

SANTA CRUZ PORT DISTRICT

FINANCIAL REPORT

Years ended March 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

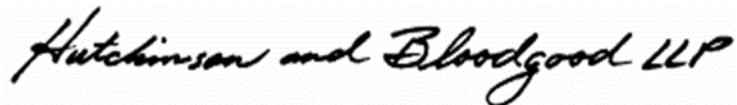
Other Matter

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 funding progress – other postemployment healthcare benefits, 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 25, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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 25, 2018

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2018 and 2017

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, 2018 and 2017. Please read in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

During FY16, the Port 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 Port District may face that are infrequent in occurrence.

The policy provides that the Port 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 Port 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, 2018, the unrestricted Reserve Fund balance was \$1,592,380. Excluding depreciation and amortization, this figure represents approximately 95% of the Reserve Fund goal based on FY18 annual operating expenses. The District's FY19 budget funded an additional \$180,532 contribution to the Reserve Fund, which is anticipated to meet the reserve fund's goal in FY19.

The CIP fund contribution goal was set at \$500,000 annually to fund current and future infrastructure maintenance and improvements. The FY18 budget funded \$500,000 to the CIP fund from FY17 proceeds.

The Port 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. Delays by the Corps resulted in the District being eligible for funding in the Corps' 2014 work plan once the MOA was executed. The District received revenue from the Corps of \$400,000 in FY17 and \$485,000 in FY18. The excess funding received in FY17 and FY18 is attributable to the Corps catching up on funding shortfalls from previous years.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended March 31, 2018 and 2017

FINANCIAL HIGHLIGHTS (Continued)

A number of factors influenced District operations and had the potential to cause revenue losses in FY18. The commercial salmon season was severely limited due to regulation and salmon fishing was generally slow. Despite the potential for losses, launch revenue increased in FY18, attributable in part to an increase in the day launch rate.

A continual series of storms and swell during January and February 2017 brought a high volume of sand into the north harbor and buried the north harbor disposal pipeline. The storm events were a declared disaster and the District is eligible for disaster assistance for three identified recovery projects through the State of California Office of Emergency Services and the Federal Emergency Management Agency for equipment-related damage and dredging of the north harbor. As many as twenty-five north harbor slips were unusable due to shallow conditions as a result of shoaling. Dredging was conducted in the north harbor between October 2017 and April 2018. The dredging activity restored adequate depths to most berths, though a handful of slips remain shallow. Dredging of the north harbor area will resume in October 2018.

Winter conditions, shoaling and high surf also contributed to a partial failure of a seawall on the harbor's west side. The seawall was constructed of steel sheet piles in 1964, and had an expected lifespan of approximately 30 years. The District has conducted frequent periodic inspections, corrosion testing and repairs to the seawall over the years. Aldo's Harbor Restaurant was constructed on top of the seawall.

Temporary repairs were performed on the seawall in November 2015, via a partnership with the District and Aldo's. The temporary repairs allowed the restaurant to continue to operate while long-term plans could be developed for a replacement seawall and restaurant building. By early June 2016, a sinkhole had formed under Aldo's Restaurant, and the restaurant and public pier were subsequently closed. Aldo's Restaurant is currently operating out of temporary "al fresco" quarters on the west side of the harbor while engineering design work and environmental permits are secured for a replacement seawall structure. Construction of the replacement seawall is anticipated to occur between June-November 2019.

A separate, secure wireless link was created during FY15 to serve a new electronic card key system the District installed to serve all of its shower rooms. The system was funded to enhance security and reduce unauthorized use of the shower rooms. The FY16 and 17 budgets included funding to expand the system to include all of the locked restroom facilities and dock gates. The project was expected to go to bid in FY18; however, delays were encountered when the system installed in FY15 was not able to be expanded. The project was redesigned to include fabrication of new dock gates. A revised plan was developed in FY19, and a contract for the electronic key system was awarded and funded. The new electronic key system will interface with the District's existing marina management software.

In July 2017, a small phase 1 project for removal and replacement of sixteen dock piles was put out to bid. A single bid was received. The bid was rejected by the Commission in July 2017, due to the high cost. A larger phase 1 project was put out to bid in early-2018, and a contract was awarded to Bellingham Marine in March 2018. The phase 1 pile replacement project commenced in June 2018, and will be completed by November 30, 2018.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2018 and 2017

FINANCIAL HIGHLIGHTS (Continued)

A section of the roadway and parking area near the fishery on the harbor's east side was repaved by a contract crew in FY18. Additionally, in-house crews performed sealing and pavement repairs throughout the harbor, including re-painting traffic markings where needed. Pavement repair and upkeep is an ongoing Capital Improvement Project.

Other Capital Improvement Projects completed in FY18 included re-painting Walton Lighthouse, replacing flashing at 2222 East Cliff Drive, rehabilitation of the D and J dock restrooms by in-house crews, and installation of two additional parking pay stations.

In FY13, the District adopted its first 5-Year Capital Improvement Plan (CIP). The CIP lists projects for the current year (FY18) in detail, and provides capital needs forecasts extending out through FY22. The CIP was updated in FY18 and provided funding for one new project; additional funding for seven existing projects totaling \$346,000; and an additional \$154,000 in funding to the unallocated Capital Improvement Project fund. The CIP is updated as part of each budget adoption cycle.

Funding for the CIP has been derived primarily from the operating budget. 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 Port District continues to operate the Santa Cruz Harbor Boatyard (SCHB), which opened for business on April 7, 2014, as a Do-It-Yourself facility. Boaters may perform their own work or hire contractors from list of registered contractors authorized to work in the yard. The Port District obtained all the necessary permits and manages and documents the work of boat owners and contractors for reporting to various regulatory agencies. The District has invested in equipment, including a 50-metric ton Marine Travelift boat hoist, supplies and training to ensure compliance with permits and best management practices for stormwater run-off and sanitary sewer discharges.

The District's loan agreement with BBVA Compass Bank for a \$2,000,000 Line of Credit (LOC) was modified in August 2017, to extend the maturity of the LOC from October 1, 2017, to August 1, 2019.

In December 2017, the Port District entered into a three-year Memorandum of Understanding (MOU) with the Harbor Employees Association and a two-year MOU with the Operating Engineers Union (Local 3) on salaries and benefits. In January 2018, the Port District entered into a three-year salary and benefit agreement with the Harbor Management Group. The MOUs and labor agreement reflect comparable labor market findings from an updated Classification and Compensation Study completed by Public Sector Personnel Consultants (PSPC) in 2017.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2018 and 2017

Fiscal Year Ended March 31, 2018

Operating Revenues

Operating revenues were \$9,070,739; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$9,004,195, or about 105% of budgeted revenues, and were \$576,023, or 6% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$1,185,192, \$114,706, or 10% over the prior year. Parking and visitor berthing revenue increased over FY17. The increase in parking revenue is attributable, in part, to parking management and enforcement efforts. Launch revenue also increased over FY17 by about 10%, due in part to an increase to the day launch rate. Slip rent, at \$4,220,697, was \$52,103, or 1% under budget, and approximately \$45,503 higher, or 1% greater than the prior year. The 6% overall increase in operating revenues in FY18 is primarily attributable to increases in parking, visitor berthing, gasoline fuel sales, and tenant reimbursement of sewer / garbage and utility charges.

Operating Expenses

Operating expenses (before depreciation and amortization) were \$6,662,767, \$163,373, or 2% under budget (net of Capital Project budget and expenditures), and approximately \$165,764, or 3% higher than the prior year. Non-dredging expenses of \$5,428,765 were consistent with budget, and were \$191,049 or 4% over the prior year. Dredging expenses of \$1,234,002 were 9% over budget, and approximately \$25,285, or 2% lower than the prior year. This decrease is attributable to higher unanticipated costs incurred in FY17, primarily due to crew overtime, consulting services, contract dredge crew support and costs associated with bringing in a replacement workboat (*Sammy G*) and crew when the workboat *Dauntless* was out-of-service for several weeks in February 2017.

Net Position

The District's net position at March 31, 2018, is \$27,995,362. This is an increase of \$941,530 or 3% from the March 31, 2017, net position of \$27,053,832.

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

Current Assets increased \$1,951,270 in FY18, primarily due to increases in cash and grants receivable.

Deferred outflows of resources increased by \$112,668 in FY18, to \$1,242,383. This increase 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 \$655,565 in FY18, to \$7,061,572. This is due primarily to the change in the net pension liability as calculated per GASB Statement No. 68.

Long term debt obligations decreased by \$1,047,957 in FY18 to \$11,917,360. This is primarily due to principal reductions in the Port District's taxable and non-taxable bond financing with BBVA Compass Bank.

Deferred inflows of resources increased by \$59,119 in FY18, to \$283,631. 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, 2018 and 2017

Fiscal Year Ended March 31, 2017

Operating Revenues

Operating revenues were \$8,494,716; \$66,544 of which were non-cash lease revenues from O'Neill Sea Odyssey, leaving total revenues at \$8,428,172, or about 104% of budgeted revenues, and were \$136,206, or 2% higher than the prior year. Visitor-related income sources (visitor berthing fees, launch fees, parking, and RV) were \$1,070,486, \$61,290, or 6% over the prior year. Parking revenue significantly increased in FY17. The increase in parking revenue is attributable, in part, to phased implementation of the Parking Management Plan and the addition of a provisional Parking Coordinator position in FY 16. Launch and visitor berthing revenue decreased from FY16. Slip rent, at \$4,175,194, was \$23,806, or 1% under budget, and approximately \$29,055, or 1% less than the prior year. The 2% overall increase in operating revenues in FY 17 is primarily attributable to increases in parking, concession and boatyard revenue.

Operating Expenses

Operating expenses (before depreciation and amortization) were \$6,497,003, \$1,130,424, or 15% under budget (net of Capital Project budget and expenditures), and approximately \$304,620, or 5% higher than the prior year. Non-dredging expenses of \$5,237,716 were consistent with budget, and were \$583,825 or 12% over than the prior year. Dredging expenses of \$1,259,287 were 19% over budget, and approximately \$229,731, or 22% higher than the prior year. This increase is attributable to crew overtime, consulting services, contract dredge crew support and costs associated with bringing in a replacement workboat (*Sammy G*) and crew when the workboat *Dauntless* was out-of-service for several weeks in February 2017.

Net Position

The District's net position at March 31, 2017, is \$27,053,832. This is an increase of \$170,535 or 1% from the March 31, 2016, net position of \$26,883,297.

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

Current Assets decreased \$1,373,259 in FY17, primarily due to final collection of the tsunami-related receivable from CalEMA.

Deferred outflows of resources increased by \$473,576 in FY17, to \$1,129,715. This increase 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 \$727,842 in FY17, to \$6,406,007. This is due primarily to the change in the net pension liability as calculated per GASB Statement No. 68.

Long term debt obligations decreased by \$1,016,205 in FY17 to \$12,965,317. This is primarily due to principal reductions in the Port District's taxable and non-taxable bond financing with BBVA Compass Bank.

Deferred inflows of resources increased by \$7,539 in FY17, to \$224,512. 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, 2018 and 2017

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, 2018. 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, 2018 and 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following summarizes net position:

	2018	2017	2016
Assets			
Current and other assets	\$ 10,097,024	\$ 8,145,754	\$ 9,519,013
Capital assets net of depreciation	35,191,917	36,648,514	35,926,090
Other assets	726,601	725,685	725,384
Total Assets	<u>46,015,542</u>	<u>45,519,953</u>	<u>46,170,487</u>
Deferred outflows	<u>1,242,383</u>	<u>1,129,715</u>	<u>656,139</u>
	<u>\$ 47,257,925</u>	<u>\$ 46,649,668</u>	<u>\$ 46,826,626</u>
% change over prior year	1%	0%	
Liabilities			
Current liabilities	\$ 2,426,320	\$ 2,247,246	\$ 2,217,766
Long-term debt	11,917,360	12,965,317	13,981,522
Unearned revenue	582,260	648,804	715,348
Net pension liability	4,052,992	3,509,957	2,745,051
Total Liabilities	<u>18,978,932</u>	<u>19,371,324</u>	<u>19,659,687</u>
Deferred inflows	<u>283,631</u>	<u>224,512</u>	<u>283,642</u>
	<u>\$ 19,262,563</u>	<u>\$ 19,595,836</u>	<u>\$ 19,943,329</u>
% change over prior year	-2%	-2%	
Net position			
Net investment in capital assets	\$ 21,576,916	\$ 21,952,729	\$ 20,180,661
Restricted for debt service	726,601	725,685	725,384
Unrestricted	<u>5,691,845</u>	<u>4,375,418</u>	<u>5,977,252</u>
Total net position	<u>\$ 27,995,362</u>	<u>\$ 27,053,832</u>	<u>\$ 26,883,297</u>
% change over prior year	3%	1%	

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, 2018 and 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Fiscal Year Ended March 31, 2018

Capital Assets

Priorities for capital investment in FY18 focused on completing engineering design and permitting for replacement of Aldo's seawall after temporary repairs failed in June 2016 and a sinkhole formed behind the sheetpile seawall, bidding and awarding a contract for pile replacement and repair, amending the plan for an electronic key system for dock gates, restrooms and shower facilities, paving maintenance and repair, re-painting Walton Lighthouse, replacing flashing at 2222 East Cliff Drive, rehabilitating restrooms and adding two additional parking pay stations.

Investments in equipment and construction in progress related to the District's dredging operations included reconstruction of the beach valve box and completion of the fendering system on *Twin Lakes*. Other investments in equipment included acquisition of a used truck for the Facilities Department and new shuttle van for the Operations Department.

Debt Administration

The District's debt is related to facilities modernization and up-front funding for acquisition of the new dredge vessel *Twin Lakes*. The District's debt at March 31, 2018, totaled \$12,966,197. This represents a decrease of \$1,014,240 or 7%, from FY17's total debt of \$13,980,437.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended March 31, 2018 and 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Fiscal Year Ended March 31, 2017

Capital Assets

Priorities for capital investment in FY17 focused on acquisition of the new 16" dredge *Twin Lakes*, commencing engineering design and permitting for replacement of Aldo's seawall after temporary repairs failed in June 2016 and a sinkhole formed behind the sheetpile seawall, an unanticipated project replacing the fuel dispenser containment sumps and piping, rehabilitating restrooms (including an accessibility project at the D-Dock restroom), re-roofing the harbor office, and adding additional parking pay stations on the harbor's west side.

In addition to acquisition of the new dredge *Twin Lakes*, investments in equipment and construction in progress related to the District's dredging operations included replacement of the port and starboard engines in the workboat *Dauntless* with new diesel emissions-compliant John Deere marine engines. Other investments in equipment included a forklift, a WhisperWatt Power Generator for the Toyo pump, and new Yamaha engines for the Almar patrol boat.

Debt Administration

The District's debt is related to facilities modernization and up-front funding for replacement of the old dredge vessel *Seabright*. The District's debt at March 31, 2017, totaled \$13,980,437. This represents a decrease of \$983,100 or 7%, from FY16's total debt of \$14,963,537.

SANTA CRUZ PORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended March 31, 2018 and 2017

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 DISTRICTSTATEMENTS OF NET POSITION
March 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,737,760	\$ 7,952,713
Trade receivables	138,015	148,668
Grants receivable	129,666	39,776
Interest receivable	32,411	--
Inventory	7,256	4,597
Prepaid expenses	51,916	--
	<u>10,097,024</u>	<u>8,145,754</u>
RESTRICTED ASSETS		
Cash and cash equivalents (Note 2)	<u>726,601</u>	<u>725,685</u>
CAPITAL ASSETS (Note 3)		
Nondepreciable assets:		
Land	1,349,360	1,349,360
Construction in progress	605,977	484,401
Depreciable assets:		
Structures and improvements	29,405,675	29,336,818
Docks	21,562,506	21,562,506
Equipment	10,873,439	10,977,716
Office equipment	140,960	140,960
	<u>63,937,917</u>	<u>63,851,761</u>
Less accumulated depreciation	<u>28,746,000</u>	<u>27,203,247</u>
	<u>35,191,917</u>	<u>36,648,514</u>
Total Assets	46,015,542	45,519,953
Deferred amounts from pension plans (Note 7)	<u>1,242,383</u>	<u>1,129,715</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 47,257,925</u>	<u>\$ 46,649,668</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF NET POSITION March 31, 2018 and 2017

	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 286,052	\$ 186,999
Accrued interest	91,117	99,012
Payroll liabilities	315,187	310,493
Current portion of long-term debt (Note 4)	1,048,837	1,015,120
Current portion of unearned revenue (Note 6)	66,544	66,544
Prepaid slip rents	181,220	154,165
Deposits	437,363	414,913
Total current liabilities	<u>2,426,320</u>	<u>2,247,246</u>
LONG-TERM DEBT, less current portion (Note 4)	<u>11,917,360</u>	<u>12,965,317</u>
OTHER LONG-TERM LIABILITIES		
Unearned revenue, less current portion (Note 6)	582,260	648,804
Net pension liability (Note 7)	4,052,992	3,509,957
Total Liabilities	<u>4,635,252</u>	<u>4,158,761</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension plans (Note 7)	<u>283,631</u>	<u>224,512</u>
NET POSITION		
Net investment in capital assets	21,576,916	21,952,729
Restricted for:		
Debt service	726,601	725,685
Unrestricted	5,691,845	4,375,418
Total Net Position	<u>27,995,362</u>	<u>27,053,832</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 47,257,925</u>	<u>\$ 46,649,668</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION Years Ended March 31, 2018 and 2017

	2018	2017
Operating revenues:		
Charges for berthing and services	\$ 7,181,501	\$ 6,799,847
Rent and concessions	1,889,238	1,694,869
	<u>9,070,739</u>	<u>8,494,716</u>
Operating expenses:		
Depreciation and amortization	1,824,754	1,781,839
Dredging operations	1,234,002	1,259,287
Grounds	633,063	656,439
Administrative services	632,156	717,648
Harbor patrol	627,790	621,569
Marina management	492,804	461,217
Non-cash pension liability	489,486	298,869
Property management	403,528	429,040
Parking services	360,565	345,904
Fuel services	350,664	331,742
Docks, piers, marine structures	317,187	263,642
Buildings	259,087	238,023
Boatyard operations	221,938	239,953
Finance & purchasing	165,863	170,809
Environmental & permitting	131,817	156,750
Utilities	107,964	84,314
Rescue services	97,308	90,519
Port commission support	48,164	50,183
Aeration	44,900	42,498
Events	32,313	32,531
Capital projects	9,716	1,024
Ice production	2,452	5,042
	<u>8,487,521</u>	<u>8,278,842</u>
Operating income	<u>583,218</u>	<u>215,874</u>
Non-operating revenues (expenses):		
County revenues for public services	36,228	11,243
Grants	140,189	65,560
Dredging reimbursement (Note 11)	485,000	400,000
Interest income	96,293	46,245
Tsunami expense	--	(17,088)
Other income (expense)	44,912	(74,482)
Interest expense	(444,310)	(476,817)
	<u>358,312</u>	<u>(45,339)</u>
Increase in net position	941,530	170,535
Net position, beginning	<u>27,053,832</u>	26,883,297
Net position, ending	<u>\$ 27,995,362</u>	<u>\$ 27,053,832</u>

SANTA CRUZ PORT DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,064,353	\$ 8,414,109
Cash paid to suppliers and employees	<u>(6,124,109)</u>	<u>(6,175,006)</u>
Net cash provided by operating activities	<u>2,940,244</u>	<u>2,239,103</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County revenues received for public services	36,228	11,243
Grant monies received	39,775	52,909
Government revenues received for dredge operations	485,000	400,000
Cash received from other nonoperating activities	<u>86,570</u>	<u>7,640</u>
Net cash provided by noncapital financing activities	<u>647,573</u>	<u>471,792</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(409,815)	(2,590,115)
Proceeds from grantors and governmental agencies as reimbursement for capital expenditures	10,524	1,283,536
Interest paid on long-term debt	(452,205)	(484,415)
Principal paid on long-term debt	<u>(1,014,240)</u>	<u>(983,100)</u>
Net cash used by capital and related financing activities	<u>(1,865,736)</u>	<u>(2,774,094)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	<u>63,882</u>	<u>46,245</u>
Net increase (decrease) in cash and cash equivalents	1,785,963	(16,954)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>8,678,398</u>	<u>8,695,352</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 10,464,361</u>	<u>\$ 8,678,398</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, 2018 and 2017

	2018	2017	
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ 583,218	\$ 215,874	
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,824,754	1,781,839	
Non-cash pension liability	489,486	298,869	
(Increase) decrease in:			
Trade receivables	10,653	28,740	
Inventory	(2,659)	(4,597)	
Prepaid expenses	(51,916)	33,469	
Increase (decrease) in:			
Accounts payable and accrued expenses	103,747	(5,744)	
Deferred revenue	(66,544)	(66,544)	
Prepaid slip rents	27,055	(13,464)	
Deposits	22,450	26,911	
Deferred rent	--	(56,250)	
Net cash provided by operating activities	<u>\$ 2,940,244</u>	<u>\$ 2,239,103</u>	
SUPPLEMENTAL DISCLOSURES			
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Capital asset additions	\$ 409,815	\$ 2,586,385	
Additions financed/included in accounts payable	--	3,730	
Cash paid to purchase capital assets	<u>\$ 409,815</u>	<u>\$ 2,590,115</u>	
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION			
	Current Assets	Restricted Assets	Statements of Cash Flows Total
Year ended March 31, 2018			
Cash and cash equivalents, beginning	\$ 7,952,713	\$ 725,685	\$ 8,678,398
Net increase	<u>1,785,047</u>	<u>916</u>	<u>1,785,963</u>
Cash and cash equivalents, ending	<u>\$ 9,737,760</u>	<u>\$ 726,601</u>	<u>\$ 10,464,361</u>
Year ended March 31, 2017			
Cash and cash equivalents, beginning	\$ 7,969,968	\$ 725,384	\$ 8,695,352
Net increase (decrease)	<u>(17,255)</u>	<u>301</u>	<u>(16,954)</u>
Cash and cash equivalents, ending	<u>\$ 7,952,713</u>	<u>\$ 725,685</u>	<u>\$ 8,678,398</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017, included in payroll liabilities on the Statement of Net Position, was \$67,197 and \$61,653, 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 merchandize 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, 2018 and 2017

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”.

New Accounting Pronouncements:

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

- GASB 75 - “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, effective for periods beginning after June 15, 2017.
- 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 had only one item that qualified for reporting in this category, related to pensions as detailed in Note 7.

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 had only one item that qualified for reporting in this category, related to pensions as detailed in Note 7.

Reclassification: Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation with respect to the net pension liability on the Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

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 investment policy of the District requires that all funds not required for immediate use be invested in one of the following acceptable investment instruments:

- a) U.S. government securities and debt obligations;
- b) Certificates of deposit which are fully insured or fully collateralized to 110% of principal for government securities and 150% of principal for first mortgage collateral;
- c) California's Local Agency Investment Fund.

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, 2018.

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

	2018	2017
Restricted cash and cash equivalents for debt service:		
Money market funds / government obligations	<u>\$ 726,601</u>	<u>\$ 725,685</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS Years Ended March 31, 2018 and 2017

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended March 31, 2018:

	March 31, 2017	Additions	Deletions and Transfers	March 31, 2018
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	484,401	121,576	--	605,977
Depreciable assets:				
Structures and improvements	29,336,818	68,857	--	29,405,675
Docks	21,562,506	--	--	21,562,506
Equipment	10,977,716	219,382	(323,659)	10,873,439
Office equipment	140,960	--	--	140,960
	<u>63,851,761</u>	<u>409,815</u>	<u>(323,659)</u>	<u>63,937,917</u>
Accumulated depreciation	<u>(27,203,247)</u>	<u>(1,824,754)</u>	<u>282,001</u>	<u>(28,746,000)</u>
	<u>\$ 36,648,514</u>	<u>\$ (1,414,939)</u>	<u>\$ (41,658)</u>	<u>\$ 35,191,917</u>

The following is a summary of changes in capital assets for the year ended March 31, 2017:

	March 31, 2016	Additions	Deletions and Transfers	March 31, 2017
Nondepreciable assets:				
Land	\$ 1,349,360	\$ --	\$ --	\$ 1,349,360
Construction in progress	3,581,567	54,855	(3,152,021)	484,401
Depreciable assets:				
Structures and improvements	29,244,137	92,681	--	29,336,818
Docks	21,562,506	--	--	21,562,506
Equipment	6,999,115	2,432,722	1,545,879	10,977,716
Office equipment	134,833	6,127	--	140,960
	<u>62,871,518</u>	<u>2,586,385</u>	<u>(1,606,142)</u>	<u>63,851,761</u>
Accumulated depreciation	<u>(26,945,428)</u>	<u>(1,781,839)</u>	<u>1,524,020</u>	<u>(27,203,247)</u>
	<u>\$ 35,926,090</u>	<u>\$ 804,546</u>	<u>\$ (82,122)</u>	<u>\$ 36,648,514</u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 3. CAPITAL ASSETS (Continued)

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

NOTE 4. LONG-TERM DEBT

Long-term debt and related current portion as of March 31, 2018 and 2017, is presented below:

	March 31, 2017	Additions	Reductions	March 31, 2018
Compass Bank taxable loan	\$ 1,882,579	\$ --	\$ (188,925)	\$ 1,693,654
Compass Bank tax-exempt loan	12,005,959	--	(808,531)	11,197,428
PG&E loan	83,331	--	(12,731)	70,600
Phone system	8,568	--	(4,053)	4,515
	<u>13,980,437</u>	<u>--</u>	<u>(1,014,240)</u>	<u>12,966,197</u>
Less current portion	<u>(1,015,120)</u>	<u>(33,717)</u>	<u>--</u>	<u>(1,048,837)</u>
	<u>\$ 12,965,317</u>	<u>\$ (33,717)</u>	<u>\$ (1,014,240)</u>	<u>\$ 11,917,360</u>

Total interest incurred and charged to expense during the years ended March 31, 2018 and 2017, was \$444,310 and \$476,817, 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 borrowing agreements with BBVA Compass Bank for the taxable and tax-exempt loans and line of credit 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, 2018, the District was in compliance with the covenant.

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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 4. LONG-TERM DEBT (Continued)

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.

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 call for monthly principal payments of \$315 over a period of 60 months.

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

	Principal	Interest	Total
2019	\$ 1,048,837	\$ 417,503	\$ 1,466,340
2020	1,079,028	382,101	1,461,129
2021	1,117,541	345,468	1,463,009
2022	1,086,130	299,115	1,385,245
2023	1,118,370	261,682	1,380,052
2024-2028	5,384,339	749,430	6,133,769
2029-2031	<u>2,131,952</u>	<u>63,608</u>	<u>2,195,560</u>
	<u>\$ 12,966,197</u>	<u>\$ 2,518,907</u>	<u>\$ 15,485,104</u>

NOTE 5. LINE OF CREDIT

In September 2013 the District entered into a line of credit borrowing agreement with Compass Bank, with an established limit of \$4,000,000, which was reduced to \$2,000,000 during the year ended March 31, 2015, at the request of the District. The District's business assets are used as collateral to secure the line. The rate of interest is the greater of the Prime Rate Floor or the Wall Street Journal Money Rate, plus .25%. The effective rate at March 31, 2018 was 5.00%. There was no outstanding balance at March 31, 2018.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 6. 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 \$909,435 of the unearned revenue as rental income. Of the remaining \$648,804, \$66,544 is considered current and \$582,260 is considered long-term.

NOTE 7. 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, 2018 and 2017

NOTE 7. 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 9.498% for April 2017 – June 2017 and 9.539% from July 2017 – March 2018. For the 2% @ 60 tier, the employer rate was 7.159% from April 2017 – June 2017 and 7.2% from July 2017 – March 2018. For the 2% @ 62 tier, the employer rate was 6.555% from April 2017 – June 2017 and 6.533% from July 2017 - March 2018. 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, 2018, the District reported a \$4,052,992 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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2018 and 2017 was as follows:

Proportion - March 31, 2017	0.0406%
Proportion - March 31, 2018	0.0409%
Change - Increase (Decrease)	0.0003%

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
 Years Ended March 31, 2018 and 2017

NOTE 7. 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, 2018, the District recognized pension expense of \$821,916. At March 31, 2018, 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	\$ 4,924	\$ 70,550
Change in assumptions	610,993	46,589
Net differences between projected and actual earnings on plan investments	304,748	--
Change in employer's proportion	66,963	26,627
Differences between the employer's contributions and the employer's proportionate share of contributions	--	139,865
Pension contributions subsequent to measurement date	<u>254,755</u>	<u>--</u>
 Total	 <u><u>\$ 1,242,383</u></u>	 <u><u>\$ 283,631</u></u>

The \$254,755 reported as deferred outflows of resources relates to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ending March 31,</u>	<u>Amount</u>
2019	\$ 283,154
2020	315,720
2021	187,164
2022	<u>(82,041)</u>
	<u><u>\$ 703,997</u></u>

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 7. 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, 2018 total pension liability was determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
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 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a 2014 actuarial experience study for the period 1997 to 2011. 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, 2018 and 2017

NOTE 7. 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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

<u>Asset class</u>	<u>New strategic allocation</u>	<u>Real return years 1-10 (a)</u>	<u>Real return years 11+ (b)</u>
Global equity	47.00%	4.90%	5.38%
Fixed income	19.00%	0.80%	2.27%
Inflation assets	6.00%	0.60%	1.39%
Private equity	12.00%	6.60%	6.63%
Real estate	11.00%	2.80%	5.21%
Infrastructure and forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 7. 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	\$	6,066,998
Current Discount Rate		7.15%
Net Pension Liability	\$	4,052,992
1% Increase		8.15%
Net Pension Liability	\$	2,384,955

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, 2018, the District had no outstanding contributions payable to the pension plan required for the year ended March 31, 2018.

NOTE 8. 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.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 9. OPERATING LEASES

The District is the lessor of land and improvements under operating leases expiring in various years through 2032. Following is a summary of property held for lease at March 31, 2018 and 2017:

	2018	2017
Land	\$ 1,224,703	\$ 1,224,703
Structures and improvements	27,597,425	27,528,568
Docks	<u>21,526,256</u>	<u>21,526,256</u>
	50,348,384	50,279,527
Less accumulated depreciation	<u>22,710,353</u>	<u>21,361,786</u>
	<u>\$ 27,638,031</u>	<u>\$ 28,917,741</u>

Minimum future lease income to be received on non-cancelable leases as of March 31, 2018, for each of the next 5 years and in the aggregate is:

2019	\$ 667,961
2020	645,942
2021	518,568
2022	468,907
2023	271,246
Thereafter	<u>422,497</u>
	<u>\$ 2,995,121</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, 2018 and 2017, totaled approximately \$745,029 and \$627,716, respectively.

NOTE 10. 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 employee and 20 active employees participating in the Plan.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
 Years Ended March 31, 2018 and 2017

NOTE 10. 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 (\$133 for 2018) for each participant in the PEMCHA plan.

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year ended March 31, 2018, the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan are as follows. The Alternative Measurement Method under GASB No. 45 was used to calculate the actuarial obligation since the District has fewer than 100 plan members.

Annual required contribution (ARC)	\$ 73,100
Interest on net OPEB obligation	2,900
Adjustment to ARC	<u>(3,300)</u>
Annual OPEB cost (expense)	72,700
Actual contributions made (pay-as-you-go)	<u>--</u>
Increase in net OPEB obligation	72,700
Net OPEB Obligation - April 1, 2017	<u>77,100</u>
Net OPEB Obligation - March 31, 2018	<u><u>\$ 149,800</u></u>

Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
3/31/2015	\$ 24,000	0.00%	\$ 24,000
3/31/2016	\$ 25,700	0.00%	\$ 49,600
3/31/2017	\$ 27,500	0.00%	\$ 77,100
3/31/2018	\$ 72,700	0.00%	\$ 149,800

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2018 and 2017

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funded Status

The funded status of the plan as of April 1, 2017, the date of the latest actuarial review, was as follows:

Actuarial accrued liabilities (AAL)	\$ 417,700
Actuarial value of plan assets	<u> --</u>
Unfunded actuarial accrued liabilities (UAAL)	<u><u>\$ 417,700</u></u>
Funded ratio	0.00%
Covered payroll (active plan members)	<u><u>\$ 1,816,100</u></u>
UAAL as a percentage of covered payroll	23.00%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of the benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

In the April 1, 2017 actuarial valuation, the actuarial cost method used was Entry Age Normal (EAN). Under the EAN cost method, the normal cost for each participant is determined as a level percent of payroll throughout the participant’s working career. The actuarial assumptions include a 3.86 percent discount rate, a 2.75 percent per year general inflation rate, aggregate payroll increases of 3 percent, and an annual healthcare cost trend rate of 4 to 7.5 percent. The UAAL is being amortized as a level percent of payroll over a fixed, closed twenty seven year period.

SANTA CRUZ PORT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2018 and 2017

NOTE 11. 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, 2018, the District received \$485,000 in payments from Department of the Army Corps of Engineers (Corps) for dredging operations that occurred in 2016-17. During the year ended March, 31, 2017, the District received \$400,000 in payments from Department of the Army Corps of Engineers (Corps) for dredging operations that occurred in 2015-16.

NOTE 12. SUBSEQUENT EVENTS

Management has evaluated its March 31, 2018 and 2017 financial statements for subsequent events through September 25, 2018, 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, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015
Plan's proportion of the net pension liability	0.0409%	0.0406%	0.0400%
Plan's proportionate share of the net pension liability	\$ 4,052,992	\$ 3,509,957	\$ 2,745,051
Plan's covered - employee payroll**	\$ 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	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	73.31%	74.06%	78.40%
Plan's proportionate share of aggregate employer contributions	\$ 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 three 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, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Actuarially determined contribution	\$ 332,430	\$ 309,357	\$ 188,042
Contributions in relation to the actuarially determined contribution	<u>(332,430)</u>	<u>(309,357)</u>	<u>(188,042)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll**	\$ 2,160,998	\$ 1,912,027	\$ 1,692,156
Contributions as a percentage of covered-employee payroll	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 three years are shown.

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

SANTA CRUZ PORT DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS
Year Ended March 31, 2018

Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a)-(b)]/(c)
4/1/2014	\$ 227,800	\$ --	\$ 227,800	0.00%	\$ 1,525,400	14.93%
4/1/2017	\$ 417,700	\$ --	\$ 417,700	0.00%	\$ 1,816,100	23.00%



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, 2018, 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 25, 2018.

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.

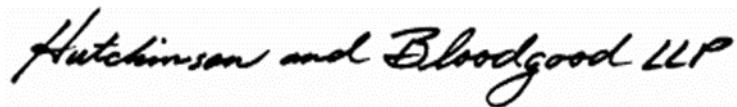
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

The image shows a handwritten signature in black ink that reads "Hutchinson and Bloodgood LLP". The signature is written in a cursive, flowing style. The text is centered horizontally within the page.

September 25, 2018