan. Currently there are 3 retired employees and 34 active employees participating in the Plan.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

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

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 (\$149 for 2022 and \$143 for 2021) 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 years ending March 31, 2022 and 2021 was \$2,267 and \$1,576, respectively. Including the implicit rate subsidy of \$14,679 and administrative expenses of \$96, the District's total contributions to the plan for the year ended March 31, 2022, were \$17,042. Including the implicit rate subsidy of \$7,340 and administrative expenses of \$79, the District's total contributions to the plan for the year ended March 31, 2021, were \$8,995.

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

Actuarial Assumptions

Valuation Date	April 1, 2021
Measurement Date	March 31, 2021
Contribution Policy	No pre-funding
Actuarial assumptions:	
Discount rate	2.4% at March 31, 2021 (Bond buyer 20-bond index)
General inflation	2.5% annually
Mortality, retirement, disability and termination	CalPERS 2000-2019 experience study
Mortality improvement	Mortality projected fully generational with Scale MP-2021
Medical trend	Non-medicare: 6.5% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare: 5.65% for 2023, decreasing to an ultimate rate of 3.75% for 2076
PEMHCA minimum increase	\$149 and \$151 per month in 2022 and 2023 respectively increasing 4.00% annually in 2024+
Participation at retirement	Actives: 35% in 2020, increasing to 50% in 2034 Retirees: based on current election

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2022 and 2021

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

For the year ended March 31, 2021, the District’s total OPEB liability was measured as of March 31, 2020 and was determined by an actuarial valuation as of April 1, 2019, with update procedures used to roll forward the total pension liability to March 31, 2020. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Valuation Date	April 1, 2019
Measurement Date	March 31, 2020
Contribution Policy	No pre-funding
Actuarial assumptions:	
Discount rate	2.27% at March 31, 2020 (Bond buyer 20-bond index)
General inflation	2.75% annually
Mortality, retirement, disability and termination	CalPERS 1997-2015 experience study
Mortality improvement	Post-retirement mortality projected fully generational with Scale MP-2019
Medical trend	Non-medicare: 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare: 6.3% for 2021, decreasing to an ultimate rate of 4.0% for 2076
PEMHCA minimum increase	4.25% annually
Participation at retirement	Actives: 30% initially, increasing to 50% in 2034 Retirees: 100% if covered

Discount Rate

The discount rates used to measure the total OPEB liability as of March 31, 2022 and March 31, 2021 was 2.4% and 3.79%, respectively. These rates are equal to the municipal bond twenty-year bond index rate as the District’s OPEB plan does not have any fiduciary net position.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

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

Changes in the Total OPEB Liability: The changes in the Total OPEB liability as of March 31, 2022 are as follows:

Balance at 3/31/21 (3/31/20 measurement date)	<u>\$ 728,518</u>
Changes in the year:	
Service cost	79,892
Interest	18,250
Actual vs. expected experience	45,917
Assumption changes	(87,155)
Benefit payments	<u>(8,916)</u>
Net changes	<u>47,988</u>
Balance at 3/31/22 (3/31/21 measurement date)	<u><u>\$ 776,506</u></u>

The changes in the Total OPEB liability as of March 31, 2021 are as follows:

Balance at 3/31/20 (3/31/19 measurement date)	<u>\$ 483,228</u>
Changes in the year:	
Service cost	53,462
Interest	20,235
Assumption changes	177,131
Benefit payments	<u>(5,538)</u>
Net changes	<u>245,290</u>
Balance at 3/31/21 (3/31/19 measurement date)	<u><u>\$ 728,518</u></u>

Change of Assumptions

The discount rate changed from 2.27% for the measurement period ended March 31, 2020, to 2.4% for the measurement period ended March 31, 2021 as a result of the change in the municipal bond 20-year high grade rate index. The discount rate changed from 3.79% for the measurement period ended March 31, 2019, to 2.27% for the measurement period ended March 31, 2020 as a result of the change in the municipal bond 20-year high grade rate index.

Change of Benefit Terms

There were no changes of benefit terms.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

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

Subsequent Events

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	<u>March 31, 2022</u>	<u>March 31, 2021</u>
1% Decrease	1.40%	1.27%
Total OPEB Liability	\$ 934,944	\$ 889,726
Current Discount Rate	2.40%	2.27%
Total OPEB Liability	\$ 776,506	\$ 728,518
1% Increase	3.40%	3.27%
Total OPEB Liability	\$ 652,585	\$ 604,559

Sensitivity of the Total OPEB Liability to Changes in Healthcare Trend Rates

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

	<u>March 31, 2022</u>	<u>March 31, 2021</u>
1% Decrease	5.50%	6.25%
Total OPEB Liability	\$ 633,723	\$ 580,677
Current Trend	6.50%	7.25%
Total OPEB Liability	\$ 776,506	\$ 728,518
1% Increase	7.50%	8.25%
Total OPEB Liability	\$ 967,669	\$ 930,084

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

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

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended March 31, 2022, the District recognized OPEB expense of \$103,681. At March 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 41,817	\$ 55,827
Change in assumptions	148,439	80,994
OPEB contributions made subsequent to the measurement date	<u>17,042</u>	<u>--</u>
Total	<u>\$ 207,298</u>	<u>\$ 136,821</u>

The OPEB contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending March 31, 2023.

For the year ended March 31, 2021, the District recognized OPEB expense of \$82,876. At March 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ --	\$ 63,371
Change in assumptions	165,396	1,892
OPEB contributions made subsequent to the measurement date	<u>8,995</u>	<u>--</u>
Total	<u>\$ 174,391</u>	<u>\$ 65,263</u>

The OPEB contributions subsequent to the measurement date were recognized as a reduction of the total OPEB liability in the year ending March 31, 2022.

Payable to the OPEB Plan: At March 31, 2022, the District had no outstanding amount of contributions to the OPEB plan required for the year ended March 31, 2022.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2022 and 2021

NOTE 10. DREDGING REIMBURSEMENT

In November, 2015, the District entered into an agreement with the Department of the Army Corps of Engineers (Corps) to reimburse the District for a portion of expected dredging costs, only if funds are specifically appropriated for that purpose. The agreement terminates on April 1, 2025. Due to the uncertainty of the availability of funds, revenue will be recorded when the funds are ultimately received. During the year ended March 31, 2022, the District received \$665,000 in payments from Department of the Army Corps of Engineers for dredging operations, \$140,000 of which occurred January-December 2020 and \$525,000 of which occurred January-December 2021. During the year ended March 31, 2021, the District received \$385,000 in payments from Department of the Army Corps of Engineers for dredging operations that occurred in 2019-20.

NOTE 11. SUBSEQUENT EVENTS

Management has evaluated its March 31, 2022 and 2021 financial statements for subsequent events through September 27, 2022, the date of issuance of the financial statements. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

SANTA CRUZ PORT DISTRICT

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

	<u>March 31, 2022</u>	<u>March 31, 2021</u>	<u>March 31, 2020</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Measurement date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Plan's proportionate share of the net pension liability	0.0538%	0.0430%	0.0423%	0.0414%	0.0409%	0.0406%	0.0400%
Plan's proportionate share of the net pension liability	\$ 2,908,996	\$ 4,674,819	\$ 4,338,392	\$ 3,990,879	\$ 4,052,992	\$ 3,509,957	\$ 2,745,051
Plan's covered - employee payroll**	\$ 2,211,919	\$ 2,222,678	\$ 2,239,940	\$ 2,174,449	\$ 1,995,472	\$ 1,730,361	\$ 1,680,148
Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll	131.51%	210.32%	193.68%	183.54%	203.11%	202.85%	163.38%
Plan's proportionate share of the fiduciary net position as a percentage of the proportionate share of the Plan's total pension liability	88.29%	75.10%	75.26%	75.26%	73.31%	74.06%	78.40%
Plan's proportionate share of aggregate employer contributions	\$ 584,290	\$ 550,939	\$ 491,504	\$ 430,069	\$ 400,662	\$ 365,656	\$ 343,279

Notes to Schedule:

Changes in Benefit Terms:

None

Change in Assumptions:

None

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

** - For the year ending on the measurement date

SANTA CRUZ PORT DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS

Last 10 Fiscal Years*

	<u>March 31, 2022</u>	<u>March 31, 2021</u>	<u>March 31, 2020</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Actuarially determined contribution	\$ 578,577	\$ 528,402	\$ 465,337	\$ 397,547	\$ 332,430	\$ 309,357	\$ 188,042
Contributions in relation to the actuarially determined contribution	<u>(578,577)</u>	<u>(528,402)</u>	<u>(465,337)</u>	<u>(397,547)</u>	<u>(332,430)</u>	<u>(309,357)</u>	<u>(188,042)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll**	\$ 2,141,686	\$ 2,182,330	\$ 2,267,137	\$ 2,227,398	\$ 2,160,998	\$ 1,912,027	\$ 1,692,156
Contributions as a percentage of covered-employee payroll	27.02%	24.21%	20.53%	17.85%	15.38%	16.18%	11.11%

Notes to Schedule:

Changes in Benefit Terms:

None

Change in Assumptions:

None

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

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

SANTA CRUZ PORT DISTRICT

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

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

Notes to Schedule:

Changes in Benefit Terms:

None

Change in Assumptions:

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

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

** - For the year ending on the measurement date



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

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Santa Cruz Port District (the District), as of and for the year ended March 31, 2022, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 27, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Hatchinson and Bloodgood LLP". The signature is written in a cursive, flowing style.

September 27, 2022

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

Our report on our audits of the basic financial statements of the Santa Cruz Port District as of and for the years ended March 31, 2022 and 2021, appears on pages 1-2. The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Insurance Coverage on page 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.



September 27, 2022