

SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Years ended March 31, 2020 and 2019

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	3-14
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	15-16
Statements of Revenues, Expenses, and Change in Net Position	17
Statements of Cash Flows	18-19
Notes to Financial Statements	20-38
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability	39
Schedule of Contributions – Defined Benefit Pension Plans	40
Schedule of Changes in the Net OPEB Liability and Related Ratios	41
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 <i>GOVERNMENT AUDITING STANDARDS</i>	42-43
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	44
SCHEDULE OF INSURANCE COVERAGE	45



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

Report on the Financial Statements

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, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Cruz Port District as of March 31, 2020 and 2019, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

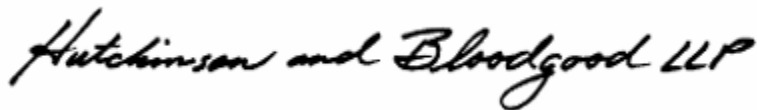
Other Matter

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, 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 RSI 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 22, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

September 22, 2020

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2020 and 2019

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 year ended March 31, 2020. Please read in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

During FY16, the Commission adopted a Reserve Policy and an annual contribution goal to the Capital Improvement Program (CIP) fund. The Reserve Policy is intended to strengthen the financial stability of the District against economic uncertainty, unexpected situations such as natural or man-made disasters, unanticipated drop in revenues, and other unforeseen emergencies or extraordinary circumstances that the District may face that are infrequent in occurrence.

The 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. Examples of one-time revenue include infrequent sales of District assets, infrequent revenues from development and grants, or other sources that are typically non-recurring in nature. The use of reserves shall generally be limited to unanticipated, non-recurring needs, not for normal or recurring annual operating expenditures.

As of March 31, 2020, the unrestricted Reserve Fund balance was \$1,888,692. Excluding depreciation, amortization, and other non-cash expenses, this figure exceeds the Reserve Fund goal by approximately 9% based on actual FY20 annual operating expenses. The District's FY21 budget funded an additional \$127,410 contribution to the reserve fund, to bring the fund balance up to \$2,016,102; however, due to the Coronavirus pandemic ("COVID-19") and response measures adopted by the Port Commission in April 2020, the FY21 contribution to the reserve fund was eliminated, keeping the Reserve Fund balance at \$1,888,692.

The CIP fund contribution goal was set at \$500,000 annually to fund current and future infrastructure maintenance and improvements. The FY20 budget funded \$500,000 to the CIP fund.

The FY19 budget increased full-time equivalent staffing by two, from twenty-seven (27) to twenty-nine (29) positions, converting two pre-existing full-time provisional positions, the Parking Coordinator position, and a Harbor Dredge Worker position. Full-time equivalent staffing remained static in FY20 at 29.

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 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.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2020 and 2019

FINANCIAL HIGHLIGHTS (Continued)

The District received \$385,000 in revenue from the Corps in FY20, and \$449,000 in FY19. Variations in funding year-to-year are attributable to the Corps catching up on funding shortfalls from previous years. 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. It is anticipated that this will increase Corps' annual reimbursement to approximately \$524,000 annually for calendar years 2020-2024, subject to funding availability and verification of expenses.

Financing for two major projects was secured in September 2018, through BBVA Compass Bank, totaling \$3.35 million. Financing in the amount of \$1,750,000 was acquired for the Pile Removal and Replacement Project, and \$1,600,000 was acquired for Aldo's Seawall Replacement Project, and partially offset the District's overall investment in these capital improvement projects. The District's loan agreement with BBVA Compass Bank for a \$2,000,000 Line of Credit (LOC) was terminated as part of the overall financing package.

Phase 1 of the Pile Removal and Replacement Project was completed in FY19 at a cost of approximately \$870,000. Phase 2 was completed in FY20 at a cost of approximately \$1,493,522. The contractor for Phases 1 and 2 was Bellingham Marine. The Aldo's Seawall Replacement Project was substantially complete in FY20 at a cost of \$2,144,321, with final completion of all punch list items and change orders in FY21. The contractor for the Aldo's Seawall Replacement Project was Granite Construction. Both CIP projects were completed underbudget, and all available loan financing was expended. The FY21 budget reallocated remaining CIP funding for the Pile Removal and Replacement Project to the Pier Rehabilitation Project; remaining CIP funding for the Aldo's Seawall Replacement Project continues to be reserved for remaining FY21 project costs and to fund future capital improvements associated with reconstruction of the restaurant by the lessor.

The Concession Lot Automation Project, also known as the Concession Lot Parking Access and Revenue Control System (PARCS) Project was substantially complete in FY20 with final completion in FY21. The total project cost, including design, engineering, electrical work, cabling, equipment and installation is approximately \$190,000. Though the PARCS system is capable of full automation, it was anticipated that the concession lot exit kiosk would continue to be attended by staff for the foreseeable future; however, in the interest of protecting employee and public health due to COVID-19, the lot was fully automated in May 2020.

A permanent display for the gaff-rigged felucca sailing boat named *Pappy* was completed in FY20. The vessel and plaque honoring the vessel and its former owner, Ed Larson, are displayed near the Santa Cruz Harbor office.

Acquisition and installation of a hazmat shed in the dredge yard was completed in FY20. This facility provides secure storage for hazardous materials assuring greater environmental protection.

A new kayak rack storage facility was constructed in the "X-J" channel area in FY20 at a cost of approximately \$20,000. The new facility generated approximately \$18,697 in new revenue in FY20.

Other Capital Improvement Projects completed in FY20 included pavement repairs, installation of security cameras throughout the harbor, re-roofing 493 Lake Avenue and the harbor office cupola.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

FINANCIAL HIGHLIGHTS (Continued)

Each year since FY13, the District has adopted a 5-Year Capital Improvement Plan (CIP). The CIP lists projects for the current year in detail, and provides capital needs forecasts extending out five years. The CIP was updated in FY20 to cover the period FY20-FY24 and provided funding for fourteen projects totaling \$600,538, three of which were new projects. Funding was derived from a \$500,000 FY20 contribution to the CIP, and reallocation of \$100,538 in Unallocated CIP Funds.

The CIP is updated as part of each budget adoption cycle. CIP projects are budgeted and reported within the Capital Improvement Fund. The vast majority of expenses within the Capital Improvement Fund are capitalized upon project completion and include force account labor where applicable. As a result, salary costs in the operating budget are decreased.

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.

In December 2017, the District entered into a three-year Memorandum of Understanding ("MOU") on salaries and benefits with the Harbor Employees Association ("HEA") ending December 31, 2020, and a two-year MOU with the Operating Engineers Union Local No. 3 ("OE3") ending December 31, 2019; and, in January 2018, the District entered into a salary and benefit agreement with the Harbor Management Group. The MOUs and labor agreements reflected comparable labor market findings from an updated Classification and Compensation Study completed by Public Sector Personnel Consultants ("PSPC") in 2017. The District entered into a one-year MOU with OE3 effective January 1, 2020, which included a 2% cost-of-living increase. The District bargained with HEA to increase salaries by one-half of one percent, bringing the cost-of-living increase effective January 1, 2020, to 2% total.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

Fiscal Year Ended March 31, 2020

Operating Revenues

Operating revenues were \$9,813,660; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$9,747,116, or about 106% of budgeted revenues, and were \$602,332, or approximately 6.5% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$1,227,574, \$48,527, or 4% higher than the prior year. Visitor parking aligned with budget projections, while visitor berthing, launch and recreational vehicle parking revenue exceeded budget. Launch revenue increased over FY19 by approximately 26% and was more than double budget projections due to increased demand and excellent fishing conditions. Fuel sales were \$655,675, exceeding budget projections by \$70,675 due in part to higher visitorship and launch activity. Slip rent, at \$4,497,588, exceeded budget by \$30,330, or 1%, and was approximately \$176,630 higher, or 4% greater than the prior year due to north harbor dredging efforts which restored previously unusable slips due to shoaling.

FY20 concession income of \$1,893,576 was 5% or \$93,596 higher than budget, and up 3% over FY19, which is attributable to a 4.5% CPI increase to landside lease base rents.

Boatyard revenue in FY20 was \$336,348 an increase of \$52,152 over the prior year, or approximately 16% higher, due in part to higher demand and extended vessel berthing stays.

The 6.5% overall increase in operating revenues in FY20 is primarily attributable to increases in slip rent, launch, visitor berthing, fuel sales, boatyard revenue, and tenant utility charges which were higher than budget due to County of Santa Cruz billing remittance and associated reimbursement timelines.

Operating Expenses

Operating expenses (before depreciation, amortization and non-cash pension and OPEB liability) were \$6,842,863, \$746,905, or approximately 10% under budget (net of Capital Project budget and expenditures), and approximately \$313,692, or 5% higher than the prior year adjusting for non-cash pension expense. Non-dredging expenses of \$5,471,827 were lower than budget, and \$174,838 higher, or approximately 3% more than the prior year. Though actual expenditures were under budgeted FY20 program expenses overall, dredging expenses of \$1,369,670 were \$137,488 higher than the prior year, primarily due to higher labor costs associated with maintenance personnel assisting with inner harbor dredging operations, as well as higher equipment maintenance and repair costs.

Net Position

The District's net position as of March 31, 2020, is \$29,574,948. This is an increase of \$860,637 or approximately 3% higher than the March 31, 2019, net position of \$28,714,311.

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

Current Assets decreased \$2,955,787 in FY20, attributable to a reduction in cash and cash equivalents due to CIP expenditures from cash and loan proceeds secured in September 2018.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

Fiscal Year Ended March 31, 2020 (Continued)

Net Position (continued)

Deferred outflows of resources decreased by \$14,265 in FY20, to \$938,304. This decrease is primarily related to the change in the net pension liability as calculated per GASB Statement No. 68.

The Current and Other Liabilities increased by \$89,483 in FY20, to \$7,739,390. This is due primarily to an increase in net pension liability and the current portion of long term debt.

Long term debt obligations decreased from \$13,858,644 in FY19 to \$12,563,188 in FY20, or approximately 9% as bond financing secured with BBVA Compass Bank in 2013, and other long term debt is paid down.

Deferred inflows of resources increased by \$40,037 in FY20, to \$407,922. This increase was primarily due to the change in net OPEB liability as calculated per GASB Statement No. 75.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

Fiscal Year Ended March 31, 2019

Operating Revenues

Operating revenues were \$9,211,328; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$9,144,784, or about 103% of budgeted revenues, and were \$140,589, or 2% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$1,179,047, \$6,145, or <1% lower than the prior year. Visitor parking decreased from FY18, while visitor berthing, launch and recreational vehicle parking revenue increased over FY18. Launch revenue increased over FY18 by about 18%, due in part to increased activity and improved segregation of launch and parking revenue. Slip rent, at \$4,320,958, was under budget by \$38,318, or <1%, and approximately \$100,261 higher, or 2% greater than the prior year.

FY19 concession income of \$1,838,345 was 5% or \$89,285 higher than budget, and down 2.7% from FY18, which is attributable to additional revenue recognized in FY18 due to reporting period end dates.

Boatyard revenue increased \$20,632, approximately 7% higher than the prior year, attributable to increases in layday and storage revenue, and vessel berthing.

Fuel sales increased over FY18 by \$33,795 overall, or 7%. FY19 experienced a decline in gasoline sales of \$32,309, and an increase in diesel sales of \$66,104.

The 2% overall increase in operating revenues in FY19 is primarily attributable to increases in slip rent, diesel sales, launch and visitor berthing.

Operating Expenses

Operating expenses (before depreciation, amortization and non-cash pension and OPEB liability) were \$6,529,171, \$597,478, or 8% under budget (net of Capital Project budget and expenditures), and approximately \$355,890, or 6% higher than the prior year adjusting for non-cash pension expense. Non-dredging expenses of \$5,296,989 were lower than budget, and \$131,776 lower, or 2% less than the prior year. This is primarily due to project-related activities funded in the CIP which reduces labor operating expense. Dredging expenses of \$1,232,182 were comparable to the prior year.

Net Position

The District's net position at March 31, 2019, is \$28,714,311. This is an increase of \$994,943 or 3.6% from the March 31, 2018, net position of \$27,719,368, after consideration of prior period adjustment related to retroactive implementation of Governmental Accounting Standards Board (GASB) Statement No. 75.

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

Current Assets increased \$3,268,199 in FY19, primarily due to increases in cash due to the loan funds secured in September 2018.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

Fiscal Year Ended March 31, 2019 (Continued)

Net Position (continued)

Deferred outflows of resources decreased by \$289,814 in FY19, to \$952,569. This decrease is primarily related to the change in the net pension liability as calculated per GASB Statement No. 68.

The Current and Other Liabilities increased by \$588,335 in FY19, to \$7,649,907. This is due primarily to an increase in current liabilities due to new debt financing acquired in September 2018, and GASB Statement No. 75, which requires net Other Post Employment Benefits (OPEB) liability to be included on the financial statements. Note: OPEB liability was previously disclosed as a note disclosure in the District's annual audit. The District's FY19 financial statements were presented as a single year due to this change. Net pension liability as calculated per GASB Statement No. 68 decreased in FY19.

Long term debt obligations increased by \$1,941,284 in FY19 to \$13,858,644, due to new taxable and non-taxable bond financing secured with BBVA Compass Bank in September 2018.

Deferred inflows of resources increased by \$84,254 in FY19, to \$367,885. This increase was due to the change in the net pension liability as calculated per GASB Statement No. 68.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2020 and 2019

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, 2020. 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, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net position:

	2020	2019	2018 *
Assets			
Current and other assets	\$ 10,409,436	\$ 13,365,223	\$ 10,097,024
Capital assets net of depreciation	37,921,137	35,257,569	35,191,917
Other assets	<u>1,016,571</u>	<u>1,015,386</u>	<u>726,601</u>
Total Assets	49,347,144	49,638,178	46,015,542
Deferred outflows	<u>938,304</u>	<u>952,569</u>	<u>1,242,383</u>
	<u>\$ 50,285,448</u>	<u>\$ 50,590,747</u>	<u>\$ 47,257,925</u>
	-1%	7%	
Liabilities			
Current liabilities	\$ 2,468,596	\$ 2,658,753	\$ 2,426,320
Long-term debt	12,563,188	13,858,644	11,917,360
Unearned revenue	449,174	515,718	582,260
Net pension liability	4,338,392	3,990,879	4,052,992
Net OPEB liability	<u>483,228</u>	<u>484,557</u>	<u>--</u>
Total Liabilities	20,302,578	21,508,551	18,978,932
Deferred inflows	<u>407,922</u>	<u>367,885</u>	<u>283,631</u>
	<u>\$ 20,710,500</u>	<u>\$ 21,876,436</u>	<u>\$ 19,262,563</u>
	-5%	14%	
Net position			
Net investment in capital assets	\$ 23,543,068	\$ 19,562,212	\$ 21,576,916
Restricted for debt service	1,016,571	1,015,386	726,601
Unrestricted	<u>5,015,309</u>	<u>8,136,713</u>	<u>5,691,845</u>
Total net position	<u>\$ 29,574,948</u>	<u>\$ 28,714,311</u>	<u>\$ 27,995,362</u>
	3%	3%	

* Not adjusted for prior period adjustment related to the OPEB liability pertaining to the retroactive implementation of GASB Statement No. 75

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, 2020 and 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Fiscal Year Ended March 31, 2020

Capital Assets

Priorities for capital investment in FY20 focused on awarding a construction contract for the Aldo's Seawall Replacement Project and achieving significant completion by November 30, 2019; completing Phase 2 of the Pile Removal and Replacement Project; and, developing a Request for Proposals packet, bidding and awarding a construction contract for the PARCS; constructing a display cradle for the vessel *Pappy*; and re-roofing 493 Lake Avenue and the harbor office cupola.

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, Aldo's Seawall Replacement Project and the Pile Removal and Replacement Project. The District's debt at March 31, 2020, totaled \$13,862,351. This represents a decrease of \$1,250,744 or approximately 8%, from FY19's total debt of \$15,113,095.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Fiscal Year Ended March 31, 2019

Capital Assets

Priorities for capital investment in FY19 focused on completing permitting, plans and specifications for replacement of the seawall at Aldo's Restaurant and going out to public bid, completing Phase 1 of the Pile Removal and Replacement Project and preparing bid documents for the Phase 2 project to be completed in FY20; completing fabrication of new aluminum dock gates and necessary brow pier repairs to facilitate installation of the electronic key system for dock gates, restrooms and shower facilities; replacing damaged flooring at 345 Lake Avenue, replacing worn and damaged carpet at the harbor office and exterior painting at 493 Lake Avenue.

Investments in equipment included major overhaul of Dauntless, fabrication of a new snorkel for *Twin Lakes* (a non-depreciable asset until installation is completed for the 2019-20 dredge season), replacement of spill buckets on the underground fuel storage tanks, acquisition of a used bucket truck for the Grounds Department, unanticipated outlay for replacement of an electrical cable on O-dock, a replacement server and network cabling project at the harbor office and acquisition of a used backhoe from proceeds generated through the sale of the District's rubber-tired loader.

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, Aldo's Seawall Replacement Project and the Pile Removal and Replacement Project. The District's debt at March 31, 2019, totaled \$15,113,095. This represents an increase of \$2,146,898 or 17%, from FY18's total debt of \$12,966,197.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2020 and 2019

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, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,070,823	\$ 13,095,489
Trade receivables	245,550	110,480
Grants receivable	--	48,639
Interest receivable	48,223	75,887
Inventory	10,263	6,944
Prepaid expenses	34,577	27,784
	<u>10,409,436</u>	<u>13,365,223</u>
RESTRICTED ASSETS		
Cash and cash equivalents (Note 2)	<u>1,016,571</u>	<u>1,015,386</u>
CAPITAL ASSETS (Note 3)		
Nondepreciable assets:		
Land	1,349,360	1,349,360
Construction in progress	3,197,517	874,128
Depreciable assets:		
Structures and improvements	29,668,008	29,477,120
Docks	24,113,526	22,600,115
Equipment	11,864,219	11,335,516
Office equipment	153,680	153,680
	<u>70,346,310</u>	<u>65,789,919</u>
Less accumulated depreciation	<u>32,425,173</u>	<u>30,532,350</u>
	<u>37,921,137</u>	<u>35,257,569</u>
	<u>49,347,144</u>	<u>49,638,178</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension plans (Note 6)	927,507	948,686
Deferred amounts from OPEB plan (Note 9)	10,797	3,883
	<u>938,304</u>	<u>952,569</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 50,285,448</u>	<u>\$ 50,590,747</u>

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

SANTA CRUZ PORT DISTRICT

STATEMENTS OF NET POSITION

March 31, 2020 and 2019

	2020	2019
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 169,131	\$ 395,293
Accrued interest	92,380	101,615
Payroll liabilities	210,982	219,891
Current portion of long-term debt (Note 4)	1,299,163	1,254,451
Current portion of unearned revenue (Note 5)	66,544	66,544
Prepaid slip rents	191,985	189,780
Deposits	438,411	431,179
	<u>2,468,596</u>	<u>2,658,753</u>
Total current liabilities	<u>2,468,596</u>	<u>2,658,753</u>
LONG-TERM DEBT, less current portion (Note 4)	<u>12,563,188</u>	<u>13,858,644</u>
OTHER LONG-TERM LIABILITIES		
Unearned revenue, less current portion (Note 5)	449,174	515,718
Net pension liability (Note 6)	4,338,392	3,990,879
Net OPEB liability (Note 9)	483,228	484,557
	<u>5,270,794</u>	<u>4,991,154</u>
Total Liabilities	<u>20,302,578</u>	<u>21,508,551</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension plans (Note 6)	334,844	365,451
Deferred amounts from OPEB plan (Note 9)	73,078	2,434
	<u>407,922</u>	<u>367,885</u>
Total Deferred Inflows of Resources	<u>407,922</u>	<u>367,885</u>
NET POSITION		
Net investment in capital assets	23,543,068	19,562,212
Restricted for:		
Debt service	1,016,571	1,015,386
Unrestricted	5,015,309	8,136,713
	<u>29,574,948</u>	<u>28,714,311</u>
Total Net Position	<u>29,574,948</u>	<u>28,714,311</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 50,285,448</u>	<u>\$ 50,590,747</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, 2020 and 2019

	2020	2019
Operating revenues:		
Charges for berthing and services	\$ 7,920,084	\$ 7,372,983
Rent and concessions	1,893,576	1,838,345
	<u>9,813,660</u>	<u>9,211,328</u>
Operating expenses:		
Depreciation and amortization	1,954,934	1,830,080
Dredging operations	1,369,670	1,232,182
Administrative services	759,880	653,783
Grounds	727,772	750,251
Harbor patrol	683,549	641,569
Fuel services	536,061	413,682
Property management	480,408	474,209
Marina management	434,290	544,303
Parking services	341,396	357,156
Non-cash pension liability	338,085	313,404
Buildings	323,550	322,642
Boatyard operations	274,979	254,419
Docks, piers, marine structures	237,013	270,617
Finance & purchasing	181,208	170,690
Environmental & permitting	174,318	143,423
Rescue services	99,549	95,508
Utilities	85,665	87,508
Non-cash OPEB liability	67,186	70,313
Port commission support	52,156	45,923
Aeration	38,467	36,840
Events	30,440	30,682
Capital projects	6,812	1,022
Fishery support	5,680	2,762
	<u>9,203,068</u>	<u>8,742,968</u>
Operating income	<u>610,592</u>	<u>468,360</u>
Non-operating revenues (expenses):		
County revenues for public services	49,985	12,493
Grants	37,826	111,403
Dredging reimbursement (Note 10)	385,000	449,000
Interest income	265,810	242,056
Other income	2,809	188,516
Interest expense	(491,385)	(476,885)
	<u>250,045</u>	<u>526,583</u>
Increase in net position	<u>860,637</u>	<u>994,943</u>
Net position, beginning, as previously reported	<u>28,714,311</u>	<u>27,995,362</u>
Cumulative effect of change in accounting principle		<u>(275,994)</u>
Net position, beginning as restated		<u>27,719,368</u>
Net position, ending	<u>\$ 29,574,948</u>	<u>\$ 28,714,311</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,621,483	\$ 9,174,697
Cash paid to suppliers and employees	<u>(7,092,831)</u>	<u>(6,353,981)</u>
Net cash provided by operating activities	<u>2,528,652</u>	<u>2,820,716</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County revenues received for public services	49,985	12,493
Grant monies received	86,465	166,751
Government revenues received for dredge operations	385,000	449,000
Cash received from other nonoperating activities	<u>69,177</u>	<u>188,516</u>
Net cash provided by noncapital financing activities	<u>590,627</u>	<u>816,760</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(4,684,870)	(1,895,732)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	--	25,679
Interest paid on long-term debt	(500,620)	(466,387)
Proceeds from long-term debt	--	3,350,000
Principal paid on long-term debt	<u>(1,250,744)</u>	<u>(1,203,102)</u>
Net cash used by capital and related financing activities	<u>(6,436,234)</u>	<u>(189,542)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	<u>293,474</u>	<u>198,580</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,023,481)</u>	<u>3,646,514</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>14,110,875</u>	<u>10,464,361</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 11,087,394</u>	<u>\$ 14,110,875</u>

SANTA CRUZ PORT DISTRICT

STATEMENT OF CASH FLOWS

Years Ended March 31, 2020 and 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 610,592	\$ 468,360
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,954,934	1,830,080
Non-cash pension liability	338,085	313,404
Non-cash OPEB liability	67,186	70,313
(Increase) decrease in:		
Trade receivables	(135,070)	27,535
Inventory	(3,319)	312
Prepaid expenses	(6,793)	24,132
Deferred outflows from OPEB plan	(4,785)	(3,200)
Increase (decrease) in:		
Accounts payable and accrued expenses	(235,071)	153,946
Deferred revenue	(66,544)	(66,542)
Prepaid slip rents	2,205	8,560
Deposits	7,232	(6,184)
Net cash provided by operating activities	<u>\$ 2,528,652</u>	<u>\$ 2,820,716</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, 2020			
Cash and cash equivalents, beginning	\$ 13,095,489	\$ 1,015,386	\$ 14,110,875
Net increase (decrease)	<u>(3,024,666)</u>	<u>1,185</u>	<u>(3,023,481)</u>
Cash and cash equivalents, ending	<u>\$ 10,070,823</u>	<u>\$ 1,016,571</u>	<u>\$ 11,087,394</u>
Year ended March 31, 2019			
Cash and cash equivalents, beginning	\$ 9,737,760	\$ 726,601	\$ 10,464,361
Net increase	<u>3,357,729</u>	<u>288,785</u>	<u>3,646,514</u>
Cash and cash equivalents, ending	<u>\$ 13,095,489</u>	<u>\$ 1,015,386</u>	<u>\$ 14,110,875</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019, included in payroll liabilities on the Statement of Net Position, was \$112,141 and \$118,568, 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, 2020 and 2019

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 December 15, 2019.

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, 2020 and 2019

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, 2020 and 2019

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, 2020.

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

	2020	2019
Restricted cash and cash equivalents for debt service:		
Money market funds / government obligations	<u>\$ 1,016,571</u>	<u>\$ 1,015,386</u>

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended March 31, 2020:

	March 31, 2019	Additions	Deletions and Transfers	March 31, 2020
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	874,128	2,486,957	(163,568)	3,197,517
Depreciable assets:				
Structures and improvements	29,477,120	190,888	--	29,668,008
Docks	22,600,115	1,513,411	--	24,113,526
Equipment	11,335,516	667,182	(138,479)	11,864,219
Office equipment	153,680	--	--	153,680
	<u>65,789,919</u>	<u>4,858,438</u>	<u>(302,047)</u>	<u>70,346,310</u>
Accumulated depreciation	<u>(30,532,350)</u>	<u>(1,954,934)</u>	<u>62,111</u>	<u>(32,425,173)</u>
	<u>\$ 35,257,569</u>	<u>\$ 2,903,504</u>	<u>\$ (239,936)</u>	<u>\$ 37,921,137</u>

SANTA CRUZ PORT DISTRICTNOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2020 and 2019**NOTE 3. CAPITAL ASSETS (Continued)**

The following is a summary of changes in capital assets for the year ended March 31, 2019:

	March 31, 2018	Additions	Deletions and Transfers	March 31, 2019
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	605,977	332,046	(63,895)	874,128
Depreciable assets:				
Structures and improvements	29,405,675	71,445	--	29,477,120
Docks	21,562,506	1,020,833	16,776	22,600,115
Equipment	10,873,439	505,807	(43,730)	11,335,516
Office equipment	140,960	12,720	--	153,680
	<u>63,937,917</u>	<u>1,942,851</u>	<u>(90,849)</u>	<u>65,789,919</u>
Accumulated depreciation	<u>(28,746,000)</u>	<u>(1,830,080)</u>	<u>43,730</u>	<u>(30,532,350)</u>
	<u>\$ 35,191,917</u>	<u>\$ 112,771</u>	<u>\$ (47,119)</u>	<u>\$ 35,257,569</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, 2020 and 2019

NOTE 4. LONG-TERM DEBT

Long-term debt and related current portion as of March 31, 2020 and 2019, is presented below:

	March 31, 2019	Additions	Reductions	March 31, 2020
Compass Bank taxable loan	\$ 1,496,468	\$ --	\$ (205,006)	\$ 1,291,462
Compass Bank tax-exempt loan	10,363,719	--	(859,671)	9,504,048
PG&E loan	56,711	--	(13,888)	42,823
Phone system	457	--	(457)	--
2018A Revenue Obligation	1,551,693	--	(83,787)	1,467,906
2018B Revenue Obligation	1,697,164	--	(91,641)	1,605,523
	<u>15,166,212</u>	<u>--</u>	<u>(1,254,450)</u>	<u>13,911,762</u>
Less revenue obligation issuance cost:	(53,117)	--	3,706	(49,411)
Less current portion	<u>(1,254,451)</u>	<u>(44,712)</u>	<u>--</u>	<u>(1,299,163)</u>
	<u>\$ 13,858,644</u>	<u>\$ (44,712)</u>	<u>\$ (1,250,744)</u>	<u>\$ 12,563,188</u>

Total interest incurred and charged to expense during the years ended March 31, 2020 and 2019, was \$491,385 and \$476,885, respectively.

During the fiscal year ended March 31, 2014, the District refinanced its outstanding debt with loans privately placed with 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 new loans also reduced the District's payback period, with payoff occurring in 2029 rather than 2042 under the old 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 Compass 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 Compass 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, 2020 and 2019

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.

Phone system - In September 2014 the District entered into a capital lease agreement with AVAYA Financial Services, in the amount of \$18,866, for new phone systems. Terms of the lease called for monthly principal payments of \$315 over a period of 60 months. The loan was paid in full during the year ended March 31, 2020.

On September 1, 2018, the District entered into an installment sale agreement with BBVA Compass 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 BBVA Compass 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 BBVA Compass 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, 2020, the District was in compliance with the covenant.

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

	Principal	Interest	Total
2021	\$ 1,299,163	\$ 436,548	\$ 1,735,711
2022	1,274,163	379,976	1,654,139
2023	1,313,042	358,490	1,671,532
2024	1,349,388	307,749	1,657,137
2025	1,394,754	258,178	1,652,932
2026-2030	6,341,516	681,906	7,023,422
2031-2035	<u>939,736</u>	<u>111,756</u>	<u>1,051,492</u>
	<u>\$ 13,911,762</u>	<u>\$ 2,534,603</u>	<u>\$ 16,446,365</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2020 and 2019

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 \$1,042,521 of the unearned revenue as rental income. Of the remaining \$515,718, \$66,544 is considered current and \$449,174 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, 2020 and 2019

NOTE 6. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

General Information (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 10.022% for April 2019 – June 2019 and 10.823% from July 2019 – March 2020. For the 2% @ 60 tier, the employer rate was 7.634% from April 2019 – June 2019 and 8.081% from July 2019 – March 2020. For the 2% @ 62 tier, the employer rate was 6.842% from April 2019 – June 2019 and 6.985% from July 2019 - March 2020. 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, 2020, the District reported a \$4,338,392 net pension liability for its proportionate share of the net pension liability of the Plan.

The net pension liability of the Plan is measured as of June 30, 2018, 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, 2017 rolled forward to June 30, 2018 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, 2020 was as follows:

Proportion - March 31, 2019	0.0414%
Proportion - March 31, 2020	0.0423%
Change - Increase (Decrease)	0.0009%

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
 Years Ended March 31, 2020 and 2019

NOTE 6. PENSION PLANS (Continued)**Defined Benefit Pension Plan (CalPERS) (Continued):****Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):**

For the year ended March 31, 2020, the District recognized pension expense of \$804,029. At March 31, 2020, 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	\$ 301,320	\$ 23,346
Change in assumptions	206,875	73,335
Net differences between projected and actual earnings on plan investments	--	75,849
Change in employer's proportion	58,649	45,026
Differences between the employer's contributions and the employer's proportionate share of contributions	--	117,288
Pension contributions subsequent to measurement date	<u>360,663</u>	<u>--</u>
Total	<u>\$ 927,507</u>	<u>\$ 334,844</u>

The \$360,663 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, 2021. 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
2021	\$ 249,252
2022	(69,064)
2023	36,485
2024	<u>15,327</u>
	<u>\$ 232,000</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2020 and 2019

NOTE 6. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

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

Actuarial Assumptions: The March 31, 2020 total pension liability was determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
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	The probabilities of mortality are 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 improvements 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.
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 June 30, 2018 valuation were based on the results of a 2018 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%. 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, 2020 and 2019

NOTE 6. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (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>
Global 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 estate	13.00%	3.75%	4.94%
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, 2020 and 2019

NOTE 6. PENSION PLANS (Continued)

Defined Benefit Pension Plan (CalPERS) (Continued):

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

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

1% Decrease		6.15%
Net Pension Liability	\$	6,517,362
Current Discount Rate		7.15%
Net Pension Liability	\$	4,338,392
1% Increase		8.15%
Net Pension Liability	\$	2,539,806

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, 2020, the District had no outstanding contributions payable to the pension plan required for the year ended March 31, 2020.

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, 2020 and 2019

NOTE 8. OPERATING LEASES (Continued)

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

	2020	2019
Land	\$ 1,224,703	\$ 1,224,703
Structures and improvements	27,859,758	27,668,870
Docks	24,077,276	22,563,865
	<u>53,161,737</u>	<u>51,457,438</u>
Less accumulated depreciation and amortization	<u>25,479,044</u>	<u>24,070,170</u>
	<u>\$ 27,682,693</u>	<u>\$ 27,387,268</u>

Minimum future lease income to be received on non-cancelable rent and concession leases as of March 31, 2020, for each of the next 5 years and in the aggregate is:

2021	\$ 786,279
2022	738,915
2023	485,179
2024	300,341
2025	178,277
Thereafter	<u>272,865</u>
	<u>\$ 2,761,856</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, 2020 and 2019, totaled approximately \$683,971 and \$609,267, 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 2 retired employees and 25 active employees participating in the Plan.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2020 and 2019

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 (\$139 for 2020) 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 fiscal year was \$753. Including the implicit rate subsidy of \$4,785 and administrative expenses of \$37, the District's total contributions to the plan for the year ended March 31, 2020, were \$5,575.

Total OPEB liability: The District's total OPEB liability was measured as of March 31, 2019 and was determined by an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2019. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

Valuation Date	April 1, 2019
Measurement Date	March 31, 2019
Contribution Policy	No pre-funding
Actuarial assumptions:	
Discount rate	3.79% at March 31, 2019 (Bond buyer 20-bond index)
General inflation	2.75% annually
Mortality, retirement, disability and termination	CalPERS 1997-2011 experience study
Mortality improvement	Post-retirement mortality projected fully generational with Scale MP-2019
Medical trend	Non-medicare: 7.5% 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

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2020 and 2019

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.79%. This rate is equal to the municipal bond twenty-year bond index rate as the District's OPEB plan does not have any fiduciary net position.

Changes in the Total OPEB Liability: The changes in the Total OPEB liability are as follows:

Balance at 3/31/19 (3/31/18 measurement date)	<u>\$ 484,557</u>
Changes in the year:	
Service cost	54,348
Interest	20,887
Actual vs. expected experience	(78,459)
Assumption changes	5,778
Benefit payments	<u>(3,883)</u>
Net changes	<u>(1,329)</u>
Balance at 3/31/20 (3/31/19 measurement date)	<u>\$ 483,228</u>

Change of Assumptions

The discount rate changed from 3.89% for the measurement period ended March 31, 2018, to 3.79% for the measurement period ended March 31, 2019 as a result of the change in the municipal bond 20-year high grade rate index.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

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

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

1% Decrease	2.79%
Total OPEB Liability	\$ 579,589
Current Discount Rate	3.79%
Total OPEB Liability	\$ 483,228
1% Increase	4.79%
Total OPEB Liability	\$ 407,641

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2020 and 2019

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

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

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

1% Decrease		6.25%
Total OPEB Liability	\$	396,879
Current Trend		7.25%
Total OPEB Liability	\$	483,228
1% Increase		8.25%
Total OPEB Liability	\$	597,621

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended March 31, 2020, the District recognized OPEB expense of \$67,186. At March 31, 2020, 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	\$ --	\$ 70,915
Change in assumptions	5,222	2,163
OPEB contributions made subsequent to the measurement date	5,575	--
Total	<u>\$ 10,797</u>	<u>\$ 73,078</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, 2021.

Payable to the OPEB Plan: At March 31, 2020, the District had no outstanding amount of contributions to the OPEB plan required for the year ended March 31, 2020.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2020 and 2019

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, 2020, the District received \$385,000 in payments from Department of the Army Corps of Engineers for dredging operations that occurred in 2018-19. During the year ended March 31, 2019, the District received \$449,000 in payments from Department of the Army Corps of Engineers for dredging operations that occurred in 2017-18.

NOTE 11. SUBSEQUENT EVENTS

Management has evaluated its March 31, 2020 and 2019 financial statements for subsequent events through September 22, 2020, the date of issuance of the financial statements. As a result of the spreads of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the District. The financial impact is unknown at this time.

SANTA CRUZ PORT DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years*

	<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, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Plan's proportion of the net pension liability	0.0423%	0.0414%	0.0409%	0.0406%	0.0400%
Plan's proportionate share of the net pension liability	\$ 4,338,392	\$ 3,990,879	\$ 4,052,992	\$ 3,509,957	\$ 2,745,051
Plan's covered - employee payroll**	\$ 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	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	75.26%	75.26%	73.31%	74.06%	78.40%
Plan's proportionate share of aggregate employer contributions	\$ 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 five 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, 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	\$ 465,337	\$ 397,547	\$ 332,430	\$ 309,357	\$ 188,042
Contributions in relation to the actuarially determined contribution	<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>
Covered-employee payroll**	\$ 2,267,137	\$ 2,227,398	\$ 2,160,998	\$ 1,912,027	\$ 1,692,156
Contributions as a percentage of covered-employee payroll	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 five 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, 2020</u>	<u>March 31, 2019</u>
Measurement date	March 31, 2019	June 30, 2018
Total OPEB liability:		
Service cost	\$ 54,348	\$ 53,126
Interest on total OPEB liability	20,887	18,141
Actual vs. expected experience	(78,459)	
Changes in assumptions	5,778	(2,705)
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(3,883)</u>	<u>(1,705)</u>
Net change in total OPEB liability	(1,329)	66,857
Total OPEB liability - beginning of the year	<u>484,557</u>	<u>417,700</u>
Total OPEB liability - end of the year (a)	<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>
Net change in plan fiduciary net position	--	--
Plan fiduciary net position - beginning of the year	<u>--</u>	<u>--</u>
Plan fiduciary net position - end of the year (b)	<u>--</u>	<u>--</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 483,228</u>	<u>\$ 484,557</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered - employee payroll**	\$ 2,411,907	\$ 2,127,435
Net OPEB liability as a percentage of covered - employee payroll	20.04%	22.78%

Notes to Schedule:

Changes in Benefit Terms:

None

Change in Assumptions:

The discount rate changed from 3.89% for the measurement period ended March 31, 2018, to 3.79% for the measurement period ended March 31, 2019 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 two 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, 2020, 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 22, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hutchinson and Bloodgood LLP

September 22, 2020

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Board of Commissioners
Santa Cruz Port District
Santa Cruz, California

Our report on our audit of the basic financial statements of the Santa Cruz Port District as of and for the years ended March 31, 2020 and 2019, appears on pages 1-2. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Insurance Coverage on page 45 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.

Hutchinson and Bloodgood LLP

September 22, 2020

SANTA CRUZ PORT DISTRICT

SCHEDULE OF INSURANCE COVERAGE

March 31, 2020

As of March 31, 2020, the District's insurance coverage was as follows:

	LIMITS	DEDUCTIBLE
UMBRELLA / BUMBERSHOOT LIABILITY	\$14,000,000	\$25,000
Each Occurrence, excess of \$1,000,000 primary		
PROPERTY		
Building , Business Personal Property, Business Income, Contractor's Equipment, Piers, Wharves, and Docks (Loss Limits and Deductibles are given as total, subject to sublimit described in policy)	\$24,525,661	See policy
MARINA OPERATORS LEGAL LIABILITY		
Each Occurrence	\$1,000,000	\$5,000
BUSINESS AUTO		
Liability, Combined Single Limit	\$1,000,000	\$1,000
Medical Payments	\$5,000	None
Uninsured/Underinsured Motorist	\$1,000,000	None
HULL AND MACHINERY / PROTECTION AND INDEMNITY		
Hull and Machinery	\$5,240,600	Per Schedule
Protection and Indemnity	\$1,000,000	\$1,000
PUBLIC OFFICIALS Liability		
Each Claim and in the Aggregate	\$2,000,000	\$25,000
Includes Employment Practices Liability		\$50,000
UNDERGROUND STORAGE TANKS		
Each Incident	\$1,000,000	\$25,000
Total Policy Aggregate Limit	\$2,000,000	
GENERAL LIABILITY		
General Aggregate	\$2,000,000	None
Products/Completed Operations Aggregate	\$1,000,000	None
Each Occurrence	\$1,000,000	None
FLOOD		
Each Incident and Aggregate (2 Properties)	\$500,000	\$1,250
	\$500,000	\$1,250