

CRESCENT CITY HARBOR DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2019

**(With summarized comparative totals as of and
for the year ended June 30, 2018)**



**CRESCENT CITY HARBOR DISTRICT
TABLE OF CONTENTS
JUNE 30, 2019**

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 01 |
| Basic Financial Statements | |
| Statement of Net Position - Proprietary Funds | 04 |
| Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund..... | 06 |
| Statement of Cash Flows - Proprietary Funds..... | 07 |
| Notes to the Financial Statements..... | 09 |
| Required Supplementary Information | |
| Schedule of the District's Proportionate Share of the Net Pension Liability..... | 24 |
| Schedule of the District's Contribution..... | 25 |
| Compliance Section | |
| Independent Auditor's 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> | 27 |
| Schedule of Findings and Responses..... | 29 |
| Summary Schedule of Prior Year's Audit Findings..... | 32 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Crescent City Harbor District
Crescent City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Crescent City Harbor District (the "District"), as of and for the year ended June 30, 2019, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 auditor considers 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 entity'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 respective financial position of the business-type activities of the Crescent City Harbor District as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 24 - 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion

Management has omitted the Management's Discussion and Analysis that *Government Accounting Standards* require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Report on Summarized Comparative Information

The other CPA had previously audited the District's 2018 financial statements, and expressed an unmodified audit opinion on those audited financial statements in their report dated March 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Harshwal & Company LLP

Oakland, California
March 13, 2021

BASIC FINANCIAL STATEMENTS

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019
(With summarized comparative totals as of June 30, 2018)

| | 2019 | 2018 |
|---|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments: | | |
| Available for operations | \$ 2,139,039 | \$ 2,181,555 |
| Restricted cash | - | 104,555 |
| Receivables, net: | | |
| Accounts receivable | 76,925 | 78,763 |
| Grants receivable | 150,784 | 162,194 |
| Inventory of materials and supplies | 29,517 | 29,986 |
| Loans receivable | 15,650 | 15,568 |
| Prepaid interest | 12,487 | - |
| Other current assets | 202 | 2,312 |
| Total current assets | 2,424,604 | 2,574,933 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Nondepreciable capital assets | 441,126 | 441,126 |
| Depreciable capital assets, net | 39,679,519 | 46,799,211 |
| Other noncurrent assets | 35,000 | 35,000 |
| Total noncurrent assets | 40,155,645 | 47,275,337 |
| Total assets | 42,580,249 | 49,850,270 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources - pension | 195,140 | 206,418 |
| Total deferred outflows of resources | 195,140 | 206,418 |
| Total assets and deferred outflows of resources | 42,775,389 | 50,056,688 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 88,438 | 104,620 |
| Accrued payroll liabilities | 61,806 | - |
| Customer deposits | 190,196 | 182,242 |
| Interest payable | 135,424 | 137,329 |
| Current portion of compensated absences | 8,783 | 8,427 |
| Current portion of long-term debt | 80,818 | 75,808 |
| Other current liabilities | 4 | - |
| Total current liabilities | \$ 565,469 | \$ 508,426 |

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

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019
(With summarized comparative totals as of June 30, 2018)

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| LIABILITIES - CONT'D | | |
| Noncurrent liabilities: | | |
| Noncurrent portion of long-term debt | \$ 5,047,332 | \$ 5,124,924 |
| Net pension liability | 755,972 | 766,970 |
| Noncurrent portion of compensated absences | <u>14,005</u> | <u>13,437</u> |
| Total noncurrent liabilities | <u>5,817,309</u> | <u>5,905,331</u> |
| Total liabilities | <u>6,382,778</u> | <u>6,413,757</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources - pension | <u>62,508</u> | <u>22,731</u> |
| Total deferred inflows of resources | <u>62,508</u> | <u>22,731</u> |
| Total liabilities and deferred inflows of resources | <u>6,445,286</u> | <u>6,436,488</u> |
| NET POSITION | | |
| Net investment in capital assets | 34,992,495 | 42,074,605 |
| Restricted for capital projects | - | 600 |
| Unrestricted | <u>1,337,608</u> | <u>1,544,995</u> |
| Total net position | <u>36,330,103</u> | <u>43,620,200</u> |
| Total liabilities, deferred inflow of resources and net position | <u>\$ 42,775,389</u> | <u>\$ 50,056,688</u> |

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

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
- PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019
(With summarized comparative totals for the year ended June 30, 2018)

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| OPERATING REVENUES | | |
| Slip rentals | \$ 477,191 | \$ 403,319 |
| Launching, day use fees, travel lift, transient and other services | 185,525 | 226,263 |
| Rents and concessions | 1,082,419 | 1,010,832 |
| Other miscellaneous income | <u>35,031</u> | <u>38,693</u> |
| Total operating revenues | <u>1,780,166</u> | <u>1,679,107</u> |
| OPERATING EXPENSES | | |
| Advertising | 7,714 | 7,520 |
| Audit | 6,510 | 8,155 |
| Bad debts | 6,787 | 572 |
| Depreciation | 4,417,969 | 3,726,601 |
| Election costs | 9,780 | - |
| Fringe benefits | - | 96,793 |
| Fuel, oil and grease | 14,992 | 4,248 |
| Insurance | 164,825 | 173,258 |
| Legal | 163,930 | 63,137 |
| Office and administrative | 65,638 | 23,870 |
| Operating supplies | 11,110 | 13,932 |
| Other | 40,860 | 20,403 |
| Outside services | 96,425 | 37,894 |
| Payroll expenses | 933,858 | 557,255 |
| Payroll taxes | 54,672 | 59,859 |
| Repairs and maintenance - materials | 10,648 | 191,416 |
| Repairs and maintenance - services | 221,254 | 195,288 |
| Travel | 18,084 | 20,965 |
| Utilities and telephone | <u>350,868</u> | <u>318,260</u> |
| Total operating expenses | <u>6,595,924</u> | <u>5,519,426</u> |
| Operating income (loss) | (4,815,758) | (3,840,319) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Property taxes and assessments income net of administration fees | 385,081 | 356,263 |
| Interest income | 28,119 | 27,756 |
| Interest expense | <u>(185,816)</u> | <u>(228,259)</u> |
| Total nonoperating revenues (expenses) | <u>227,384</u> | <u>155,760</u> |
| CHANGE IN NET POSITION | (4,588,374) | (3,684,559) |
| NET POSITION, BEGINNING OF YEAR | 43,620,200 | 46,155,492 |
| <i>RESTATEMENT</i> | <u>(2,701,723)</u> | <u>1,149,267</u> |
| <i>NET POSITION, BEGINNING OF YEAR AS RESTATED</i> | <u>40,918,477</u> | <u>47,304,759</u> |
| NET POSITION, END OF YEAR | <u>\$ 36,330,103</u> | <u>\$ 43,620,200</u> |

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

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019
(With summarized comparative totals for the year ended June 30, 2018)

| | 2019 | 2018 |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | \$ 1,574,146 | \$ 1,320,794 |
| Receipts from other income | 220,556 | 264,956 |
| Payments to suppliers | (1,157,872) | (1,192,671) |
| Payments to employees | <u>(936,798)</u> | <u>(303,717)</u> |
| Net cash provided (used) by operating activities | <u>(299,968)</u> | <u>89,362</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Taxes received | <u>385,081</u> | <u>356,263</u> |
| Net cash provided (used) by noncapital financing activities | <u>385,081</u> | <u>356,263</u> |
| CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES: | | |
| Payment of long-term debt | (72,582) | (72,893) |
| Interest paid on long-term debt | <u>(187,721)</u> | <u>(244,738)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(260,303)</u> | <u>(317,631)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest received | <u>28,119</u> | <u>27,756</u> |
| Net cash provided (used) by investing activities | <u>28,119</u> | <u>27,756</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (147,071) | 155,750 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,286,110</u> | <u>2,130,360</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 2,139,039</u></u> | <u><u>\$ 2,286,110</u></u> |

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

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019
(With summarized comparative totals for the year ended June 30, 2018)

| | 2019 | 2018 |
|---|----------------|----------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ (4,815,758) | \$ (3,840,319) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 4,417,969 | 3,726,601 |
| Prior period adjustment net of pension adjustment | - | 300,014 |
| Changes in assets and liabilities: | | |
| (Increase) Decrease in accounts receivable | 1,838 | 64,241 |
| (Increase) Decrease in grants receivable | 11,410 | (29,501) |
| (Increase) Decrease in inventory | 469 | (9,400) |
| (Increase) Decrease in other current assets | 2,110 | 82 |
| (Increase) Decrease in prepaid expenses | (12,487) | - |
| (Increase) Decrease in loans receivable | (82) | - |
| (Increase) Decrease in deferred outflows of resources | 11,278 | (118,207) |
| Increase (Decrease) in deferred inflows of resources | 39,777 | (111,607) |
| Increase (Decrease) in accounts payable | (16,182) | 88,565 |
| Increase (Decrease) in accrued payroll liabilities | 61,806 | - |
| Increase (Decrease) in net pension liability | (10,998) | 28,162 |
| Increase (Decrease) in compensated absences | 924 | - |
| Increase (Decrease) in customer deposits | 7,954 | - |
| Increase (Decrease) in other current liabilities | 4 | (9,269) |
| Net cash provided (used) by operating activities | \$ (299,968) | \$ 89,362 |

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

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statements of Crescent City Harbor District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America, (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Description of Reporting Entity

The District was formed by a vote of the people of Del Norte County on November 8, 1931, in accordance with Chapter 704 of the Statutes of 1931. The District started operations shortly thereafter in 1932. In September of 1963, the District received a Land Grant from the State of California under Chapter 1510 of the Statutes of 1963. The Land Grant gave the title to the land on the sea bed floor and extending upward and inward to the mean high tide line of 1929, as shown on the maps attached to the Original Land Grant of Chapter 1510 of the Statutes of 1963. The title to the land was given to the District and is being held in trust for the people of the State of California. The District, as it now exists, contains both the land granted to it by the State of California and other fee simple parcels that have been acquired by the District over time.

The District provides improvement and operations of the harbor of Crescent City, construction operation and maintenance of wharves, docks, piers, slips, quays, and facilities for the promotion and accommodation of commerce, navigation, fisheries and public recreation. In addition, the District leases several commercial buildings and businesses located upon the land owned by the District surrounding the harbor.

The District was organized under California Harbors and Navigation Code, Division 8, Part 3, and is governed by a five persons elected Board of Commissioners. The District is County wide, so all registered voters in the County of Del Norte are eligible to run for the Commission, and to vote in the election. The property managed by the District, and where the District operations occur, is located along the Pacific Ocean at the South end of Crescent City. A portion of the District's property is with the city limits of Crescent City, but the majority of the District's property is located within the County of Del Norte.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the District's Board of Commissioners. The District is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, net position, revenues, and expenses of the District only.

As defined by *GASBS No. 14 and 39, The Financial Reporting Entity*, the District is not financially accountable for any other entity other than itself, nor are there any other entities for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete.

In addition, based upon the above criteria, the District is not aware of any entity which would be financially accountable for the District which would result in the District is being considered a component of the entity.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONT'D

B. Basis of Accounting

On the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Fund equity is classified as Net Position.

The District's funds are classified as enterprise funds, which account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of debt, bonds, capital grants and cash flow from operations.

C. Cash and Investments

For the purposes of the Statement of Net Position and Statement of Cash Flows, "cash equivalents and investments" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2.

D. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., docks, roads, sidewalks, and similar items), are reported in the applicable business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

| <u>Asset Type</u> | <u>Useful Life</u> |
|----------------------------|--------------------|
| Autos and trucks | 3 to 10 years |
| Signs | 10 years |
| Breakwater | 40 years |
| Utilities | 20 years |
| Launch Ramps | 20 years |
| Piers | 50 years |
| Buildings and improvements | 10 to 40 years |
| Docks | 30 years |
| Parking Lots | 10 to 25 years |
| Walkways/Paths | 25 to 30 years |
| Machinery and Equipment | 3 to 10 years |

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONT'D

D. Capital assets - Cont'd

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

E. Inventory

The District uses the “consumption” method of accounting for inventory. Under the “consumption” method, inventory acquisitions are recorded in the inventory account initially, and charged as expenditures when used.

F. Accrued Vacation and Sick Leave

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District and are accrued when incurred. Vacation with pay accumulates for regular career employees. Vacations are incurred as per policy. Accumulated employee sick leave benefits are not recognized as liabilities of the District since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

G. Long-Term Obligations

In the statement of net position - proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

H. Net Position

Net position is comprised of three categories: (1) net investment in capital assets (2) restricted net position, and (3) unrestricted net position. Each component of net position is reported separately on the statements of net position.

- Net investment in capital assets represents the balance of capital assets less accumulated depreciation, net of outstanding related debt.
- Restricted net position is subject to constraints externally imposed by funding agencies or legislation. The amount of restricted net position is calculated by reducing the carrying value of restricted assets by their related liabilities. These items are restricted by agreements that detail specific purpose and use.
- The unrestricted component of net position represents the portion remaining after the “invested in capital assets” and “restricted” amounts have been determined. The District’s positive value of unrestricted net position may be used to meet ongoing obligations.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONT'D

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Property Taxes

The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent (1%) of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than two percent (2%) per year unless the property is sold, transferred, or improved. The State Legislature has determined the method of distribution of receipts from one percent (1%) tax levy among the counties, cities, school districts, and other districts.

Del Norte County assesses, bills for, and collects property taxes as follows:

| | Secured | Unsecured |
|------------------|--|-----------|
| Lien Dates: | March 1 | March 1 |
| Levy Dates | July 1 | July 1 |
| Due Dates | 50% on November 1 and 50% on March 1 | July 1 |
| Delinquent as of | December 10 (for November) and April 10 (for March) | August 31 |

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue when received in the fiscal year of levy because of the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the District and the County of Del Norte (the "County"). The Teeter Plan authorizes the Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid.

The County remits tax monies to the District in three installments, as follows:

- 55% remitted on December 15
- 40% remitted on April 15
- 5% remitted on June 15

K. Pension Plan

All full-time and certain part-time employees are members of the State of California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. The District's Commissioners, who are compensated, are excluded by statute. The District's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of June 30 by the PERS's actuary. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, Plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONT'D

L. Deficit Fund Balance/Net position

The financial statements reflect no deficit fund balances at June 30, 2019.

NOTE 2 - CASH AND INVESTMENTS

Cash and Investments as of June 30, 2019, were consisted of the following:

| | <u>Carrying Value</u> | <u>Bank Balance</u> | <u>Category 1*</u> | <u>Category 2*</u> |
|----------------------------|-----------------------|---------------------|---------------------|--------------------|
| Cash in banks: | | | | |
| Checking and Savings | \$ 525,689 | \$ 573,339 | \$ 573,339 | \$ - |
| Cash on hand: | | | | |
| Petty Cash | 747 | - | - | - |
| Investments: | | | | |
| LAIF | <u>1,612,603</u> | <u>1,612,603</u> | <u>1,612,603</u> | <u>-</u> |
| Total cash and investments | <u>\$ 2,139,039</u> | <u>\$ 2,185,942</u> | <u>\$ 2,185,942</u> | <u>\$ -</u> |

* Category 1 balances are insured or registered for which securities are held by the District or its agent in the District's name. Category 2 balances include uninsured and unregistered deposits for which the security is held in a counterparty's trust department or agent but not in the District's name.

Custodial Credit Risk For Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in possession of an outside party. The District's investment policy requires that deposits in banks must meet the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits of more than the \$250,000 insured amount are collateralized. The District's investment policy does not further limit its deposits.

Interest Rate Risk

Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and the District's investment policy limits investments in commercial paper to the rating of A or better by Standards & Poor's or P or better by Moody's Investors Service; corporate bonds to the rating of A or better by both Standards & Poor's and Moody's Investors Service. No limits are placed on U.S. government Agency securities and U.S. Treasuries. The District's investment policy does not further limit its investment choices.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - CASH AND INVESTMENTS - CONT'D

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk the District requires that all of its managed investments be held in the name of the District. The District's investment policy does not further limit the exposure to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law restricts the District's investments in commercial paper to 40% of its investment pool and to 10% per issuer and corporate bonds and medium term notes to 30% of its investment pool and to 10% per issuer, and banker's acceptances to 15% of its investment pool and to 10% per issuer. At June 30, 2019, the District's investments were in compliance with concentration of credit risk State law.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2019, were as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions/ Adjustments</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|-----------------------|-----------------------------------|---------------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 441,126 | \$ - | \$ - | \$ 441,126 |
| Total nondepreciable capital assets | <u>441,126</u> | <u>-</u> | <u>-</u> | <u>441,126</u> |
| Depreciable capital assets: | | | | |
| Equipment | 357,501 | - | - | 357,501 |
| Vehicles | 22,538 | - | (7,321) | 15,217 |
| Wharfs, Docks and Marinas | 62,266,942 | - | (577,441) | 61,689,501 |
| Streets, Roads and Parks | 707,691 | - | - | 707,691 |
| Sewer Lift Station | 33,655 | - | - | 33,655 |
| Buildings and Improvements | 4,772,426 | - | (238,352) | 4,534,074 |
| Total depreciable capital assets | <u>68,160,753</u> | <u>-</u> | <u>(823,114)</u> | <u>67,337,639</u> |
| Less: accumulated depreciation | <u>(21,361,542)</u> | <u>(4,417,969)</u> | <u>(1,878,609)</u> | <u>(27,658,120)</u> |
| Total depreciable capital assets, net | <u>46,799,211</u> | <u>(4,417,969)</u> | <u>(2,701,723)</u> | <u>39,679,519</u> |
| Total capital assets, net | <u>\$ 47,240,337</u> | <u>\$ (4,417,969)</u> | <u>\$ (2,701,723)</u> | <u>\$ 40,120,645</u> |

Depreciation expense of \$4,417,969 has been recorded in Statement of Revenues, Expenses, And Changes in Net Position for the year ended June 30, 2019.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 - LONG-TERM LIABILITIES

Long-term debt previously consisted of several loan agreements between the District and the California Department of Boating and Waterways. Revenues originating from within the boundaries of the related project areas constituted security for repayment of the loans.

During the previous fiscal year, those numerous loan agreements were refinanced along with the gap funding necessary to rebuild the harbor following the 2006 and 2011 tsunamis. In addition, the District purchased a building that was located on the District's land and encumbered a loan in the amount of \$36,000 to a private individual. The note bears interest at 3% and is all due and payable on February 9, 2019. If the District leases the building securing the note, the holder is entitled to 50% of each lease payment, applied first to the outstanding interest and then to the outstanding principal until paid in full.

The District entered into an agreement with the Crescent City Harbor Public Financing Corporation to borrow \$5,425,000 under a Certificate of Participation dated September 27, 2012. The agreement calls for 38 annual payments of principal and interest to be made on September 1st of each year. The agreement bears interest at 3.5%. The annual installment payable is \$260,303, first installment repayment started from date September 1, 2012.

The following was the summary of changes in long term debt during fiscal year ended June 30, 2019:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Current portion</u> |
|------------------------------------|------------------------------|------------------|--------------------|---------------------------|----------------------------|
| USDA Harbor Reconstruction loan | \$ 5,200,732 | \$ - | \$ (72,582) | \$ 5,128,150 | \$ 80,818 |
| Total | <u>\$ 5,200,732</u> | <u>\$ -</u> | <u>\$ (72,582)</u> | <u>\$ 5,128,150</u> | <u>\$ 80,818</u> |

The following was the summary of annual debt service requirements to amortize all debt outstanding as of June 30, 2019:

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------|---------------------|---------------------|
| 2020 | \$ 80,818 | \$ 179,485 |
| 2021 | 83,647 | 176,657 |
| 2022 | 86,574 | 173,729 |
| 2023 | 89,604 | 170,699 |
| 2024 | 92,740 | 167,563 |
| 2025-2029 | 514,723 | 786,792 |
| 2030-2034 | 611,330 | 690,186 |
| 2035-2039 | 726,068 | 575,448 |
| 2040-2044 | 862,341 | 469,175 |
| 2045-2049 | 1,024,191 | 277,325 |
| 2050-2053 | 956,114 | 4,677,868 |
| Total | <u>5,128,150</u> | <u>\$ 8,344,927</u> |
| Less: Current Portion | <u>80,818</u> | |
| Total noncurrent portion | <u>\$ 5,047,332</u> | |

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - POST RETIREMENT BENEFITS

The District offers its employees post retirement health coverage if they retire within 120 days of leaving the District's employ and who were covered by the District's Health Plan at the time they left. The District has no current OPEB liability for the year ended June 30, 2019.

NOTE 6 - LEASES

The District leases several properties to various types of private businesses with lease terms that range from month-to-month to 25 years at varying monthly rental amounts.

All of the arrangements are classified as operating leases and the future minimum rentals due the District for non-cancelable leases and for each of the next four years is as follows:

| <u>Year ended June 30</u> | <u>Amount</u> |
|---------------------------|---------------|
| 2020 | \$ 251,304 |
| 2021 | 177,288 |
| 2022 | 147,191 |
| 2023 | \$ 147,191 |

NOTE 7 - 2006 TSUNAMI DAMAGE

During the afternoon of November 15, 2006 the harbor was affected by a tsunami generated by an earthquake in the Kuril Islands. Dock H was completely destroyed as was a portion of Dock G and Dock F. The majority of the remaining floats in the inner boat basin were damaged. Due to the extent of the damage and the cost of replacing individual floats, it was determined that the least cost alternative is to replace the entire inner basin float system, including pilings and gangways. Changes to electrical codes and standards require upgrading the electrical system. The Americans with Disabilities Act requires improving handicap access. At the start of construction, the engineer's estimate of replacement cost was \$32,867,009. Due to the magnitude of the damage a State Disaster was declared resulting in the District receiving a grant from the California Office of Emergency Services (Cal OES) for 75% of the actual cost of repairing the tsunami damage. In partnership with the County of Del Norte, the District was awarded a \$5,000,000 Community Development Block Grant (CDBG) through the Over the Counter (OTC) program to help match the Cal OES funding. Of the CDBT OTC grant, \$200,000 is earmarked for administration and labor compliance, leaving \$4.80 M for project funding.

As a result, the project was fully funded. Expenditures on construction through June 30, 2018 were \$22,615,418 of this amount the District's share was approximately \$5,657,000. All construction has been completed. The project is in the process of being closed out with Cal OES. When the close out is complete, retention will be released to the District.

NOTE 8 - 2011 TSUNAMI DAMAGE

The morning of March 11, 2011 the District was again struck by a tsunami. This tsunami resulted from a 9.0 magnitude earthquake that originated near Tohoku, Japan. Where the 2006 tsunami damaged the majority of the docks in the inner boat basin, the 2011 tsunami completely destroyed the docks. By the end of the day on March 11, 2011, there were very few usable mooring spaces in the inner boat basin.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 - 2011 TSUNAMI DAMAGE - CONT'D

Fortunately, nearly all of the active commercial fishing fleet based in the Harbor received sufficient warning and was able to evacuate before the tsunami struck. There was minor damage to Citizens' Dock (the main fish unloading facility) and no damage to the ice house or fueling facility. Although the main marina was destroyed, the commercial support facilities, the recreational marina, and all the land based facilities remained intact.

Due to the widespread damage from the 2011 tsunami, a federal disaster was declared. The District was required to pay 6.25% of the actual repair cost, the remaining 93.75% will be funded by the Federal Emergency Management Agency and Cal OES.

On a more positive note, when the 2011 tsunami struck the District had just completed design, engineering, and permitting to replace the entire inner boat basin as a result of the 2006 tsunami. In the immediate aftermath of the 2011 tsunami the District's first priority was to remove damaged boats and docks from the inner boat basin, to dredge the sand deposited in the inner boat basin by the tsunami, and to install temporary docks for berthing the local fleet. By the beginning of the 2011/12 Dungeness crab season these goals were accomplished and there was no disruption of the local fleet's fishing activity. To finance the required tsunami repairs and consolidate all long term debt, the District, through the Crescent City Harbor Public Financing Corporation, borrowed up to \$5.425 M from the USDA Rural Development program.

See Note 4 for further discussion of this loan. With this loan, all tsunami repairs are fully funded. As of June 30, 2019 construction costs amounted to approximately \$21,837,000. Of this amount, the District's share is approximately \$1,364,800. Most of the 2011 tsunami projects were completed by the summer of 2017, with the remaining projects scheduled for completion by December 31, 2017. Most of the projects were in the process of being closed out with Cal OES, after which retention's withheld by Cal OES and FEMA will be released to the District.

NOTE 9 - PENSION PLAN

A. Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit Pension Plan. CalPERS provides retirement, death and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

B. Funding Policy

Active plan members in the Plan are required to contribute 7% of their covered salary. The District contributes 6% of the employee portion. 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 fiscal year ended June 30, 2019 was 8.377% for the miscellaneous plan.

The contribution requirements of plan members are established by State statute and the employer contribution is established and may be amended by CalPERS.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - PENSION PLAN - CONT'D

B. Funding Policy - Cont'd

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | <u>Miscellaneous</u> | <u>PEPRA</u> |
|---|--------------------------------|--------------------------------|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.0% at 55; maximum 2% COLA | 2.0% at 62; maximum 2% COLA |
| Benefit vesting schedule | 5 year's service | 5 year's service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 50 | 52 |
| Monthly benefits, as a % of eligible compensation | 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 6.886% | 6.25% |
| Required employer contribution rates | 8.377% | 6.555% |

Employees hired January 1, 2013 and thereafter pay the full 6.25% employee contribution per adopted Mutual of Understanding if the employee is considered a "Classic" employee under PEPRA.

C. Contributions

Section 20814© of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of the pension expense is as follows:

| | |
|--------------------------|----------|
| Contributions – employer | \$76,215 |
| Contributions – employee | \$20,233 |

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Risk Pool Plan as follows:

Proportionate share of net pension liability

| | |
|-----------------------------|--------------------------|
| Miscellaneous | \$ 755,972 |
| PEPRA | <u>-</u> |
| Total Net Pension Liability | <u><u>\$ 755,972</u></u> |

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - PENSION PLAN - CONT'D

D. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions - Cont'd

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability of the Miscellaneous Risk Pool Plan. The net pension liability of each of the Plans is measured as of June 30, 2019 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2019 was as follows:

| | <u>Miscellaneous</u> |
|------------------------------|----------------------|
| Proportion – June 30, 2019 | 0.02006 % |
| Proportion – June 30, 2018 | 0.01774 % |
| Change – Increase/(Decrease) | 0.00232 % |

For the year ended June 30, 2019, the District recognized pension expense of \$117,301. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date | \$ 76,215 | \$ - |
| Changes of Assumptions | 86,183 | 21,122 |
| Differences Between Expected and Actual | 29,005 | 9,870 |
| Net Difference Between Projected and Actual Investment | | |
| Earnings on Pension Plan Investments | 3,737 | - |
| Difference Between actual and proportionated contribution | - | 28,699 |
| Difference Between proportionate share of beginning balance | - | 2,817 |
| Total | \$ 195,140 | \$ 62,508 |

Any amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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 Ended June 30</u> | <u>Miscellaneous</u> |
|---------------------------|----------------------|
| 2020 | \$ 61,673 |
| 2021 | 30,396 |
| 2022 | (28,852) |
| 2023 | (6,800) |
| 2024 | - |
| Thereafter | - |
| Total | \$ 56,417 |

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - PENSION PLAN - CONT'D

E. Actuarial Assumptions

The total pension liability for the measurement date June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Valuation Date | June 30, 2018 |
| Measurement Date | June 30, 2019 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Discount Rate | 7.15%, (net of administrative expenses) |
| Inflation | 2.50% |
| Projected Salary Increase | Varies by Entry Age and Service ¹ |
| Investment Rate of Return | 7.15% ² |
| Mortality | Derived using CalPERS' Membership ³ Data for all Funds |

¹3.30% to 14.20% depending on age, service, and type of employment

²Net of pension plan investment expenses, including inflation

³The 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 2018 experience study report.

All other actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for fiscal years 1997-2014, including updates to salary increase,

F. Discount rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, 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 percent discount rate is adequate and the use of municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund.

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

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - PENSION PLAN - CONT'D

F. Discount rate - Cont'd

The table below reflects 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. The geometric rates of return are net of administrative expenses.

| <u>Asset Class (1)</u> | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10 (2)</u> | <u>Real Return Years 11+(3)</u> |
|------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Global Equity | 50 % | 4.80 % | 5.98 % |
| Global Fixed Income | 28 % | 1.00 % | 2.62 % |
| Inflation assets | - % | 0.77 % | 1.81 % |
| Private Equity | 8 % | 6.30 % | 7.23 % |
| Real Estate | 13 % | 3.75 % | 4.93 |
| Liquidity | 1 % | - % | 0.92 % |

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

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

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

G. 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 for each Plan, calculating using the discount rate of each Plan, 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 (6.15%) or 1-percentage point higher (8.15%) than the current rate:

| | <u>Discount Rate Less 1% (6.15%)</u> | <u>Current Discount (7.15%)</u> | <u>Discount Rate plus 1% (8.15%)</u> |
|---|--|---|--|
| Risk Pool's Net Pension Liability/(Asset) | <u>\$ 1,214,082</u> | <u>\$ 755,972</u> | <u>\$ 377,561</u> |

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

H. Payable to the Pension Plan

At June 30, 2019, the District has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 - SUBSEQUENT EVENTS

In February 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a “Public Health Emergency of International Concern,” which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets.

The COVID-19 pandemic is complex and rapidly evolving. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, and financial position.

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2019, the District reconciled and corrected the capital asset inventory listing as a result accumulated depreciation increased by \$1,878,609 and balance of Vehicles decreased by \$823,114. Total adjustment in capital assets was for \$2,701,723, of which a prior period adjustment was made to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE LAST 10 YEARS*
JUNE 30, 2019

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| District's proportion of the net pension liability | 0.02006 % | 0.00338 % | 0.00338 % | 0.00338 % | 0.00338 % |
| District's proportionate share of the net pension liability | \$ 755,972 | \$ 766,970 | \$ 738,808 | \$ 738,808 | \$ 607,204 |
| District's covered-employee payroll | \$ 864,627 | \$ 557,255 | \$ 466,299 | \$ 469,699 | 487,084 |
| District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 87.43 % | 137.63 % | 158.44 % | 157.29 % | 124.66 |
| Plan fiduciary net position as a percentage of the total pension liability | 74.34 % | 82.70 % | 82.70 % | 82.70 % | 82.70 |

* - Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTION
FOR THE LAST TEN YEARS*
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually required contribution (actuarially determined) | \$ 76,215 | \$ 50,484 | \$ 85,778 | \$ 60,880 | \$ 70,766 |
| Contributions in relation to the contractually required contributions | <u>(76,215)</u> | <u>(50,484)</u> | <u>(85,778)</u> | <u>(60,880)</u> | <u>(70,766)</u> |
| Contribution deficiency (excess) | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |
| District's covered-employee payroll | \$ 864,627 | \$ 557,255 | \$ 466,299 | \$ 469,699 | \$ 487,084 |
| Contributions as a percentage of covered-employee payroll | 8.81 % | 9.06 % | 18.40 % | 12.96 % | 14.53 % |

* - Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S 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***

To the Board of Commissioners
Crescent City Harbor District
Crescent City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Crescent City Harbor District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2021.

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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001 to be material weaknesses.

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*.

The District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harshwal & Company LLP

Oakland, California
March 13, 2021

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | Yes |
| • Significant deficiency(ies) identified that are not considered to be material weakness? | No |
| • Noncompliance material to financial statements noted? | No |

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION II. - FINANCIAL STATEMENTS FINDINGS

2019-001 - Financial Statement Close Process (Material Weakness)

Condition - The District lacks an effective internal control structure over the financial statement close and reporting process to allow for timely and accurate financial reporting. The District's internal controls were not in place or were not followed to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

During our audit, we encountered numerous issues related to District's financial statement close process and underlying records that were provided to us to substantiate account balances in the District's trial balance and financial statements.

- a) Bank Reconciliation: The District was unable to present bank reconciliations for the month of May 2019 and June 2019 for our review. Also, the District did not correctly review the general ledger along with bank statements to identify outstanding reconciling items and possible errors. We noted differences in reconciled balances per reconciliation reports and general ledger balances of banks for all the months.
- b) Disbursement: For 22 out of 60 disbursements instances tested, there were no supporting documentation to review. Also, during payroll expenses testing the District could not provide supporting documents for review, for 6 out of 15 instances tested.
- c) Accounts Receivable: The District does not have internal control procedures to track individual grants and other receivables to ensure receivables are recorded accurately in a timely manner. We noted that the District does not reconcile the accounts receivable and the grant receivable reported on the general ledger to the listing maintained by District.
- d) Fund Balance: An adjustment was necessary to correct the beginning fund balance, account payable, account receivable, accrued expenses and capital assets. Also, beginning net position is restated to correct capital assets balance.

Criteria - The District is responsible for maintaining adequate internal controls over its accounting records, account balances, and financial statement disclosures. Accounting records should include a complete, balanced general ledger that records all transactions, supported by appropriate subsidiary records, to prepare accurate financial statements. Procedures should be in place to ensure that balance sheet accounts are independently reviewed and reconciled to subsidiary records, at the very least, on a monthly basis.

Effect - Without established and adequate internal controls, lack of maintenance of subsidiary records and year-end reconciliation procedures, the District's balances lack certainty about the accuracy of the balances.

Auditor's Recommendation: We recommend management evaluate all aspects of the financial close and reporting process and establish adequate internal controls and reconciliation and review procedures to ensure timely and accurate financial statements and supporting schedules.

Management Response: To create sufficient separation of duties the District entered into a contract with a CPA firm in late 2018 to perform District's Bank reconciliations, but due to a lack of cooperation from the District's Finance Manager, they were unable to perform the duties as needed, an action was taken and Finance Manager was terminated in October 2019.

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION II. - FINANCIAL STATEMENTS FINDINGS - CONT'D

2019-001 - Financial Statement Close Process (Material Weakness) - Cont'd

Because of potential irregularities being brought to light, the District, after publishing a request for qualifications, awarded a book keeping contract in August of 2019 to McPherrrens Tax Service, the action was taken following the fiscal year 2019. In addition to general book keeping, the District entered into a contract with Barrett Business Services, Inc., a management consulting company, in October of 2019, to manage the District's payroll and Human Resources processes, that were earlier managed by Finance Manager.

Because of the changes made to strengthen internal controls and separation of duties following the fiscal year that ended in 2019, the District is of the opinion that all the irregularities and weaknesses will be resolved.

**CRESCENT CITY HARBOR DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

The District had no findings noted in prior years that require a status update.