

CRESCENT CITY HARBOR DISTRICT

**Independent Auditor's Report
Financial Statements
And
Supplementary Information
For Year Ended
June 30, 2023**

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	1-3
MANAGEMENT DISCUSISON AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	5
Statement of Revenues, Expenses, and Change in Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8-19
SUPPLEMENTARY INFORMATION	
Schedules of District’s Proportionate Share of Net Pension Liability – Last 10 years	20
Schedules of District’s Pension Contributions – Last 10 Years.....	21
OTHER COMMUNICATION FROM INDEPENDENT AUDITORS	
Independent Auditor’s Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Audit Standards</i>	22-23
Schedule of Prior Year’s Audit Findings and Response.....	24

Nicholson & Olson, LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Crescent City Harbor District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Crescent City Harbor District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Crescent City Harbor District as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of Crescent City Harbor District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Nicholson & Olson, LLP

Certified Public Accountants

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions to the Pension Plans, on pages 20-21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Nicholson & Olson, LLP

Certified Public Accountants

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023, on our consideration of Crescent City Harbor 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 Crescent City Harbor 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 Crescent City Harbor District's internal control over financial reporting and compliance.

Nicholson & Olson

Nicholson & Olson, CPAs
Roseville, California
December 22, 2023

**CRESCENT CITY HARBOR DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

The Crescent City Harbor District, under the purview of the Board and Leadership Team, has demonstrated substantial progress in achieving its primary objectives: securing the independent commercial fishing sector, acquiring grants for essential infrastructure improvements, fostering sustainable operational income, job creation, coastal access expansion, and increased community engagement. Positive outcomes are evident in grants awarded, audit results, new leases, and successful community events.

The District has effectively addressed legal challenges and navigated additional adversities arising from the aftermath of the Covid-19 Pandemic, severe weather events, and abrupt government regulatory actions impacting fishing seasons and fish processing.

The collective efforts of the leadership team, led by Harbormaster/CEO Tim Petrick, Assistant Harbor Master Mike Rademaker, and Comptroller Thomas Zickgraf, have resulted in a highly motivated, adaptive, and dedicated core workforce. Significant progress has been made in resolving lease disputes and advancing redevelopment plans for the Harbor District under the guidance of the Board and Harbormaster Petrick. Thanks to the hard work of the Board's Finance Ad-Hoc Committee Members Commissioner Weber and Commissioner White, the District made great improvements in its accounting and financial reporting by directly assisting Comptroller Zickgraf implement improvements.

Financially, the District operates with a daily cash balance of approximately \$450,000 after meeting current liabilities, payroll, and other obligations. As the District progresses through Phase 1 of redevelopment, the District anticipates operating at a slight gain/loss before depreciation. It is essential to note that temporary legal fees related to lease disputes will impact this balance until resolution.

To address these challenges, strategic spending measures have been implemented, staffing levels have been optimized, and Leadership Team salary remuneration is now partially covered through grants. Operational enhancements include improved billing procedures, collection processes, and customer communications. The District has also now regained control of Bayside RV Park and Redwood Harbor RV Park. Bayside RV Park is currently being optimized to accommodate longer term residents. The Board has formed an ad-hoc committee to create recommendations for redeveloping Redwood Harbor RV Park.

The strategic collaboration with Community Solutions Services has proven crucial in effective grant management and acquisition services. Together, the team successfully secured a \$7 Million Grant in FY 2022-2023 for the design and construction of a new Seawall. Additional grants have since been awarded. The District is committed to securing additional grants for infrastructure repair/replacement, businesses improvement/development, job creation, and tourism promotion. Additionally, opportunities to become a hub for servicing offshore wind energy vessels are being explored, aligning with overarching goals of supporting the commercial fishing industry and preserving coastal resources.

Despite challenges posed by long-term debt liabilities and legal fees, the commitment to success remains unwavering. By contracting with CSS for grant acquisition and management, the District aims to mitigate the impact on cash reserves and enhance cash flow. The synergy fostered between the Board, Leadership Team, and Core Crew is a testament to the District's success. It is imperative to continue investing in and supporting this exceptional team.

With Board oversight and this Leadership Team firmly in place, the Crescent City Harbor District is confidently on the path to sustained success. The support in funding these endeavors is crucial for the District to continue making a positive impact on the community and achieving overarching goals. Equally important is for the Board and team to remain mission driven to developing sustaining revenue and infrastructure that protects and promotes independent commercial fishing in Crescent City Harbor.

FINANCIAL STATEMENTS

**CRESCENT CITY HARBOR DISTRICT
STATEMENT OF NET POSITION
June 30, 2023**

ASSETS

Current Assets:

Cash and investments	\$ 841,354
Accounts receivable	8,054
Lease receivable	338,111
Inventory	10,017
Prepaid expenses	16,371
Total Current Assets	1,213,907

Noncurrent Assets:

Leases receivable	1,502,371
-------------------	-----------

Capital Assets:

Non-depreciable	465,511
Depreciable capital assets, net	24,034,224
Total Capital Assets, net of accumulated depreciation	24,499,735

Total Assets

27,216,013

DEFERRED OUTFLOWS OF RESOURCES

Pension contributions made subsequent to measurement date	389,539
---	---------

Total Assets and Deferred Outflows

27,605,552

LIABILITIES

Current Liabilities:

Accounts payable	89,427
Accrued payroll liabilities	38,497
Customer deposits	37,865
Interest payable	138,641
Compensated absences	26,649
Current portion of long-term debt	193,312
Current portion of lease liability	36,451
Total Current Liabilities	560,842

Noncurrent Liabilities:

Long-term debt	4,787,716
Lease liability	70,872
Net pension liability	895,041
Compensated absences	79,946
Total Noncurrent Liabilities	5,833,575

Total Liabilities

6,394,417

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pension	200,815
Deferred inflows related to leases	1,840,482
Total Deferred Inflows of Resources	2,041,297

NET POSITION

Net investment in capital assets	19,411,384
Unrestricted	(241,546)
Total Net Position	19,169,838

Total Liabilities, Deferred Inflows, and Net Position

\$ 27,605,552

The accompanying notes are an integral part of these financial statements

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended June 30, 2023

OPERATING REVENUES:

Slip rentals	\$ 547,381
Commercial lease	782,663
RV park	416,311
Marina services and fees	262,252
Other operating income	1,536
	2,010,143
Total Operating Revenues	2,010,143

OPERATING EXPENSES:

Advertising	7,868
Audit	13,475
Auto expenses	19,052
Bank service fees	39,127
Consulting	320,876
Depreciation and amortization	3,827,907
Insurance	216,800
Legal	299,111
Office and admin	138,174
Operating expenses	54,325
Outside services	112,797
Payroll expenses	1,224,525
Repairs and maintenance	167,810
Travel	18,260
Utilities	403,472
	6,863,579
Total Operating Expenses	6,863,579
Operating Income (Loss)	(4,853,436)

NONOPERATING REVENUES (EXPENSES)

Property taxes and assessments income, net of admin fees	372,291
Grant revenue	321,196
Lease buyout	(85,782)
Interest Income	68,736
Interest Expense	(170,548)
	505,893
Total Nonoperating Revenues (Expenses)	505,893
Change in Net Position (Loss)	(4,347,543)

NET POSITION:

Net position, beginning of year	23,260,136
Restatement	257,245
Restatement beginning of year	23,517,381
Net position end of year	\$ 19,169,838

The accompanying notes are an integral part of these financial statements

**CRESCENT CITY HARBOR DISTRICT
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net position	\$ (4,347,543)
Adjustments to reconcile change in net position to net cash flows from operating activities:	
Depreciation and amortization	3,827,907
Net change in pension assets and liabilities	(163,298)
(Increase) decrease in:	
Accounts receivable	(3,723)
Taxes receivable	50,776
Inventory	9,491
Prepaid expenses	10,984
Increase (decrease) in:	
Accounts payable	453
Accrued payroll liabilities	(42,063)
Compensated absences	44,179
Interest payable	(3,608)
Customer deposits	16,725
Net cash provided by (used in) operating activities	(599,720)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of capital assets	(72,440)
Net cash provided by (used in) investing activities	(72,440)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments of long-term debt	(194,367)
Payments on capital lease obligation	(35,446)
Net cash provided by (used in) financing activities	(229,813)

Net increase (decrease) in cash and investments (901,973)

CASH AND INVESTMENTS - Beginning of year 1,743,327

CASH AND INVESTMENTS - End of year \$ 841,354

SUPPLEMENTAL INFORMATION

Interest paid	\$ 170,548
---------------	------------

NON-CASH OPERATING AND INVESTING ACTIVITIES

Lease receivables acquired from leased property	\$ 1,554,381
---	--------------

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

The notes to financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the District as follows:

- Note 1 - The District
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - Cash and Investments
- Note 4 - Capital Assets
- Note 5 - Long Term Debt
- Note 6 - Leases
- Note 7 - Pension Plan
- Note 8 - Commitments and Contingences
- Note 9 - Subsequent Events

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 1 - The District

The Crescent City Harbor District (the District) was established November 8, 1931, by the vote of the people of Del Norte County in accordance with chapter 704 of the statutes of 1931. The District started its operations in 1932; and in September 1963, the District received a land grant from the state of California under chapter 1510 of the new statutes of 1963. The Land Grant gave the District the title to the land on the seabed floor 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. Now, the District comprises of granted land and a few simple parcels acquired over time. The District's managed land is located along the Pacific Ocean at the South end of Crescent City. A portion of the District's property is within the city limits of Crescent City, but most of the property is located within the County of Del Norte.

The District was organized under the California Harbors and Navigation Code, Division 8, Part 3, and is governed by a five-person elected Board of Commissioners. The Board of Commissioners governs all the activities of the District. All registered voters in the County of Del Norte are eligible to run for the Board and vote in the election.

The District oversees improvement and operations of the harbor of Crescent City, construction, maintenance of wharfs, docks, piers, slips, quays, and facilities for the promotion and accommodation of commerce, navigation, fisheries, and public recreation. In addition, the district has leased several commercial buildings and businesses located upon the land owned by the district surrounding the harbor, from which rental income is received.

The Crescent City Harbor District is a legally separate and independent entity that has no component unit organization under its control. Therefore, this annual financial report and the financial statements contained within represent solely the activities, transactions, and status of the District.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The District's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The government-wide financial statements (*i.e.*, the statement of net position, the statement of revenues, expenses and change in net position and the statement of cash flows) display information about the primary government (the District). These statements summarize the entire District's financial activities and financial position.

The Statement of Net Position reports the difference between the District's total assets and deferred outflows and the District's total liabilities and deferred inflows, including all the District's capital assets and its long-terms liabilities. The Statement of Net Position summarizes the financial position of all the District's Governmental Activities in a single column. GASB statement No. 63 requires the classification of net position into three components, these classifications are as follows:

Net investment in capital assets: this component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 2 - Summary of Significant Accounting Policies (Continued)

Restricted: This component of net position consists of constraints placed on resources through external constraints imposed by creditors, grantors, contributors, laws or regulation of governments or constraints imposed by law through constitutional provisions.

Unrestricted: This component of net position consists of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

The District’s main fund is an Enterprise fund. Enterprise funds operating and financing activities are similar to those of private businesses with the goal of providing continuing services to the general public with financed resources or via resources generated from operations.

Cash and Investments

The District maintains a cash and savings account at a financial institution. Excess funds are deposited with the State of California’s Local Agency Fund (LAIF) Operating Fund and are considered cash equivalents.

Fair Value Measurements

The District categorizes its fair value hierarchy that prioritizes the inputs to valuation techniques established by generally accepted accounting policies. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Asset and liabilities are reported in three levels in the fair value hierarchy: using quoted prices in active markets for identical assets and liabilities (Level 1), using significant other observable inputs (Level 2), and using significant unobservable inputs (Level 3).

Capital Assets and Depreciation

Capital assets are reported in the statement of net position of the government-wide financial statements based on cost or estimated historical cost. Capital assets include land, buildings and improvements, equipment, and vehicles. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized. Depreciation is recorded in the government-wide financial statements on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Estimated Useful Life</u>
Vehicles	3-5 years
Wharves, Docks, and Marinas	5-30 years
Sewer Lift Station	5-30 years
Streets, Roads, and Parks	10-50 years
Buildings and Improvements	5-40 years
Machinery and Equipment	5-20 years

Lease Receivable

With the exception of short-term leases, the District is a lessor in noncancellable lease arrangements and recognizes a lease receivable and a deferred inflow of resources in the Statement of Net Position. For short-term leases, lease revenues are recognized as inflows of resources based on the payment provisions of the contract. See Note 6 for details of the District’s leasing arrangements.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 2 - Summary of Significant Accounting Policies (Continued)

Long-Term Obligation

In the statement of net position, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities statement of net position. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and no. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflow of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note 7 for the list of deferred outflows and Note 6 and 7 for deferred inflows of resources that were recognized as of June 30, 2023.

Pension

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

Property Taxes

The State of California Constitution Article XIIA 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. The assessed value is calculated at one hundred percent (100%) 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 counties, cities, school districts, and other districts.

The county of Del Norte assesses, bills for, and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien Dates	March 1	March 1
Levy Dates	July 1	July 1
Due Dates	50% November 1, 50% March 1	July 1
Delinquency Dates	December 10 (for November) April 10 (for March)	August 31

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

Property taxes levied are recorded as revenue when received in the fiscal year of the 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 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:

- i) 55% remitted on December 15
- ii) 40% remitted on April 15
- iii) 5% remitted on June 15

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 2 - Summary of Significant Accounting Policies (Concluded)

Use of Estimates

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

Inventory

Inventory is carried at the lower of cost or net realizable value. Inventory is recorded at acquisition and expenses as cost of goods sold at the time of sale or use.

Note 3 - Cash and Investments

At June 30, 2023, the District's cash balance of checking and savings accounts before reconciliation items totaled to \$169,721. 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 uncollateralized. The District's investment policy does not further limit its deposits. As of June 30, 2023, the District's cash in bank did not exceed the FDIC insured balance.

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. As of June 30, 2023, the District had \$671,633 invested in LAIF. The District's investments with LAIF on June 30, 2023, include a portion of the pool funds invested in U.S. Treasury Bills, U.S Treasury Notes, Certificate of Deposits, Commercial Paper, and Corporate Bonds.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

To mitigate the custodial credit risk, the District requires that all its managed investments be held in the name of the District, and 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.

Note 3 - Cash and Investments

Concentrations of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. 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.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 4 - Capital Assets

Capital assets activity is comprised of the following:

	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 465,511	\$ -	\$ -	\$ 465,511
Total capital assets not being depreciated	465,511	-	-	465,511
Capital assets being depreciated:				
Equipment	357,501	-	-	357,501
Vehicles	15,217	-	-	15,217
Wharves, Docks and Marinas	61,733,331	-	-	61,733,331
Street, Roads and Parks	707,691	-	-	707,691
Sewer Lift Station	33,655	-	-	33,655
Building and Improvements	4,534,074	72,440	-	4,606,514
Leased Vehicles	147,396	-	-	147,396
Total capital assets being depreciated	67,528,865	72,440	-	67,601,305
Less: accumulated amortization on leased assets	(4,876)	(36,849)	-	(41,725)
Less: accumulated depreciation	(39,734,298)	\$(3,791,058)	\$ -	(43,525,356)
Total depreciable assets	27,789,691			24,034,224
Governmental Activity Capital Assets, Net	\$28,255,202			\$24,499,735

Depreciation and amortization expenses during the fiscal year ending June 30, 2023, totaled \$3,827,907.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 5 - Long Term Debt

The following was the summary of changes in long-term debt during the fiscal year ended June 30, 2023:

	Original Issue Amount	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion
USDA Harbor Reconstruction Loan	\$ 5,425,000	\$ 4,877,111	\$ -	\$ (89,604)	\$ 4,787,507	\$ 92,740
Bayside RV Park buy out	\$ 600,000	298,284	-	(104,763)	193,521	100,572
Total Governmental Activity Debt		<u>\$ 5,175,395</u>	<u>\$ -</u>	<u>\$ (194,367)</u>	<u>\$ 4,981,028</u>	<u>\$ 193,312</u>

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 thirty-eight 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; the first repayment installment started on September 1, 2012. The following is the summary of annual debt requirements to amortize USDA Harbor reconstruction debt outstanding as of June 30, 2023:

Year Ending June 30:	Principal	Interest	Total
2024	\$ 92,740	\$ 167,563	\$ 260,303
2025	95,986	164,317	260,303
2026	99,346	160,957	260,303
2027	102,823	157,480	260,303
2028	106,422	153,881	260,303
Thereafter	<u>4,290,190</u>	<u>2,217,388</u>	<u>6,507,578</u>
	<u>\$ 4,787,507</u>	<u>\$ 3,021,586</u>	<u>\$ 7,809,093</u>

In July 2019, the District entered a buy-out arrangement for \$600,000 with the former lessees of the Bayside RV Park. The arrangement calls for seventy-one monthly payments of \$8,381 split evenly between the two former business partners and a final payment of \$4,949 due on August 1, 2025. The District commenced monthly payments on August 1, 2019. The following is the summary of annual debt service requirements to amortize Bayside RV Park Buyout agreement debts outstanding as of June 30, 2023.

Year Ending June 30:	Principal	Total
2024	100,572	100,572
2025	<u>92,949</u>	<u>92,949</u>
	<u>\$ 193,521</u>	<u>\$ 193,521</u>

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 6 - Leases

Lessee

The District leases vehicles under capital leases, which are amortized on a straight-line basis over the length of the lease. As of June 30, 2023, net book value of the capitalized transportation equipment is as follows:

Vehicles leased	\$	147,396
Accumulated amortization		(36,849)
Net book value	<u>\$</u>	<u>110,547</u>

The future minimum annual payments under the capital leases are as follows:

<u>Year ending June 30</u>		
2024	\$	38,902
2025		38,902
2026		33,762
Total minimum lease payments		111,566
Less: interest included in lease obligation		(4,243)
Present value of minimum lease payments		107,323
Less: Current maturities		36,451
Noncurrent maturities	<u>\$</u>	<u>70,872</u>

Lessor

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. Lease receivables for operating leases that are longer than 12 months totaled \$1,840,482 as of June 30, 2023. Two of the long-term leases included in the lease receivable balance have variable payments related to gross receipts, and one lease has the potential for yearly rent increases, these additional amounts have been excluded from this balance. Interest is imputed between 2.05%, and 4.08% Future minimum lease revenue and interest income is as follow:

Year Ending June 30:	Lease Revenue	Interest Revenue	Total
2024	\$ 282,479	\$ 55,632	\$ 338,111
2025	291,862	45,125	336,987
2026	248,465	37,146	285,611
2027	156,231	31,402	187,633
2028	128,235	26,646	154,881
Thereafter	733,210	475,957	1,209,167
	\$ 1,840,482	\$ 671,908	\$ 2,512,390

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 7 - Pension Plan

Plan Description

All qualified employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). The District has the following cost-sharing plan:

- Miscellaneous Plan

CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at WWW.CALPERS.CA.GOV

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. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous Plan	
	Prior to Jan 1, 2013	On or after Jan 1, 2013
Hire date		
Benefit formula	2% at 55; max 2% COLA	2% at 62; max 2% COLA
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	55
Monthly benefits as a % of eligible compensation	2.418%	1.0% to 2.5%
Required employee contribution rates	7.0%	6.75%
Required employer contribution rates	10.87%	7.47%
Required UAL payment	\$62,752	\$4,020

Pension Liabilities

As of June 30, 2023, the District reported a net pension liability for its proportionate share of the net pension liability of the plans as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2022	0.02323%
Proportion - June 30, 2023	<u>0.01913%</u>
Change - Increase (Decrease)	-0.00410%

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2021, rolled forward to June 30, 2023, 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 plan relative to the projected contributions of all participating employers.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 7 - Pension Plan (Continued)

Contributions

Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the plan 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, 2023, contributions made to the plan for the measurement period were \$49,129. In addition, the District was also required to make a payment of \$66,772 toward its unfunded actuarial liability.

Pension Expense

For the year ended June 30, 2023, the District recognized pension credit of \$47,396 for all plans combined.

Deferred Outflow/Inflows of Resources

At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	\$ 91,716	\$ -
Differences between Expected and Actual Experience	17,974	12,038
Differences between Projected and Actual Investment Earnings	163,948	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	126,499
Change in Employer's Proportion	-	62,278
Pension Contributions Made Subsequent to Measurement Date	115,901	-
Total	<u>\$ 389,539</u>	<u>\$ 200,815</u>

The \$115,901 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, 2023.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Fiscal Year Ended June 30</u>	
2024	\$ (22,221)
2025	(5,582)
2026	350
2027	100,275
2028	-
Thereafter	-
Total	<u>\$ 72,822</u>

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 7 - Pension Plan (Continued)

Actuarial Assumptions

Total pension liabilities in the June 30, 2023, actuarial valuation for each of the Plan were determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	3.00%
Projected Salary	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	Derived using CalPERS Membership data for all funds

(1) Depending on entry age and service

(2) Net of pension plan investment expenses, including inflation

All other actuarial assumptions used in the June 30, 2015, valuation was based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study reports can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. To determine whether the municipal bond rate should be used in the calculations 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 6.90% discount rate is adequate, and the use of the municipal bond rate calculations is not necessary. The long-term expected discount rate of 6.90% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a report that can be obtained from the CalPERS website.

In determining the long-term expected rate of return, CalPERS considered both short and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers would make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' assets 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.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 7 - Pension Plan (Continued)

Asset Class	Asset Allocation	Real Return
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	<u>100%</u>	

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 the Plan, calculated using the discount rate for the 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 or 1-percentage point higher than the current rate:

	Discount Rate - 1% 5.90%	Current Rate 6.90%	Discount Rate +1% 7.90%
Miscellaneous plan	\$ 1,388,321	\$ 895,041	\$ 489,494
Total	<u>\$ 1,388,321</u>	<u>\$ 895,041</u>	<u>\$ 489,494</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.

Payable to the Pension Plan

At June 30, 2023, the District had no outstanding contributions payable to the pension plan.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 8 - Commitments and Contingencies

The District is subject to litigation arising in the normal course of business. The District determined there is one pending litigation which meet the requirement for disclosure in these financial statements, information on the litigation are as follows:

In February of 2022, a commercial tenant filed a complaint against the Crescent City Harbor District alleging years of neglect by the District in regard to building maintenance and lack of dredging under the sychrolift, among other lesser allegations. The tenant argued that the Harbor District was contractually required to fix the building and dredge in the lease. The Harbor District was unable to dredge as the State did not issue dredging permits. The tenant claimed they would be out of business by the end of 2023 without dredging. In June of 2023 Arbitrators found in favor of the tenant in an interim decision requiring that the District complete building and dredging work by the end of October 2023. Currently damages have been assessed at \$1,298,000 plus fees. The arbitration panel heard testimony that the value of the business is \$3.5 million. The District is currently pursuing all legal and financial options to mitigate damages and finance a settlement.

In 2014, following the completion of the harbor replacement project due to the 2011 tsunami, the District identified multiple significant construction and project management issues with the docks, pilings, power, and water. At that time the District chose to pursue legal action against the parties involved. As of June 30, 2023, settlements have been reached with all but two of the defendants.

In January 2023, REC, and Alex Lemus was scheduled to commence full leasing and operation of the District's two RV Parks: Redwood Harbor and Bayside. Rent payments from REC were anticipated to commence in November 2023. However, REC disputed lease items in January 2024, leading to the non-payment of rents by REC. In lieu of the outstanding rent, the District reached a settlement of \$100,000 in December 2023.

Given the acceptance of the settlement, the bad debt expense for uncollected rents and the associated lost revenue are not reflected in the financial statements. Additionally, the District faced increased legal expenses in defending the lease during this period.

Alex Lemus, in his capacity as the managing partner of REC LLC and South Beach Resorts, LLC, has additional agreements with the District. These include a solar licensing agreement under REC and a commercial lease for the South Beach RV Park overflow lot, both currently in default. While the District anticipates recovering losses, legal fees related to pursuing these recovery efforts are expected during FY 2023-2024.

Note 9 - Subsequent Event

The District's management has reviewed the results of operations for the period of time from its fiscal year end June 30, 2023, through December 22, 2023, the date the financial statements were available to be issued. The District's management has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

SUPPLEMENTARY INFORMATION

**CRESCENT CITY HARBOR DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (UNAUDITED)
LAST 10 YEARS (1)**

Fiscal Year	Measurement Period	Proportion of Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered- Employee Payroll - Measurement Period	Proportionate Share of Net Pension Liability as a Percentage of Covered	Plan Fiduciary Net Position as a Percentage of the Total Pension
Miscellaneous Plan:						
2023	2022	0.19130%	\$ 895,041	\$ 631,484	141.74%	78.19%
2022	2021	0.81600%	441,179	421,231	104.74%	90.49%
2021	2020	0.75800%	824,666	861,214	95.76%	75.10%
2020	2019	0.77300%	791,023	719,185	109.99%	75.06%
2019	2018	0.78500%	755,972	864,627	87.43%	75.26%
2018	2017	0.80700%	800,223	557,255	143.60%	73.31%
2017	2016	0.82700%	715,615	466,299	153.47%	74.06%
2016	2015	0.87200%	598,618	469,699	127.45%	78.40%
2015	2014	0.33800%	607,204	487,084	124.66%	79.82%

Notes to schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30th, 2015 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

(1) Omitted years - GASB 68 was implemented during June 30, 2015. No information was available prior to this date.

**CRESCENT CITY HARBOR DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN (UNAUDITED)
LAST 10 YEARS (1)**

Fiscal Year	Measurement Period	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (excess)	Covered Employee Payroll - Fiscal Year	Contributions as a % of Employee Payroll
Miscellaneous Plan:						
2023	2022	\$ 115,901	\$ (115,901)	-	\$ 631,484	18.35%
2022	2021	44,975	(44,975)	-	421,231	10.68%
2021	2020	137,305	(137,305)	-	861,214	15.94%
2020	2019	35,558	(35,558)	-	719,185	4.94%
2019	2018	76,215	(76,215)	-	864,627	8.81%
2018	2017	50,484	(50,484)	-	557,255	9.06%
2017	2016	85,778	(85,778)	-	466,299	18.40%
2016	2015	60,880	(60,880)	-	469,699	12.96%
2015	2014	70,766	(70,766)	-	487,084	14.53%

Valuation Date: June 30, 2021

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Asset valuation method	Market Value
Discount rate (3)	6.90%
Inflation	2.30%
Projected salary increases	Varies by entry age and service
Investment rate of return (4)	7.50%
Retirement age and mortality	(5)

(1) Omitted years - GASB 68 was implemented during June 30, 2015. No information was available prior to this date.

(2) Change in Benefit Terms - No plan changes have occurred since the June 30, 2015 valuation date.

(3) Change in Assumption: The June, 2017 Actuarial valuation changed the discount rate from 7.65% to 7.15%. The June 30, 2021 Actuarial valuation changed the discount rate from 7.15% to 6.90%.

(4) Net of pension plan investment expenses, including inflation.

(5) Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study of the years 1997 to 2007. Pre-retirement mortality rates include 5 years projected mortality improvement using scale AA published by the Society of Actuaries.

OTHER COMMUNICATIONS

Nicholson & Olson, LLP

Certified Public Accountants

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 governmental activities of Crescent City Harbor District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Crescent City Harbor District's basic financial statements and have issued our report thereon dated December 22, 2023.

Report on 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 opinion 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 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 were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Nicholson & Olson, LLP

Certified Public Accountants

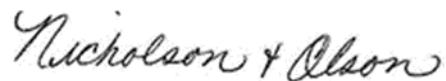
To the Board of Commissioners
Crescent City Harbor District
Crescent City, California

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and question costs. The District's response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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



Certified Public Accountants
Roseville, California
December 22, 2023

Nicholson & Olson, LLP

Certified Public Accountants

CRESCENT CITY HARBOR DISTRICT SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS JUNE 30, 2023

FINDINGS – FINANCIAL STATEMENTS AUDIT

2021-002: Bank Reconciliation (Material Weakness)

Recommendation: We recommend the District further implement policies over cash and investments that include the timely reconciling of accounts and include cash and investment accounts reported.

Current Status: The recommendation was implemented during the current fiscal year.