

CRESCENT CITY HARBOR DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2020

(with summarized comparative totals as of and
for the year ended June 30, 2019)



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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, 2020, 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, 2020, 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 schedule of the district's proportionate share of the net pension liability and schedule of the district's contribution on pages 24 - 26 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 accounting principles generally accepted in the United States of America 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 the 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

We had previously audited the District's 2019 financial statements and expressed an unmodified audit opinion on those audited financial statements in our report dated March 13, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 November 11, 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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Harshmal & Company LLP

Oakland, California
November 11, 2021

BASIC FINANCIAL STATEMENTS

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2020
(With summarized comparative totals as of June 30, 2019)

	2020	2019
ASSETS		
Current assets:		
Cash and investments:		
Available for operations	\$ 2,056,574	\$ 2,139,039
Receivables, net:		
Accounts receivable	93,100	76,925
Grants receivable	150,784	150,784
Inventory of materials and supplies	30,324	29,517
Loans receivable	15,650	15,650
Prepaid expenses	1,443	12,487
Other current assets	-	202
Total current assets	2,347,875	2,424,604
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	441,126	441,126
Depreciable capital assets, net	35,284,904	39,679,519
Other noncurrent assets	35,000	35,000
Total noncurrent assets	35,761,030	40,155,645
Total assets	38,108,905	42,580,249
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pension	128,218	195,140
Total deferred outflows of resources	128,218	195,140
Total assets and deferred outflows of resources	38,237,123	42,775,389
LIABILITIES		
Current liabilities:		
Accounts payable	99,120	88,438
Accrued payroll liabilities	22,402	61,806
Customer deposits	194,008	190,196
Interest payable	148,023	135,424
Current portion of compensated absences	8,783	8,783
Current portion of long-term debt	184,219	80,818
Other current liabilities	69	4
Total current liabilities	\$ 656,624	\$ 565,469

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

CRESCENT CITY HARBOR DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2020
(With summarized comparative totals as of June 30, 2019)

	2020	2019
LIABILITIES - CONT'D		
Noncurrent liabilities:		
Noncurrent portion of long-term debt	\$ 5,362,541	\$ 5,047,332
Net pension liability	791,023	755,972
Noncurrent portion of compensated absences	14,005	14,005
Total noncurrent liabilities	6,167,569	5,817,309
Total liabilities	6,824,193	6,382,778
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pension	84,934	62,508
Total deferred inflows of resources	84,934	62,508
Total liabilities and deferred inflows of resources	6,909,127	6,445,286
 NET POSITION		
Net investment in capital assets	30,678,698	34,992,495
Unrestricted	649,298	1,337,608
Total net position	31,327,996	36,330,103
Total liabilities, deferred inflow of resources, and net position	\$ 38,237,123	\$ 42,775,389

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, 2020
(With summarized comparative totals for the year ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Slip rentals	\$ 408,288	\$ 477,191
Launching, day use fees, travel lift, transient and other services	107,571	174,462
Rents and concessions	1,421,655	1,095,492
Other miscellaneous income	<u>34,443</u>	<u>33,021</u>
Total operating revenues	<u>1,971,957</u>	<u>1,780,166</u>
OPERATING EXPENSES		
Advertising	5,404	7,714
Audit	19,451	6,510
Bad debts	1,791	6,787
Depreciation	3,935,883	4,417,969
Election costs	-	9,780
Fuel, oil and grease	13,782	14,992
Insurance	229,295	164,825
Legal	169,111	163,930
Office and administrative	41,452	65,638
Operating supplies	2,222	11,110
Other	112,568	40,860
Outside services	50,946	96,425
Payroll expenses	977,346	933,858
Payroll taxes	21,598	54,672
Repairs and maintenance - materials	17,921	10,648
Repairs and maintenance - services	82,742	221,254
Travel	16,712	18,084
Utilities and telephone	<u>438,688</u>	<u>350,868</u>
Total operating expenses	<u>6,136,912</u>	<u>6,595,924</u>
Operating income (loss)	(4,164,955)	(4,815,758)
NONOPERATING REVENUES (EXPENSES)		
Property taxes and assessments income net of administration fees	379,143	385,081
Interest income	34,522	28,119
Interest expense	<u>(192,085)</u>	<u>(185,816)</u>
Total nonoperating revenues (expenses)	<u>221,580</u>	<u>227,384</u>
CHANGE IN NET POSITION	(3,943,375)	(4,588,374)
NET POSITION, BEGINNING OF YEAR	36,330,103	43,620,200
<i>RESTATEMENT</i>	<u>(1,058,732)</u>	<u>(2,701,723)</u>
<i>NET POSITION, BEGINNING OF YEAR AS RESTATED</i>	<u>35,271,371</u>	<u>40,918,477</u>
NET POSITION, END OF YEAR	<u>\$ 31,327,996</u>	<u>\$ 36,330,103</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, 2020
(With summarized comparative totals for the year ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,379,335	\$ 1,587,219
Receipts from other income	641,120	207,483
Payments to suppliers	(1,152,412)	(1,157,872)
Payments to employees	<u>(1,003,297)</u>	<u>(936,798)</u>
Net cash provided (used) by operating activities	<u>(135,254)</u>	<u>(299,968)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes received	<u>379,143</u>	<u>385,081</u>
Net cash provided (used) by noncapital financing activities	<u>379,143</u>	<u>385,081</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debts	(181,390)	(72,582)
Interest paid on long-term debts	<u>(179,486)</u>	<u>(187,721)</u>
Net cash provided (used) by capital and related financing activities	<u>(360,876)</u>	<u>(260,303)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>34,522</u>	<u>28,119</u>
Net cash provided (used) by investing activities	<u>34,522</u>	<u>28,119</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(82,465)	(147,071)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,139,039</u>	<u>2,286,110</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,056,574</u></u>	<u><u>\$ 2,139,039</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, 2020
(With summarized comparative totals for the year ended June 30, 2019)

	2020	2019
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (4,164,955)	\$ (4,815,758)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	3,935,883	4,417,969
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(16,175)	1,838
(Increase) Decrease in grants receivable	-	11,410
(Increase) Decrease in inventory of materials and supplies	(807)	469
(Increase) Decrease in other current assets	202	2,110
(Increase) Decrease in prepaid expenses	11,044	(12,487)
(Increase) Decrease in loans receivable	-	(82)
(Increase) Decrease in deferred outflows of resources	66,922	11,278
Increase (Decrease) in deferred inflows of resources	22,426	39,777
Increase (Decrease) in accounts payable	10,682	(16,182)
Increase (Decrease) in accrued payroll liabilities	(39,404)	61,806
Increase (Decrease) in net pension liability	35,051	(10,998)
Increase (Decrease) in compensated absences	-	924
Increase (Decrease) in customer deposits	3,812	7,954
Increase (Decrease) in other current liabilities	65	4
Net cash provided (used) by operating activities	\$ (135,254)	\$ (299,968)

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

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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 of 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 the District has acquired over time.

The District provides improvement and operations of the harbor of the 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 the California Harbors and Navigation Code, Division 8, Part 3, and is governed by a five-person 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 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 the Crescent City. A portion of the District's property is within the city limits of Crescent City, but most 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 that would be financially accountable for the District, resulting in the District is considered a component of the entity.

B. Basis of Accounting

On the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, business-type 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 noncurrent) associated with their activities are reported. Fund equity is classified as Net Position.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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

B. Basis of Accounting - Cont'd

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 and investments" includes all demand deposits, 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 (Level 1). Additional cash and investment disclosures are presented in Note 2.

D. Capital assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., docks, roads, sidewalks, and similar items), reported in the Statement of Net Position in the basic 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 a straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Autos and trucks	3 to 5 years
Wharves, Docks, and Marinas	5 to 30 years
Sewer Lift Station	5 to 30 years
Coast Guard Facility	20 to 50 years
Launch Ramps	10 to 50 years
Street Road and Parks	10 to 50 years
Buildings and improvements	5 to 40 years
Furniture	3 to 5 years
Machinery and Equipment	5 to 20 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.

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 expenses when used.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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

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 expenses in the period in which sick leave is taken. As of June 30, 2020, and June 30, 2019, the compensated absences balance was \$22,788 and \$22,788, respectively.

G. Long-Term Obligations

In the statement of net position - proprietary fund, long-term debt, and other long-term obligations are reported as liabilities in the applicable 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 statement of net position - proprietary fund.

- *Net investment in capital assets* represents the balance of capital assets less accumulated depreciation, net of the 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 purposes and use. As of June 30, 2020, and June 30, 2019, the District does not have a restricted net position.
- The *unrestricted* component of net position represents the portion remaining after the “net investment 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.

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 (the 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. The 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.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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

J. Property Taxes - Cont'd

Del Norte County 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% 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 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 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 (CalPERS), an agent multiple-employer public employee 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 CalPERS'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 CalPERS and additions to/deductions from CalPERS's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the Plan contributions are recognized as 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.

L. Comparative data

Prior year data has been included where practical for comparison purposes only. The prior year's data does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation and to enhance the comparability with the current year's figures.

M. Deficit Fund Balance/Net position

The financial statements reflect no deficit fund balance/net position as of June 30, 2020, and June 30, 2019, respectively.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - CASH AND INVESTMENTS

Cash and Investments as of June 30, 2020 and 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	\$ 641,979	\$ 445,453	\$ 445,453	\$ -
Cash on hand:				
Petty Cash	1,366	-	-	-
Undeposited funds	31,118	-	-	-
Investments:				
LAIF	<u>1,382,111</u>	<u>1,382,111</u>	<u>1,382,111</u>	<u>-</u>
Total cash and investments 2020	<u>\$ 2,056,574</u>	<u>\$ 1,827,564</u>	<u>\$ 1,827,564</u>	<u>\$ -</u>
Total cash and investments 2019	<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. To mitigate the custodial credit risk, the District requires that all of 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. 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.

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.

Concentration of Credit Risk

The 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. As of June 30, 2020, the District's investments were in compliance with the concentration of credit risk State law.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - CASH AND INVESTMENTS - CONT'D

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.

Fair Value of Investments

The District's investments are valued at fair value based on quoted market price (Level 1). The entire investment of the District is in LAIF, the fair value of which, as of June 30, 2020, was \$1,382,111, and maturity of 12 months or less.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2020 and 2019, were as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>Balance June 30, 2020</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	15,217	-	-	15,217
Wharves, Docks and Marinas	61,689,501	-	-	61,689,501
Streets, Roads and Parks	707,691	-	-	707,691
Sewer Lift Station	33,655	-	-	33,655
Buildings and Improvements	4,534,074	-	-	4,534,074
Total depreciable capital assets	<u>67,337,639</u>	<u>-</u>	<u>-</u>	<u>67,337,639</u>
Less: accumulated depreciation	<u>(27,658,120)</u>	<u>(3,935,883)</u>	<u>(458,732)</u>	<u>(32,052,735)</u>
Total depreciable capital assets, net	<u>39,679,519</u>	<u>(3,935,883)</u>	<u>(458,732)</u>	<u>35,284,904</u>
Total capital assets, net	<u>\$ 40,120,645</u>	<u>\$ (3,935,883)</u>	<u>\$ (458,732)</u>	<u>\$ 35,726,030</u>

Depreciation expense of \$3,935,883 and \$4,417,969 has been recorded in Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2020, and 2019, respectively.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 - LONG-TERM DEBTS

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.

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; the first installment repayment started on September 1, 2012.

In July 2019, the District entered into a buy-out arrangement for \$600,000 with the former lessees of the Bayside RV Park. The arrangement calls for 71 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. As of June 30, 2020, the outstanding balance was \$499,428.

The following was the summary of changes in long-term debts during fiscal year ended June 30, 2020, and 2019:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Current portion
USDA Harbor Reconstruction loan	\$ 5,128,150	\$ -	\$ (80,818)	\$ 5,047,332	\$ 83,647
Bayside RV Park Buy- out agreement	<u>-</u>	<u>600,000</u>	<u>(100,572)</u>	<u>499,428</u>	<u>100,572</u>
Total	<u>\$ 5,128,150</u>	<u>\$ 600,000</u>	<u>\$ (181,390)</u>	<u>\$ 5,546,760</u>	<u>\$ 184,219</u>

The following was the summary of annual debt service requirements to amortize USDA Harbor reconstruction debt outstanding as of June 30, 2020:

Year ended June 30	Principal	Interest
2021	\$ 83,647	\$ 176,657
2022	86,574	173,729
2023	89,604	170,699
2024	92,740	167,563
2025	95,986	160,957
2026-2030	532,739	768,777
2031-2035	632,726	668,789
2036-2040	751,480	550,035
2041-2045	892,523	408,993
2046-2050	1,060,037	241,478
2051-2053	<u>729,276</u>	<u>51,634</u>
Total	<u>5,047,332</u>	<u>\$ 3,539,311</u>
Less: Current portion	<u>83,647</u>	
Total noncurrent portion	<u>\$ 4,963,685</u>	

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 - LONG-TERM LIABILITIES - CONT'D

The following was the summary of annual debt service requirements to amortize Bayside RV Park Buy-out agreement debts outstanding as of June 30, 2020:

<u>Year ended June 30</u>	<u>Former partner 1</u>	<u>Former partner 2</u>	<u>Total</u>
2021	\$ 50,286	\$ 50,286	\$ 100,572
2022	50,286	50,286	100,572
2023	50,286	50,286	100,572
2024	50,286	50,286	100,572
2025	48,570	48,570	97,140
Total	<u>\$ 249,714</u>	<u>\$ 249,714</u>	<u>\$ 499,428</u>

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, 2020 and 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 to the District for non-cancelable leases and for each of the next three years is as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2021	\$ 118,987
2022	\$ 122,026
2023	\$ 125,142

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 \$4,800,000.00 for project funding. As a result, the project was fully funded.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 7 - 2006 TSUNAMI DAMAGE - CONT'D

As of June 30, 2019, the project has been completed and closed out with Cal OES. Expenditures for construction were \$22,615,418 of which the District's share was approximately \$5,657,000. Retention of the project has been released by Cal OES 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 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.

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% was 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 due to the 2006 tsunami. In the immediate aftermath of the 2011 tsunami, the District's priority was to remove damaged boats and docks from the inner boat basin, dredge the sand deposited in the inner boat basin by the tsunami, and 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 debts, the District borrowed up to \$5.425 M from the USDA Rural Development program through the Crescent City Harbor Public Financing Corporation. See Note 4 for further discussion of this loan. With this loan, all tsunami repairs are fully funded.

As of June 30, 2019, the project has been completed and closed out with Cal OES. Construction costs amounted to approximately \$21,837,000 of which the District's share was approximately \$1,364,800. Most of the 2011 tsunami projects were completed by the summer of 2017, with the remaining projects completed by December 31, 2017. Retention of the project has been released by Cal OES and FEMA to the District.

NOTE 9 - PENSION PLAN

A. Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), 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. Benefits 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.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9 - PENSION PLAN - CONT'D

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, 2020, 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.

The Plan's provisions and benefits in effect as of June 30, 2020, are summarized as follows:

	<u>Miscellaneous</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 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	6.886%	6.25%
Required employer contribution rates	8.377%	6.555%

Employees hired on 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(c) 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. It 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, 2020, the contributions recognized as part of the pension expense are as follows:

Contributions – employer	\$35,558
Contributions – employee	\$32,695

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9 - PENSION PLAN - CONT'D

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

As of June 30, 2020, and 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

	<u>2020</u>	<u>2019</u>
Miscellaneous	\$ 791,023	\$ 755,972
Total Net Pension Liability	<u>\$ 791,023</u>	<u>\$ 755,972</u>

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 Plan is measured as of June 30, 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. 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 the Plan as of June 30, 2020, was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2020	0.01975 %
Proportion – June 30, 2019	<u>0.02006 %</u>
Change – Increase/(Decrease)	<u>(0.00031)%</u>

For the year ended June 30, 2020, and 2019 the District recognized a pension expense of \$121,118 and \$117,301, respectively. As of June 30, 2020, and 2019 the District reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 35,558	\$ -
Changes of Assumptions	37,720	13,371
Differences Between Expected and Actual	54,940	4,257
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	13,830
Difference Between actual and proportionated contribution	-	44,511
Difference Between proportionate share of beginning balance	-	<u>8,965</u>
Total 2020	<u>\$ 128,218</u>	<u>\$ 84,934</u>
Total 2019	<u>\$ 195,140</u>	<u>\$ 62,508</u>

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9 - PENSION PLAN - CONT'D

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

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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expenses as follows:

<u>Measurement periods ended June 30</u>	<u>Miscellaneous</u>
2020	\$ 31,771
2021	(26,476)
2022	(364)
2023	2,795
2024	-
Thereafter	-
Total	<u>\$ 7,726</u>

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%
Inflation	2.50%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15%
Mortality ¹	Derived using CalPERS' Membership Data for all Funds

¹The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

All other actuarial assumptions used in the June 30, 2018 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.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9 - PENSION PLAN - CONT'D

F. Discount rate - Cont'd

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.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. 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	50.00 %	4.80 %	5.98 %
Global Fixed Income	28.00 %	1.00 %	2.62 %
Inflation assets	- %	0.77 %	1.81 %
Private Equity	8.00 %	6.30 %	7.23 %
Real Estate	13.00 %	3.75 %	4.93 %
Liquidity	1.00 %	- %	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 a 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>
Miscellaneous Risk Pool	<u>\$ 1,268,842</u>	<u>\$ 791,023</u>	<u>\$ 396,617</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

As of June 30, 2020, the District has no outstanding contributions to the pension plan required for the year ended June 30, 2020.

**CRESCENT CITY HARBOR DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2021, the date at which the financial statements were available to be issued, and have 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.

As 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, 2020, the District restated its beginning net position by \$(1,058,732) as a result of the following prior period adjustment made to financial statements.

- Beginning accumulated depreciation of capital assets was understated by \$458,732; the District corrected the accumulated depreciation balances during the year.
- The District recorded the amount payable to two former business partners for the Bayside RV Park buy-out during the fiscal year as debts by adjustment beginning net assets; as a result, the net position was understated by \$600,000.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.01975 %	0.02006 %	0.00338 %	0.00338 %	0.00338 %	0.00338 %
District's proportionate share of the net pension liability	\$ 791,023	\$ 755,972	\$ 766,970	\$ 738,808	\$ 738,808	\$ 607,204
District's covered-employee payroll	\$ 719,185	\$ 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	109.99 %	87.43 %	137.63 %	158.44 %	157.29 %	124.66 %
Plan fiduciary net position as a percentage of the total pension liability	75.06 %	74.34 %	82.70 %	82.70 %	82.70 %	82.70 %

Notes to the Schedule of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions and Methods

In Fiscal Year 2018-19, CalPERS implemented a new actuarial valuation software system for the June 30, 2018, valuation. This new system has refined and improved calculation methodology.

In December 2017, the Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption was reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increases and overall payroll growth were reduced from 3.00 percent to 2.75 percent. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. For financial reporting purposes, these assumption changes are fully reflected in the results for Fiscal Year 2017-18.

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

Notes to the Schedule of the District's Proportionate Share of Net Pension Liability - Cont'd

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent. In December 2016, the Board approved lowering the funding discount rate used in the PERF C from 7.50 percent to 7.00 percent, which is to be phased in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

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

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTION
FOR THE LAST TEN YEARS***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 35,558	\$ 76,215	\$ 50,484	\$ 85,778	\$ 60,880	\$ 70,766
Contributions in relation to the contractually required contributions	<u>(35,558)</u>	<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>
District's covered-employee payroll	\$ 719,185	\$ 864,627	\$ 557,255	\$ 466,299	\$ 469,699	\$ 487,084
Contributions as a percentage of covered-employee payroll	4.94 %	8.81 %	9.06 %	18.40 %	12.96 %	14.53 %

* - Fiscal year 2015 was the 1st year of implementation, therefore only six 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, 2020, and the related notes to the financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 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) as a basis for designing 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 item 2020-001 that we consider to be material weakness.

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 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.

Harskmal & Company LLP

Oakland, California
November 11, 2021

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020**

SECTION II. - FINANCIAL STATEMENTS FINDINGS

2020-001 - Financial Statement Close Process (Material Weakness) - Repeated and Modified

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 were presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

During our audit, we encountered numerous issues related to the 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 could not provide all required bank reconciliations for our review. Also, the District did not provide bank statements for one bank account. Consequently, we are unable to test differences in balances per bank statement and general ledger balances for all the months.
- b) Credit cards: The District could not present credit card statements and respective reconciliations for all the months of the fiscal year for our review.
- c) Disbursement: For 4 out of 36 disbursements instances tested, there were no approvals on invoices, and for one instance, there was no supporting documentation to review. Also, during payroll expenses testing, the District could not provide timesheets for 6 out of 9 instances tested and payroll records for 3 out of 9 instances tested for our review.
- d) Journal Entry testing: For 2 out of 3 instances tested, the District was unable to present any supporting documentation for our review.
- e) 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 the District.
- f) The District does not have internal control procedures to track the existence, completeness, and accuracy of various general ledger accounts. During our testing, the District was unable to present any underlying documentation or other evidence for inventory, prepaid expenses, accrued payroll, and compensated absences.
- g) Fund Balance: An adjustment was necessary to correct the beginning fund balance, account payable, account receivable, accrued expenses, cash and cash equivalent, long-term liabilities and, capital assets.

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.

**CRESCENT CITY HARBOR DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION II. - FINANCIAL STATEMENTS FINDINGS - CONT'D

2020-001 - Financial Statement Close Process (Material Weakness) - Cont'd

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: The District has undertaken significant measures to improve internal controls over financial reporting, document retention, and accounting procedures. The District completed the software migration from legacy systems to modern marina management and accounting software as of May 2021. The District issued a request for proposals and awarded a financial services contract to an experienced financial consulting firm in July 2021 to perform a comprehensive organizational and operational assessment of the District's financial operations. The underlying objectives of the initiative are to determine the District's current financial state and develop a roadmap to proactively manage financial resources, implement an organizational structure to support effective financial operations, and maximize the District's stewardship and transparency of public resources and assets. Because of these actions, the District is of the opinion that proper internal controls will be established and material weaknesses in financial reporting will be resolved.

**CRESCENT CITY HARBOR DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Prior Year Audit Findings</u>	<u>Status</u>
2019-001 Financial Statement Close Process	Repeated and Modified