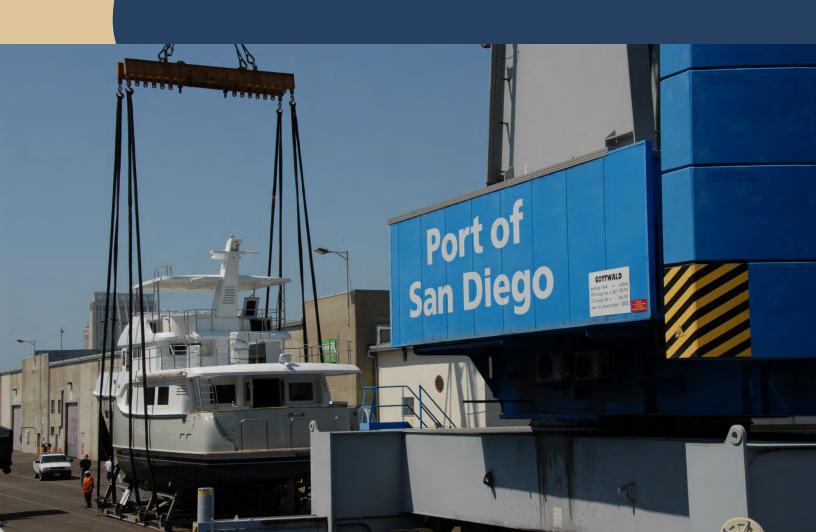


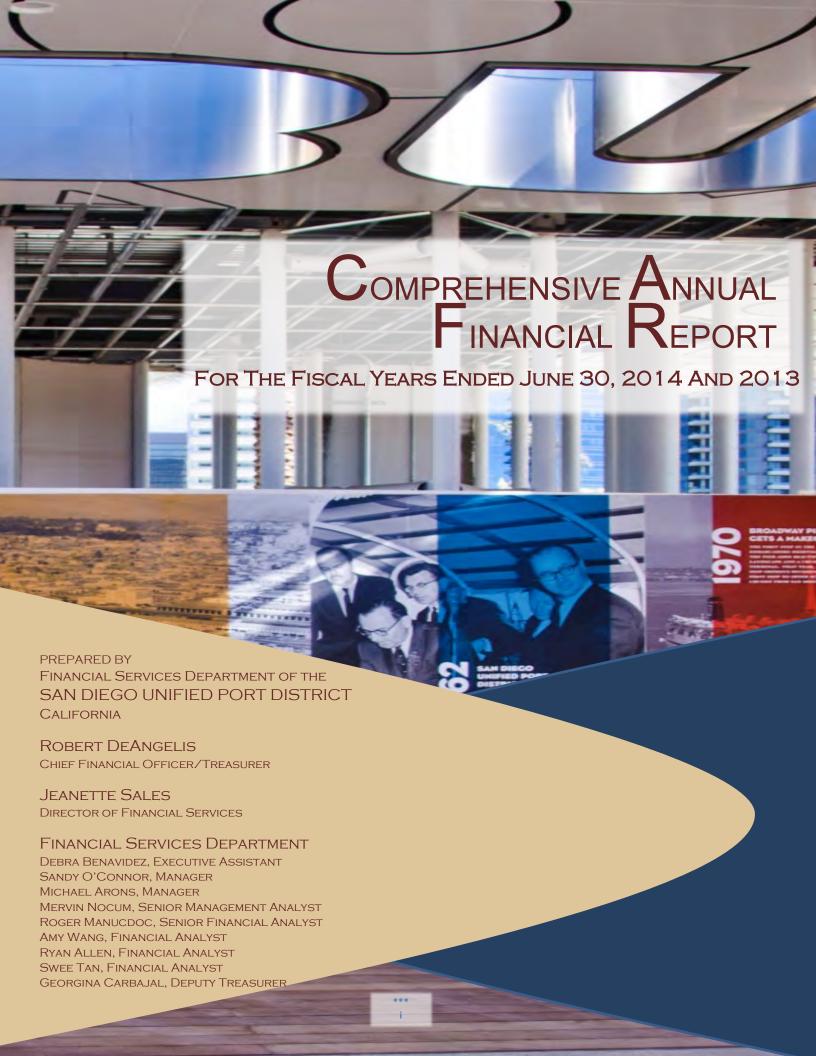
SAN DIEGO UNIFIED PORT DISTRICT CALIFORNIA

# Comprehensive Annual Financial Report

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013











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The San Diego Unified Port District (District) is a regional public agency established in 1962 by an act of the California State Legislature to consolidate management responsibilities for San Diego Bay. This consolidation provides ongoing efficiencies and centralized planning for the tidelands along San Diego Bay.

- The District is an economic engine, creating jobs and dollars for the regional economy through the promotion of maritime trade, tourism, and other commercial activities.
- The District is an environmental steward, preserving and enhancing the natural resources of the San Diego Bay and surrounding tidelands.
- The District is a provider of community services, providing public access, public safety, recreation, and community activities along the waterfront for visitors and residents of the region.

A seven member Board of Port Commissioners governs the District. Board members are appointed to four-year terms by the city councils of Chula Vista, Coronado, Imperial Beach, National City, and San Diego. The San Diego City Council appoints three commissioners and each of the other member city councils appoints one commissioner. Port Commissioners establish policies that the District staff, under the direction of the President/Chief Executive Officer, uses to conduct daily operations.

The District's maritime and real estate operations generate billions of dollars for the region's economy and allows the District to operate without the benefit of tax dollars. The District does have the authority to levy a tax, but has not done so since 1969.

# **PUBLIC TRUST DOCTRINE**

The San Diego Unified Port District Act is based on the Public Trust Doctrine, which mandates how California's sovereign lands should be managed. Also known as public trust lands, they include areas that used to be or are still under the bay and other waters. These lands cannot be bought and sold because they are held in the public trust and belong to the people of the State of California. As the trustee of these lands, the District is responsible for carrying out the principles of the Public Trust Doctrine. This includes protecting the environment, promoting the public's enjoyment of these lands, and enhancing economic development for the public's benefit.







# **VISION**

To Foster a World-Class Port through Excellence in Public Service.

# **MISSION**

The San Diego Unified Port District will protect the Tidelands Trust resources by providing economic vitality and community benefit through a balanced approach to maritime industry, tourism, water and land recreation, environmental stewardship, and public safety.

# **CORE VALUES**

Accountability
Courage
Inclusiveness
Fairness
Fun
Innovation
Integrity
Teamwork
Transparency









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December 23, 2014

Dear Port of San Diego Stakeholders:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the San Diego Unified Port District (District) as of and for the fiscal year ended June 30, 2014. The purpose of this report is to provide the Board of Port Commissioners (BPC), member cities, the public and other interested parties with reliable financial information about the District.

This is the first year the District is issuing a CAFR. The District's Financial Services Department prepared this report in accordance with the guidelines recommended by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, in this report rests with the management of the District. To the best of our knowledge and belief, this report fairly presents and fully discloses the District's financial position, changes in financial position, and cash flows in accordance with generally accepted accounting principles. On the basis that the cost of internal controls should not outweigh their benefits, the District has established a comprehensive framework of internal controls to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

This report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, District overview, vision, mission, and core values, organizational chart, board members, and executive staff. The Financial Section, beginning with the independent auditor's report, contains the management's discussion and analysis (MD&A), basic financial statements, notes to the basic financial statements, and required supplementary information. The Statistical Section includes selected financial, economic, and demographic data. Certain demographic information and required statistical reporting included in the CAFR were not obtained from the financial records of the District but are presented for the user's information and understanding of the District and the environment in which the District operates.

This letter of transmittal is designed to complement the MD&A, which provides a narrative introduction, overview, and analysis to the basic financial statements, and should be read in conjunction with it.

The District requires that an independent certified public accounting firm, selected by the BPC, audit the financial statements on an annual basis. Macias Gini & O'Connell LLP issued an unmodified (or clean) opinion on the District's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is presented as the first component of the Financial Section of the report.



San Diego Unified Port District





# PROFILE OF THE DISTRICT AND ORGANIZATIONAL STRUCTURE

The Port of San Diego is a unified district encompassing five member cities surrounding San Diego Bay. As a public agency, the District is charged by the State of California with developing the tidelands and commercial business as steward of the public-trust tidelands along 34 miles of San Diego Bay. The District shares the waterfront with the U.S. Navy, which oversees 17 miles of San Diego Bay.

The District operates under the Public Trust Doctrine, which specifies that these waterways and waterfronts are primarily reserved for water-dependent uses such as fishing, cargo activity, bay tours, and recreational access such as hotels and restaurants; as well as environmental and natural-habitat preservation.

The District has guided the development of this prime waterfront property with a carefully selected portfolio of world-class commercial real estate, maritime, and public uses. Sixteen hotels, 25 marinas, numerous restaurants, tours, and museum attractions operate side-by-side with a working waterfront of boatyards, sport fishing landings, and marine cargo terminals. The District also maintains 20 public parks as amenities that attract visitors and enhance the value of our waterfront.

The District is comprised of three operating divisions: Real Estate, which leases commercial and industrial properties, and plans and facilitates the development of selected real estate assets; Maritime, which manages maritime cargo and cruise terminals as well as industrial property connected with maritime businesses; and Harbor Police, which implements and coordinates public safety and homeland security measures on tidelands and San Diego Bay, and provides airport law enforcement services to the San Diego County Regional Airport Authority.

# **BOARD OF PORT COMMISSIONERS**

District policies are established by a seven member Board of Port Commissioners appointed by the member cities. The BPC appoints the Chief Executive Officer, who oversees daily operations for the organization. Through resolutions and directives, the BPC sets policy for the District. These policies are then implemented by the Chief Executive Officer and his executive staff.

# **COMMITTEES AND ORGANIZATIONAL STRUCTURE**

# The Audit Advisory Committee

Purpose: To assist the BPC in fulfilling its oversight responsibilities for (1) the integrity of the District's financial statements, (2) the District's compliance with legal and regulatory requirements, (3) the effectiveness of the District's internal control system, (4) the independent auditor's qualification and independence, and (5) the performance of the internal audit function and external auditors. Consistent with the function, the Committee should encourage continuous improvement of, and should foster adherence to, the District's policies, procedures, and practices at all levels.







# The Environmental Committee

Purpose: To advise the BPC on programs, policies, and projects that would ensure the protection and improvement of the environmental conditions of San Diego Bay and surrounding tidelands.

# The Public Art Committee

Purpose: Serves in an advisory capacity upholding the District's vision for art on tidelands and making recommendations for programs, services, and activities related to public art, tenant artworks or otherwise to the BPC and Public Art Office, when appropriate.

# The Accessibility Advisory Committee

Purpose: To educate, advise, and assist the BPC in ensuring that all public and private services, programs, facilities, and employment be fully usable by and accessible to all persons, with or without disabilities, as defined by the ADA.

# **Tidelands Activation Program Advisory Committee**

*Purpose:* To review District staff recommendations for funding and services in support of events that activate the District tidelands, and develop its recommendations.

# LOCAL ECONOMY AND OUTLOOK

The national economy showed overall improvement during 2014 as employment gains continued with the economy expanding at a strong pace. The economy, as measured by gross domestic product (GDP) grew at an annual average rate of 3.5% and the unemployment rate is down to 5.8% in the third quarter of 2014 as employers added more jobs to the economy. The housing market continued to improve with the Case-Shiller Home Price Index up by approximately 25% in the last couple of years. The plunge in oil prices during 2014 due to rising production in North America and slowing demand around the world resulted in a fall in gasoline prices which is boosting consumer confidence. With the major U.S. indices making improvement, the Federal Reserve wound down its bond buying program quantitative easing (QE) strategy at the end of October 2014. As the economy strengthens, the Federal Reserve is on course to a likely interest rate raise sometime in 2015.

The U.S. economic outlook for 2015 is one of continued improvement with the economy expected to grow at a moderate pace and a forecast of substantial improvement in the outlook for the labor market. According to recent Bloomberg survey of economists, the national economy is forecasted to grow at a 3.0% annualized rate in 2015 with an unemployment forecast of 5.6% while anticipating to maintain the inflation rate at about 1.7%.

California's economic recovery has been relatively strong with economic growth in the State outpacing the nation in the last couple of years. As the labor market continues to strengthen, overall job growth is also poised to outpace the nation as most industries added jobs during 2014. Home prices are continuing to rebound across the State although price appreciation is moderating and construction activity is improving after struggling during and after the recession.





The California economy is anticipated to continue in a positive direction, with strong gains in the leisure and hospitality industries and a steady decline in the unemployment rate expected. Homebuilding and construction are also expected to improve next year. The 2015 forecasted unemployment rate for California is 7.0% compared to an anticipated 7.5% rate in 2014 (Source: Los Angeles County Economic and Development Corporation – The Kyser Center for Economic Research: October 2014).

The San Diego Economy continues its recovery as reflected in the University of San Diego Burham-Moores Center for Real Estate Index of Economic Indicators for October 2014. The Index rose by 0.6% in October to a seven-year high due to an improving job market and positive outlook for the economy in spite of a drop in local building permits. The San Diego unemployment rate was forecasted at 6.2% for 2014 and is anticipated to decline to 5.7% in 2015 (Source: Los Angeles County Economic and Development Corporation – The Kyser Center for Economic Research: October 2014).

#### FINANCIAL POLICIES AND LONG TERM FINANCIAL PLANNING

A healthy level of operating reserve positions the District to weather significant economic downturns more effectively and manage consequences of unexpected emergencies. Operating reserves generate investment income, provide margin of safety and stability to protect the District from exposure to catastrophic events and economic impacts, and provide flexibility to pursue emergent opportunities. The District's Operating Reserve Policy calls for 50% of budgeted operating and maintenance expenses reduced by expenses where a separate funding exists. The balance is established annually upon the adoption of the fiscal year budget. The current operating reserve balance is \$57 million which is funded at the required policy level. The operating reserve includes a \$20 million minimum required balance which is established for the purpose of self-insurance against possible losses that could occur as the result of a catastrophic event. For more information, the Operating Reserve Policy can be obtained at the following link <a href="https://www.portofsandiego.org/public-documents/cat view/161-port-commissioners/206-bpc-policies.html">https://www.portofsandiego.org/public-documents/cat view/161-port-commissioners/206-bpc-policies.html</a>

Each year, the District develops a Five-Year Cash Flow Forecast (cash flow) which serves as the long range fiscal plan and is used as the framework for development of the annual operating budget. The financial policies are reflected in the cash flow and resources are allocated based on the priorities related to the District's Strategic Plan adopted by the BPC.

The following outlines the long-range and financial policies that guide the preparation of the budget:

- Revenues exceed expenses before depreciation and amortization and before capital outlays.
- The District activities authorized in the budget will help stimulate the economy in the San Diego region.
- Capital investment in the tidelands will provide significant, long-term economic benefits to the region and will provide public improvements and infrastructure that will stimulate private investment in the tidelands bringing new revenues to the District and creating new jobs and opportunities for the region. Financial policies will enable the District to maintain its sound financial condition, so that capital investment in the tidelands may continue.







- Cash investments made by the District will conform to its Guidelines for Prudent Investments. It is the policy of the District to invest public funds in a manner that will provide the highest rate of return with the maximum security while meeting the daily cash flow demands of the District. The investment policies and practices of the District are based upon prudent money management and conform to all state and local statutes governing the investment of public funds. In order of priority, investment objectives are:
  - 1. Safety of principal
  - 2. Liquidity
  - 3. Return on investments

# Capital Improvement Program (CIP)

The BPC adopted Policy No. 120 Capital Improvement Program, a five year plan, for the orderly development or improvement of the District's capital assets. The policy is intended to facilitate capital development projects and budgets which are strategically cohesive, ensure clear and consistent treatment of all proposed capital projects on the tidelands, streamline the process, increase efficiency, reduce costs, and improve outcomes. For more information, the policy can be obtained at the following link <a href="https://www.portofsandiego.org/public-documents/cat\_view/161-port-commissioners/206-bpc-policies.html">https://www.portofsandiego.org/public-documents/cat\_view/161-port-commissioners/206-bpc-policies.html</a>

# Major Maintenance Program

The BPC adopted a Major Maintenance Program for the purpose of improving its major maintenance process and results to streamline project selection and funding process, to address the repair, operation, maintenance or development of District infrastructure and facilities. For more information, the policy can be obtained at the following link <a href="https://www.portofsandiego.org/public-documents/cat\_view/161-port-commissioners/206-bpc-policies.html">https://www.portofsandiego.org/public-documents/cat\_view/161-port-commissioners/206-bpc-policies.html</a>

# Strategic Plan

The District's Compass Strategic Plan for 2012-2017 guides the organization's business lines, programs, activities towards a common vision: "To Foster a World Class Port through Excellence in Public Service." The plan outlines high-level, overarching organizational goals; and then outlines specific strategies to achieve them. This plan serves as a road map that will direct the District's priorities and decisions for future achievement. It is a vision based on alignment—from our staff, to our BPC, to our member cities and to the San Diego region.







# Strategic Plan for 2012 - 2017

1	A Port that the public understands, trusts, and values
2	A thriving and modern maritime seaport
3	A vibrant waterfront destination where residents and visitors converge
4	A Port with a healthy and sustainable bay and its environment
5	A Port with a comprehensive vision for Port land and water uses integrated to regional plans
6	A Port that is a safe place to visit, work, and play
7	A Port with an innovative and motivated workforce
8	A financially sustainable Port that drives regional job creation and regional economic vitality

# **Budget Process**

The annual operating budget is shaped by the programs, projects, and services that the District provides for the betterment of the region in accordance with our state mandate as a steward of the tidelands of San Diego Bay for the people of California. The District's budget process actively incorporates various financial policies and guidelines articulated by the BPC and executive staff. The budget process and outcome is performance-based and focused on strategies, initiatives, and key operating and financial indicators. The adopted budget gives the District the legal basis for which to expend funds.

The District's definition of a balanced budget is one in which revenues and other sources of funds equal or exceed expenses and other uses of funds. A balanced budget is an integral part of maintaining the District's financial position.

The latest cash flow forecast assumes the District will generate surplus (excess sources over uses) over the next five years which is a significant improvement from the prior years after the great recession.

We see promising signs that the organization is turning the corner to greater success. Total operating revenues for FY13/14 increased \$10.5 million from the prior fiscal year. During the fiscal year, a Vacancy Management Team was established and this team strategically managed and re-deployed employee vacancies to match the needs of the organization without increasing headcount. The District's Revenue Generation Team was also created and the team's efforts led to the District securing new revenues. Some of the significant increases in revenue are associated with utilizing the B Street Cruise Terminal parking lot for public parking on non-cruise days, along with a BPC adopted adjustment in parking meter rates and schedules to increase parking turnover. In addition, the District is negotiating leases for previously vacant District space that can be converted to revenue generating uses.







#### MAJOR INITIATIVES AND ACCOMPLISHMENTS

# Integrated Planning

On August 12, 2014, the BPC accepted the Integrated Planning Vision, which marked the culmination of Phase I of the District's 50-year visioning process as part of its Integrated Planning effort. The Integrated Planning Vision, including the Vision Statement, Guiding Principles, and Assessment Report, reflects a comprehensive public engagement effort and represents a balanced approach to the broad desires and inputs from various interest groups in the region. Preliminary planning concepts are being considered in five key areas: public realm, leasable and developable areas, mobility, implementation tools, and the regulatory and economic framework. The BPC's consideration of a concept framework for the Port Master Plan Update is targeted for mid-2015.

# Chula Vista Bayfront

The 535-acre Chula Vista Bayfront is the last large developable waterfront site in Southern California and a prime opportunity for a uniquely branded resort, convention center, and other commercial development, along with 240 acres of public realm space set aside as parks, open space, and nature preserves. The District is continuing its multi-year efforts to demolish legacy industrial structures.

Several key milestones have been recently completed. Construction on the Chula Vista H Street Extension was completed in October 2014. This project extends H Street from Interstate 5 to Marina Parkway with a modified four-lane street, sidewalks, and bikeways. This project facilitates direct public access to the bayfront. The District and the City of Chula Vista are working jointly on implementation of the Chula Vista Bayfront Master Plan. Infrastructure cost estimates and financing alternatives are in development, and a robust developer solicitation resulted in the selection of a quality development team for the hotel and convention center.

# Climate Action Plan

The District is an economic engine and a leader in environmental innovation and stewardship, and through its Green Port Program integrates environmental sustainability into daily business decisions. The District has saved over \$2.6 million from energy and water conservation initiatives completed as part of the Green Port Program since 2008. In December 2013, the BPC adopted a Climate Action Plan (CAP) to provide a long-term, integrated, strategic vision for the Green Port Program and to facilitate greenhouse gas (GHG) reduction efforts on District tidelands. The CAP identifies baseline GHG emissions for all existing uses and operations on District tidelands, GHG reduction goals for 2020 and 2035, and GHG reduction policies and measures to achieve the goals over time. To date, approximately 56,000 metric tons of GHGs (in terms of carbon dioxide equivalents or CO2e) have been reduced on District tidelands, accounting for over 50% of the 2020 CAP goal.







# The North Embarcadero Visionary Plan (NEVP) Phase I Project

This project was opened to the public on November 15, 2014. The District, the City of San Diego, and Civic San Diego all contributed to the \$31.1 million project. More details on project funding can be found on page 67, Note 4 (d). This important project reconfigures and beautifies downtown San Diego's front porch, located along San Diego Bay at the foot of Broadway and North Harbor Drive. The project broke ground in January 2012 and encompassed an area from the Navy Pier to B Street Pier. It also included an area of West Broadway, from North Harbor Drive to Pacific Highway.

A 105-foot-wide esplanade was created with formal gardens, plazas, shade pavilions, and a waterfront promenade. The project included the construction of a new visitor information center, ticket kiosks for bay tour operators, and a gift shop/sundries store. A new café building is also part of the improvements and the District anticipates the new restaurant will begin operating during 2015.

The project also included significant improvements to the roadways, utilities, and storm water systems and was designed with environmental stewardship in mind. For example, a water filtration system was put in place along the bayfront esplanade on North Harbor Drive. This system captures runoff from the street and sidewalks and filters pollutants from the water, allowing only clean water into San Diego Bay. Other environmental elements include drip irrigation and drought-tolerant plants in efforts to conserve water. New signage was also installed to highlight some of the environmentally sustainable initiatives that are in place along the North Embarcadero bayfront.

# The Lane Field North Hotel Project

Construction began in May 2014 on a new hotel and public park on the Lane Field site at the corner of Broadway and Harbor Drive. The Lane Field North Hotel Project consists of a dual-branded Marriott Springhill Suites (253 rooms) and Residence Inn (147 rooms), 414 parking spaces and associated retail and meeting space. The hotel is anticipated to be complete in January 2016. The development includes construction of a new 1.66-acre public park that will include a pavilion building with public restrooms. The majority of the park will be open to the public in Spring 2015.

# **Bond Refunding**

Long-term debt of \$26 million was refinanced, which will save the District approximately \$2.5 million due to a lower interest rate over the life of the debt.

#### Cargo

The District continues to actively market Tenth Avenue Marine Terminal (TAMT) to target accounts and cargos that are ideally suited to the terminal. The District is also working with Vickerman & Associates on the Tenth Avenue Marine Terminal Redevelopment Plan and an associated Environmental Impact Report (EIR) that will analyze potential targeted infrastructure improvements to meet cargo needs. The District also submitted a Transportation Investment Generating Economic Recovery (TIGER) grant application that focused on short-term improvements that would advance long-term terminal redevelopment.







Automobile imports at National City Marine Terminal (NCMT) have continued to grow since FY 11/12, reinforcing the terminal's status as the most efficient auto processing terminal on the West Coast. The District is also working with Vickerman & Associates to begin an update to the Business Plan, and develop a long-term infrastructure plan for NCMT that mirrors the TAMT Redevelopment Plan and addresses the long-term growth projections in the automobile market. The District is an active participant in the development of California Department of Transportation's development of a Sustainable Freight Strategy and Cap and Trade grant criteria. The District also

(CALTRANS) Goods Movement Strategy, and is engaged with the California Air Resources Board's worked in partnership with the American Association of Port Authorities (AAPA) and the United States Maritime Administration (MARAD) to develop a joint tool kit to assist industry in identifying funding sources for port infrastructure projects.

#### **ACKNOWLEDGMENTS**

The preparation of this report could not have been accomplished without the hard work and dedication demonstrated by the District's Financial Services Department. This report was prepared using the guidelines from the GFOA Certificate of Achievement for Excellence in Financial Reporting. We believe that this comprehensive annual financial report meets the Certificate of Achievement Program's requirements, and therefore, we are submitting it to the GFOA to determine its eligibility for a certificate. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

We wish to express our appreciation to all who assisted and contributed to the preparation of this report which includes the Financial Services Department and all other departments for their unfailing support to ensure fiscal transparency and accountability, and to maintain the District's financial statements in conformance with the highest professional standards.

Robert DeAngelis

CFO/Treasurer

Finally, we thank all the members of the Board of Port Commissioners for their continued guidance and leadership towards ensuring the fiscal integrity of the District.

Respectfully Submitted,

John Bolduc

Acting President/CEO

Jeanette Sales, CPA

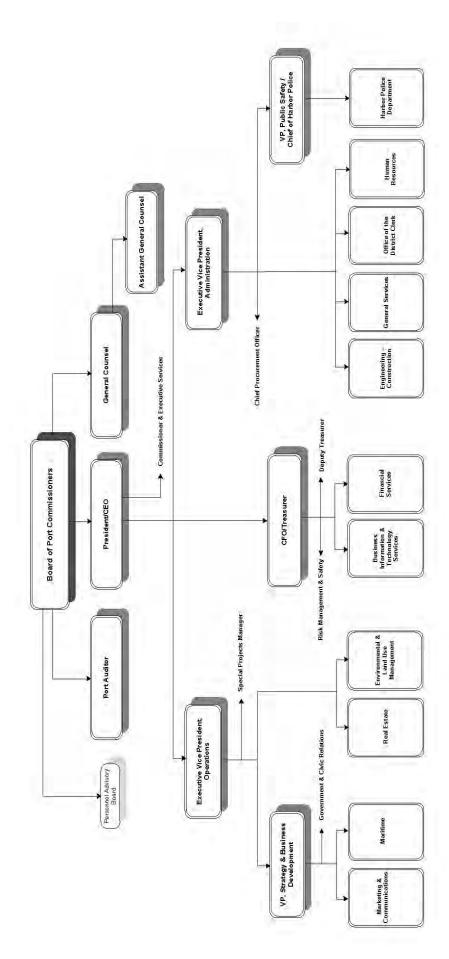
Director, Financial Services





# DISTRICT ORGANIZATION CHART











# **BOARD OF PORT COMMISSIONERS**

# **CHAIRMAN**

ROBERT NELSON CITY OF SAN DIEGO

# VICE CHAIRMAN

DAN MALCOLM
CITY OF IMPERIAL BEACH

# SECRETARY

MARSHALL MERRIFIELD
CITY OF SAN DIEGO

# **COMMISSIONERS**

ROBERT "DUKIE" VALDERRAMA
CITY OF NATIONAL CITY

ANN MOORE CITY OF CHULA VISTA

RAFAEL CASTELLANOS CITY OF SAN DIEGO

GARRY J. BONELLI CITY OF CORONADO







# **EXECUTIVE LEADERSHIP GROUP**

JOHN A. BOLDUC
ACTING PRESIDENT/CEO

THOMAS A. RUSSELL GENERAL COUNSEL

ROBERT M. MONSON PORT AUDITOR

ELLEN F. GROSS ASSISTANT GENERAL COUNSEL

RANDA CONIGLIO
EXECUTIVE VICE PRESIDENT, OPERATIONS

KAREN G. PORTEOUS EXECUTIVE VICE PRESIDENT, ADMINISTRATION

ROBERT DEANGELIS
CHIEF FINANCIAL OFFICER/TREASURER

MARK STAINBROOK ACTING CHIEF OF HARBOR POLICE

BRANDY D. CHRISTIAN
VICE PRESIDENT, STRATEGY & BUSINESS DEVELOPMENT













San Diego 225 Broadway, Suite 1750 San Diego, CA 92101 619.573.1112

Sacramento

Walnut Creek

Oakland

LA/Century City

. . . .

Newport Beach

Seattle

# INDEPENDENT AUDITOR'S REPORT

To the Board of Port Commissioners San Diego Unified Port District

# **Report on the Financial Statements**

We have audited the accompanying financial statements of the San Diego Unified Port District (District), as of and for the fiscal years ended June 30, 2014 and 2013, 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 audits. We conducted our audits 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 financial position of the District, as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

www.mgocpa.com Page 21

# **Emphasis of Matter**

As discussed in Note 13 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In connection with the implementation of GASB Statement No. 65, the District's beginning net position, depreciation and amortization expense, and change in net position were restated to reflect the District's expensing of unamortized bond issue costs. Prior to GASB Statement No. 65, the District capitalized bond issue costs which were amortized and expensed over the life of the associated debt. Our opinion is not modified with respect to this matter.

Also, as described in Note 1(q) to the financial statements, effective July 1, 2014, the District will be adopting the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – An amendment to GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68. The District will be required to report a net pension liability related to its defined benefit pension plan. Currently, management has not been able to estimate the ultimate impact on the District's financial statements from the implementation of GASB Statement Nos. 68 and 71. Our opinion is not modified with respect to this matter.

#### Other Matters

# Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress on pages 26-44 and 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

# Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

# Other Reporting Required by Government Auditing Standards

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

San Diego, California November 24, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

The financial management of the San Diego Unified Port District (District) offers readers of these basic financial statements this narrative overview and analysis of the financial activities of the District as of and for the years ended June 30, 2014 and June 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities, and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to the basic financial statements.

# Financial Highlights – year ended June 30, 2014

- As of June 30, 2014, the assets of the District exceeded liabilities by \$532.0 million.
- Operating revenues for the District were \$145.8 million for fiscal year 2014 compared to \$135.3 million for fiscal year 2013.
- Operating expenses, including depreciation and amortization, for the District were \$141.0 million for fiscal year 2014 compared to \$143.4 million for fiscal year 2013.
- Nonoperating revenues for the District were \$2.5 million for fiscal year 2014 compared to \$1.4 million for fiscal year 2013.
- Nonoperating expenses for the District were \$8.6 million for fiscal year 2014 compared to \$8.8 million for fiscal year 2013.
- Revenues from capital grants and contributions totaled \$9.6 million for fiscal year 2014 compared to \$11.4 million for fiscal year 2013.
- The District's total net position increased by \$8.3 million during fiscal year 2014 compared to a \$4.1 million decrease in fiscal year 2013.

# Financial Highlights – year ended June 30, 2013

- As of June 30, 2013, the assets of the District exceeded liabilities by \$523.7 million.
- Operating revenues for the District were \$135.3 million for fiscal year 2013 compared to \$130.7 million for fiscal year 2012.
- Operating expenses, including depreciation and amortization, for the District were \$143.4 million for fiscal year 2013 compared to \$140.5 million for fiscal year 2012.
- Nonoperating revenues for the District were \$1.4 million for fiscal year 2013 compared to \$4.8 million for fiscal year 2012.
- Nonoperating expenses for the District were \$8.8 million for fiscal year 2013 compared to \$12.3 million for fiscal year 2012.
- Revenues from capital grants and contributions totaled \$11.4 million for fiscal year 2013 compared to \$8.3 million for fiscal year 2012.
- The District's total net position decreased by \$4.1 million during fiscal year 2013 compared to an \$8.9 million decrease in fiscal year 2012.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

# **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the basic financial statements and the notes to the basic financial statements. The statements are organized so the reader can understand the District as a whole and then proceed to provide an increasingly detailed look at specific financial activities. These components are described below.

#### **Basic Financial Statements**

The District is comprised of a single enterprise fund. The basic financial statements provide a broad view of the District's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the District's financial position, which assist in assessing the District's economic condition at the end of the fiscal year. The basic financial statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting, which means they follow methods similar to those used by most private sector companies. The basic financial statements take into account all revenues and expenses connected with the fiscal year even if the cash involved has not been received or paid.

The *Statements of Net Position* present all of the District's assets and liabilities with the difference between the two reported as "net position." Increases or decreases in the District's net position may serve as a useful indicator as to whether the financial position of the District is improving or deteriorating over time.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the District's net position changed during the three most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., invoices for goods or services received but for which payment has not yet been made).

The final required financial statement is the *Statements of Cash Flows*. The statements report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, investing, noncapital financing, and financing activities. It also provides answers to such questions as, "Where did cash come from," "What was cash used for," and "What was the change in cash and cash equivalents during the reporting period?"

The basic financial statements can be found immediately following this discussion and analysis.

#### **Notes to the Basic Financial Statements**

The notes provide additional information and more detail that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

# **Financial Analysis**

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of this year's activities?" Net position, which is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one way to measure financial health or financial position. Increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating over time. The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the District's net position and changes in the District's net position.

#### **Statements of Net Position**

To begin our analysis, a summary of the District's Statements of Net Position is presented on the following page. The District's net position totaled \$532.0 million at the end of fiscal year 2014, compared to \$523.7 million at the end of fiscal year 2013 and \$528.4 million at the end of fiscal year 2012. The largest portion of the District's net position in fiscal year 2014, 92.1%, is its net investment in capital assets compared to 90.7% in fiscal year 2013.

The District's financial position at June 30, 2014 and June 30, 2013 is summarized as follows:

#### **Condensed Statements of Net Position**

(Expressed in thousands)

¢ Chamas

		2014		2013 *		Change crease ecrease)	% Change	
Current assets	\$	127,197	\$	135,662	\$	(8,465)	(6.2%)	
Other noncurrent assets		31,822		24,960		6,862	27.5%	
Capital assets		533,116		516,343		16,773	3.2%	
Total assets		692,135		676,965		15,170	2.2%	
Deferred outflows of resources		182				182	-	
Total assets and deferred								
outflows of resources	\$	692,317	\$	676,965	\$	15,352	2.3%	
Current liabilities	\$	37,743	\$	34,335	\$	3,408	9.9%	
Noncurrent liabilities		122,561		118,903		3,658	3.1%	
Total liabilities		160,304		153,238		7,066	4.6%	
Net investment in capital assets		490,021		474,797		15,224	3.2%	
Restricted		4,122		3,436		686	20.0%	
Unrestricted		37,870		45,494		(7,624)	(16.8%)	
Total net position		532,013		523,727		8,286	1.6%	
Total liabilities and								
net position	\$	692,317	\$	676,965	\$	15,352	2.3%	

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

# **Condensed Statements of Net Position**

(Expressed in thousands)

	 2013 * 2012 *		\$ Change Increase (Decrease)		% Change	
Current assets	\$ 135,662	\$	145,243	\$	(9,581)	(6.6%)
Other noncurrent assets	24,960		36,079		(11,119)	(30.8%)
Capital assets	 516,343		501,053		15,290	3.1%
Total assets	\$ 676,965	\$	682,375	\$	(5,410)	(0.8%)
Current liabilities	\$ 34,335	\$	36,636	\$	(2,301)	(6.3%)
Noncurrent liabilities	 118,903		117,955		948	0.8%
Total liabilities	 153,238		154,591		(1,353)	(0.9%)
Net investment in capital assets	474,797		460,701		14,096	3.1%
Restricted	3,436		12,872		(9,436)	(73.3%)
Unrestricted	 45,494		54,211		(8,717)	(16.1%)
Total net position	 523,727		527,784		(4,057)	(0.8%)
Total liabilities and						
net position	\$ 676,965	\$	682,375	\$	(5,410)	(0.8%)

<sup>\*</sup> Amounts have changed from those previously reported due to the implementation of GASB Statement No. 65.

As of June 30, 2014, the District's assets exceeded liabilities by \$532.0 million compared to \$523.7 million as of June 30, 2013. The largest portion of the District's net position represents its investment in capital assets, less the amount of associated debt outstanding and deferred outflow of resources. The District uses these capital assets to generate regional economic growth and to provide public safety services and recreational opportunities to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, the funds required to repay this debt are to be provided annually from operations. The unrestricted net position as of June 30, 2014 and June 30, 2013 were \$37.9 million and \$45.5 million respectively and may be used to meet the District's commitments and ongoing obligations. Refer to note 12(a)i for additional information on the District's Capital Improvement Program (CIP) commitments.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

# **Capital Assets**

The District's investment in capital assets as of June 30, 2014 and June 30, 2013 totaled \$1.0 billion and \$965.8 million, with accumulated depreciation of \$468.2 million and \$449.5 million, resulting in a net book value of \$533.1 million and \$516.3 million, respectively.

Capital Assets
(Expressed in thousands)

	Bala	ance at			Balance at		
Description	June 3	30, 2013	Increases	Decrea	ases	June	e 30, 2014
Nondepreciable assets:							
Land	\$	226,529	\$ 1,332	\$	-	\$	227,861
Construction-in-progress		43,201	34,426	(23,	446)		54,181
Depreciable/amortizable assets:							
Land improvements		7,650	-		-		7,650
Buildings and structures		525,509	9,806		-		535,315
Machinery and equipment		71,614	9,547	(	917)		80,244
Roads and parking lots		91,327	2,640		-		93,967
Intangible		-	2,068				2,068
Total assets		965,830	59,819	(24,	363)		1,001,286
Accumulated depreciation/amortization:							
Land improvements		(5,747)	(259)		-		(6,006)
Buildings and structures	(	323,350)	(12,072)		-		(335,422)
Machinery and equipment		(43,633)	(4,708)	9	917		(47,424)
Roads and parking lots		(76,757)	(2,471)		-		(79,228)
Intangible		-	(90)				(90)
Total accumulated depreciation/amortization	(-	449,487)	(19,600)		917		(468,170)
Capital assets, net	\$ .	516,343	\$ 40,219	\$ (23,	146)	\$	533,116

The District invested a total of \$34.4 million in construction-in-progress during fiscal year 2014. Some of these projects were completed and capitalized during the fiscal year.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

Following are amounts expended during fiscal year 2014 for some of the major capital projects:

- \$14.3 million, North Embarcadero Visionary Plan (NEVP) Phase I
- \$4.2 million, Chula Vista Bayfront H Street Extension
- \$3.2 million, Tenth Avenue Marine Terminal Shore Power System Project
- \$2.2 million, Goodrich South Campus Demo (MOU)
- \$1.7 million, Port Security Grants Projects
- \$1.2 million, Chula Vista Bayfront Master Plan Pre-Design
- \$1.0 million, Tenth Avenue Marine Terminal Transit Shed 1 Bay D and Head House 1 & 2 Demo
- \$969 thousand, Enterprise Content Management System
- \$564 thousand, National City Marine Terminal Berth Structural and Mooring Repair
- \$465 thousand, Crosby Street Pier Modernization
- \$404 thousand, National City Adventure Center
- \$372 thousand, Imperial Beach Pier Deck Refurbishment
- \$346 thousand, Tenth Avenue Marine Terminal Transit Shed 1 Phase II Demo
- \$316 thousand, Remediation BF Goodrich Land Exchange
- \$270 thousand, Broadway Pier Surface Enhancements
- \$267 thousand, Tidelands Street LED Lighting Retrofit
- \$2.5 million, all other capital projects

The \$23.4 million decrease in construction-in-progress was primarily due to projects that were completed and capitalized to the appropriate asset categories during fiscal year 2014.

The funds used for capital improvements are derived from several sources, including federal and state grants, capital contributions from external sources, long-term debt, the District's unrestricted funds, and current revenue sources.

The District had significant commitments for capital outlays within the CIP. Each project in the CIP is reviewed and authorized by the Board of Port Commissioners (BPC) and renewed every five years, and annually the program is reviewed and revised as appropriate. As of June 30, 2014, the remaining cost to complete the CIP, excluding projects funded by grants, donations, and contributions, was approximately \$33.8 million compared to \$44.9 million as of June 30, 2013. These projects were approved to be funded from existing and future cash resources.

Additional information on the District's CIP commitments can be found in Note 12(a)i.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

## **Capital Assets**

(Expressed in thousands)

	Bal	lance at			В	alance at
Description	June	30, 2012	Increases	Decreases	Jur	ne 30, 2013
Nondepreciable assets:						
Land	\$	207,403	\$ 19,126	\$ -	\$	226,529
Construction-in-progress		47,710	31,787	(36,296)		43,201
Depreciable assets:						
Land improvements		7,650	-	-		7,650
Buildings and structures		511,798	13,711	-		525,509
Machinery and equipment		68,181	4,843	(1,410)		71,614
Roads and parking lots		90,271	1,056	-		91,327
Total assets		933,013	70,523	(37,706)		965,830
Accumulated depreciation:						
Land improvements		(5,402)	(345)	-		(5,747)
Buildings and structures		(311,667)	(11,683)	-		(323,350)
Machinery and equipment		(40,682)	(4,361)	1,410		(43,633)
Roads and parking lots		(74,209)	(2,548)	-		(76,757)
Total accumulated depreciation		(431,960)	(18,937)	1,410		(449,487)
Capital assets, net	\$	501,053	\$ 51,586	\$ (36,296)	\$	516,343

The District invested a total of \$31.8 million in construction-in-progress during fiscal year 2013. Some of these projects were completed and capitalized during the fiscal year.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

Following are amounts expended during fiscal year 2013 for some of the major capital projects:

- \$9.1 million, North Embarcadero Visionary Plan (NEVP) Phase I
- \$5.3 million, Port Security Grants Projects
- \$3.1 million, Tidelands Fender Repair
- \$1.6 million, Crosby Street Pier Modernization
- \$1.5 million, Tenth Avenue Marine Terminal Transit 1 Shed Bay D and Head House 1 & 2 Demo
- \$1.0 million, B Street Pier Cruise Ship Terminal Fire System Upgrades
- \$942 thousand, B Street Pier Cruise Ship Terminal Canopy Improvements
- \$866 thousand, Tenth Avenue Marine Terminal Shore Power System Project
- \$772 thousand, South Embarcadero Historic Harbor Front Ruocco Park
- \$574 thousand, Teledyne Ryan (TDY) Site Demolition
- \$546 thousand, Enterprise Content Management System
- \$522 thousand, Imperial Beach Pier Deck Refurbishment
- \$474 thousand, Remediation BF Goodrich Land Exchange
- \$468 million, Tenth Avenue Marine Terminal Telephone System Cable Upgrade
- \$438 thousand, Tidelands Pavement Repair
- \$437 thousand, Broadway Pier Utility Relocation
- \$414 thousand, Tenth Avenue Marine Terminal Bulkhead
- \$402 thousand, Chula Vista Bayfront Master Plan Pre-Design
- \$400 thousand, Enterprise Dashboard Reporting System
- \$388 thousand, Chula Vista Bayfront H Street Extension
- \$360 thousand, National City Marine Terminal Berth Structural and Mooring Repair
- \$2.2 million, all other capital projects

The \$36.3 million decrease in construction-in-progress was primarily due to projects that were completed and capitalized to the appropriate asset categories during fiscal year 2013.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

## Revenues, Expenses, and Changes in Net Position

While the Statements of Net Position show the change in the District's financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide insight as to the nature and source of the change in financial position. The District's summarized results of operations for the years ended June 30, 2014 and June 30, 2013 are presented below:

# Revenues, Expenses, and Changes in Net Position

(Expressed in thousands)

		2014		2013	In	Change crease crease)	% Change
						<u> </u>	
Operating revenues:	¢	00.202	\$	92 (04	\$	( (70	0.10/
Real Estate operations	\$	89,282 34,480	Ф	82,604 33,469	Ф	6,678 1,011	8.1% 3.0%
Maritime operations Harbor Police operations		17,203		,		*	
*		,		15,313		1,890	12.3%
Other operating revenues		4,807		3,884		923	23.8%
Total operating revenues		145,772		135,270		10,502	7.8%
Operating expenses:							
Direct expenses							
Real Estate operations		31,280		33,186		(1,906)	(5.7%)
Maritime operations		21,573		20,448		1,125	5.5%
Harbor Police		32,623		33,756		(1,133)	(3.4%)
Other operating expenses		5,151		1,123		4,028	358.8%
Depreciation and amortization		19,597		18,935		662	3.5%
General and administrative expenses		30,729		35,951		(5,222)	(14.5%)
Total operating expenses		140,953		143,399		(2,446)	(1.7%)
Income/(loss) from operations		4,819		(8,129)		12,948	(159.3%)
Nonoperating revenues		2,497		1,413		1,084	76.7%
Nonoperating expenses		8,594		8,784		(190)	(2.2%)
Nonoperating loss		(6,097)		(7,371)		1,274	(17.3%)
Capital grants and contributions		9,564		11,443		(1,879)	(16.4%)
Change in net position		8,286		(4,057)		12,343	(304.2%)
Beginning net position, as restated		523,727		527,784		(4,057)	(0.8%)
Ending net position	\$	532,013	\$	523,727	\$	8,286	1.6%

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

## Fiscal year 2014 compared to 2013

Total operating revenues of \$145.8 million increased \$10.5 million from the prior fiscal year of \$135.3 million. Operating expenses of \$141.0 million decreased \$2.4 million from the prior fiscal year of \$143.4 million.

Approximately 61.2% of the District's total operating revenue was attributable to Real Estate operations, which includes land and building leases, concession fees, and parking fees. Maritime operations, which includes wharfage, land and building leases, cruise ship passenger fees, dockage fees, and storage space rental, accounted for approximately 23.7% of the District's total operating revenue. Harbor Police accounted for approximately 11.8% of total operating revenues, which consists of services provided to the San Diego County Regional Airport Authority (SDCRAA), citations issued for vehicle code violations, revenue from piers and floats, and operating grant revenue. Other operating revenue accounted for approximately 3.3% of the District's total operating revenue and includes reimbursements for General and Administrative (G&A) costs from the SDCRAA for Harbor Police services, operating grant revenues, permit and license fees, and miscellaneous other operating revenues.

Nonoperating revenue includes legal insurance settlements, interest income, reimbursed legal fees, insurance proceeds, asset forfeiture proceeds, and miscellaneous other revenue.

Capital grants and capital project contributions revenue includes Port Security capital grants and NEVP project contributions.

### **Operating Revenues – Fiscal year 2014 compared to 2013:**

- Real Estate operating revenue of \$89.3 million increased \$6.7 million from \$82.6 million in the prior fiscal year. Concession revenue increased \$4.9 million due to stronger performance by tidelands hotels, restaurants, and other visitor-serving businesses. In addition, a concession rent credit ended November 30, 2013. Parking and parking meter revenue increased approximately \$1.5 million mainly due to an increase in parking lot rates at the San Diego Convention Center and Hilton Hotel parking garages effective June 2013; increase in visitors; and a pilot program at the Tuna Harbor metered lot, which included an increase in parking meter rates, hours, and days of enforcement effective May 2014. Other rental revenue increased \$365 thousand primarily due to option payments received from developers. The remaining variance was from all other operating revenue sources.
- Maritime operating revenue of \$34.5 million increased by \$1.0 million from \$33.5 million in the prior fiscal year. Storage space rental revenue increased by \$650 thousand due to an increased number of storage days from automobile operations. Other rental revenue increased by \$289 thousand due to an increased use of the mobile crane for break bulk operations as well as increased event rental at the Pavilion. Wharfage revenue increased by \$266 thousand due to an increase in automobiles and general cargos including cement, soda ash, steel, and yachts. Parking revenue increased by \$118 thousand mainly due to the addition of B Street pier public parking in fiscal year 2014. These increases were partially offset by a decrease in cruise ship passenger fees of \$156 thousand due to a reduction of cruise ship calls and fewer passengers embarking and disembarking. The remaining variance was from all other operating revenue sources.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

- Harbor Police operating revenue of \$17.2 million increased \$1.9 million from the \$15.3 million in the prior fiscal year. The increase was mainly from the following: additional billing adjustments related to prior year services for police services provided to the SDCRAA, higher citations revenue due to increased enforcement of parking violations, and higher grant revenue due to increased federal funding from the Transportation Security Administration for the canine team.
- Other operating revenue increased \$923 thousand primarily due to the Cost Recovery Program's first year of user fees implementation.

### **Operating Expenses - Fiscal year 2014 compared to 2013:**

- Real Estate operating expenses of \$31.3 million, before depreciation and G&A expense, decreased \$1.9 million from the prior fiscal year primarily due to a decrease in costs for the following: the North Embarcadero Port Master Plan effort of \$1.3 million, Commercial Fisheries Revitalization project of \$500 thousand, legal fees and attorney fees for the South Bay Power Plant of \$450 thousand, Harbor Island Water Conservation Landscape Improvement maintenance project of \$420 thousand, and Hotel and Convention Center Expansion of \$164 thousand. The decreases were partially offset by increases for the South Campus and H Street efforts of \$700 thousand and tenant environmental compliance project of \$184 thousand. The remaining variance was from all other operating expense sources.
- Maritime operating expenses of \$21.6 million, before depreciation and G&A expense, increased \$1.1 million from \$20.4 million in the prior fiscal year. The increase was primarily due to a \$2.1 million increase in contingent liability for remediation related compliance activities. This was partially offset by a decrease in personnel cost of \$432 thousand due to vacancy management efforts, legal services of \$134 thousand, and professional services of \$107 thousand. The remaining variance was from all other operating expense sources.
- Harbor Police operating expenses of \$32.6 million, before depreciation and G&A expense, decreased \$1.1 million from \$33.8 million in the prior fiscal year. The decrease was primarily due to a reduction in personnel cost of \$728 thousand as a result of vacancy management efforts and lower workers' compensation. Nonpersonnel expenses also decreased by \$322 thousand mainly due to lower legal related costs and reductions in other expense categories.
- Other operating expenses, before depreciation and G&A expense, increased \$4.0 million from the prior fiscal year primarily due to increases in environmental project costs for Regional Harbor Monitoring Program, Integrated Planning, Goodrich South Campus Site, and Green Port Clean Air.
- Total depreciation and amortization expense of \$19.6 million increased \$662 thousand from \$18.9 million in the prior fiscal year.
- General and Administrative (G&A) expenses of \$30.7 million decreased \$5.3 million from \$36.0 million in the prior fiscal year primarily due to the following decreases: \$1.4 million from personnel costs due to vacancy management efforts, \$454 thousand from a reduction in advertising and marketing, \$391 thousand from a reduction in various contingencies, \$354 thousand from professional services, and approximately \$220 thousand from lower maintenance costs at the administrative building. The remaining variance was from various nonpersonnel expense categories.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

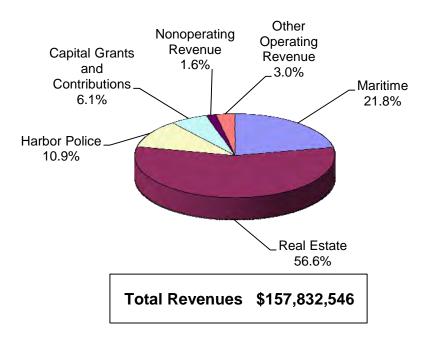
## Nonoperating Revenues and Expenses - Fiscal year 2014 compared to 2013:

- The District's nonoperating revenues of \$2.5 million, excluding capital grants and contributions, increased \$1.1 million from \$1.4 million in the prior fiscal year. The increase was primarily due to increases in unrealized gain on the District's investments (GASB Statement No. 31) of \$372 thousand, legal settlements of \$350 thousand, and asset forfeiture proceeds of \$339 thousand.
- Total nonoperating expenses of \$8.6 million decreased \$191 thousand from total nonoperating expenses of \$8.8 million. The decrease is mainly due to lower interest expense for Series A & B bonds and the SDCRAA promissory note.
- Capital grants and contributions of \$9.6 million decreased \$1.8 million from \$11.4 million in the prior fiscal year. This was primarily due to decreases in port security grant reimbursements of \$3.2 million and donations of \$600 thousand. This decrease was partially offset by an increase in contributions received from Civic San Diego for costs incurred for the NEVP Phase I project of \$2.0 million. Please refer to Note 4(d) for additional information on funding for the NEVP Phase I project.

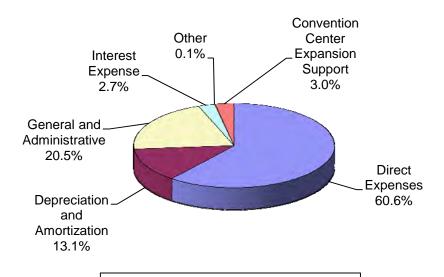
Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

The following charts show the total District revenues and expenses as percentages by major categories for fiscal year 2014:

# FY 2014 Revenues



# FY 2014 Expenses



**Total Expenses** \$149,546,080

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

### Revenues, Expenses, and Changes in Net Position

(Expressed in thousands)

			Inc	Change crease	
	 2013	 2012	(De	crease)_	% Change
Operating revenues:					
Real Estate operations	\$ 82,604	\$ 79,782	\$	2,822	3.5%
Maritime operations	33,469	33,090		379	1.1%
Harbor Police operations	15,313	15,639		(326)	(2.1%)
Other operating revenues	 3,884	2,225		1,659	74.6%
Total operating revenues	135,270	 130,736		4,534	3.5%
Operating expenses:					
Direct expenses					
Real Estate operations	33,186	34,656		(1,470)	(4.2%)
Maritime operations	20,448	20,612		(164)	(0.8%)
Harbor Police	33,756	31,458		2,298	7.3%
Other operating expenses Depreciation and amortization	1,123 18,935	75 19,096		1,048 (161)	1,395.5% (0.8%)
General and administrative expenses	35,951	34,600		1,351	3.9%
General and administrative expenses	 33,731	 34,000		1,331	3.770
Total operating expenses	 143,399	 140,497		2,902	2.1%
Loss from operations	 (8,129)	(9,761)		1,632	(16.7%)
Nonoperating revenues	1,413	4,790		(3,377)	(70.5%)
Nonoperating expenses	 8,784	 12,306		(3,522)	(28.6%)
Nonoperating loss	(7,371)	 (7,516)		145	(1.9%)
Capital grants and contributions	11,443	8,339		3,104	37.2%
Change in net position	(4,057)	(8,938)		4,881	(54.6%)
Beginning net position, as restated	 527,784	 536,722		(8,938)	(1.7%)
Ending net position	\$ 523,727	\$ 527,784	\$	(4,057)	(0.8%)

### Fiscal year 2013 compared to 2012

Total operating revenues of \$135.3 million increased \$4.6 million from the prior fiscal year of \$130.7 million. Operating expenses of \$143.4 million increased \$2.9 million from the prior fiscal year of \$140.5 million.

Approximately 61.1% of the District's total operating revenue was attributable to Real Estate operations, which includes land and building leases, concession fees, and parking fees. Maritime operations, which include wharfage, land and building leases, cruise ship passenger fees, dockage fees, and storage space rental, accounted for approximately 24.7% of the District's total operating revenue. Harbor Police accounted for approximately 11.3% of total operating revenues, which consists of services provided to SDCRAA, citations issued for vehicle code violations, revenue from piers and floats, and operating grant revenue. Other operating revenue accounted for approximately 2.9% of the District's total operating revenue and includes reimbursements for General and Administrative costs from the SDCRAA for

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

Harbor Police services, operating grant revenues, permit and license fees, and miscellaneous other operating revenues.

Nonoperating revenue includes legal insurance settlements, interest income, reimbursed legal fees, insurance proceeds, asset forfeiture proceeds, capital grant revenue, capital project contribution revenue, and miscellaneous other revenue.

# **Operating Revenues – Fiscal year 2013 compared to 2012:**

- Real Estate operating revenue of \$82.6 million increased \$2.8 million from \$79.8 million in the prior fiscal year. Concession revenue increased \$2.1 million due to stronger performance by tidelands hotels and other visitor-serving businesses. Parking revenue increased approximately \$377 thousand mainly due to an increase in parking rates and visitors. Fixed rent revenue increased \$214 thousand due to an unbudgeted one-time lease payment from a tenant. The remaining variance was from all other operating revenue sources.
- Maritime operating revenue of \$33.5 million increased \$379 thousand from \$33.1 million in the prior fiscal year. Storage space rental revenue increased by \$973 thousand due to higher inventory from auto waterborne and rail units. Wharfage revenue increased \$403 thousand due to increase in autos, solar energy storage materials, and machinery and equipment. These increases were partially offset by a decrease in cruise ship passenger fees and cruise ship passenger security charges of \$450 thousand due to a decrease in cruise ship calls and fewer passengers embarking and disembarking. Fixed rent revenue decreased \$238 thousand due to an unoccupied office at the National Distribution Center building and from changes in other tenants lease agreements. Concession revenue decreased \$140 thousand as a result of a change in a tenant lease that no longer requires a minimum annual crane fee. Grant revenue decreased \$117 thousand due to the expiration of the American Recovery and Reinvestment Act grants. The remaining variance was from all other operating revenue sources.
- Harbor Police operating revenue of \$15.3 million decreased \$326 thousand from the \$15.6 million in the prior fiscal year primarily from the reimbursement for police services provided to the SDCRAA based on actual costs.
- Other operating revenue increased \$1.7 million primarily from operating grant revenues.

### **Operating Expenses - Fiscal year 2013 compared to 2012:**

• Real Estate operating expenses of \$33.2 million, before depreciation and G&A expense, decreased \$1.5 million from \$34.7 million in the prior fiscal year, primarily due to a decrease in costs for the following: Embarcadero Marina Park South revetment replenishment project of \$1.0 million, long term monitoring at the former Campbell shipyard site of \$621 thousand, North Embarcadero Port Master Plan effort of \$560 thousand, consulting services for the Goodrich South Campus efforts of \$431 thousand, and legal fees and attorney fees for the South Bay Power Plant of \$400 thousand. The decreases were partially offset by an increase of \$868 thousand for the Commercial Fisheries Revitalization and the Harbor Island Water Conservation Landscape Improvement efforts and an increase of \$768 thousand for the allocated costs for fire, police, and medical emergency services which are contracted with the member cities.

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

- Maritime operating expenses of \$20.4 million, before depreciation and G&A expense, decreased \$200 thousand from \$20.6 million in the prior fiscal year. The decrease was primarily due to an allowance for bad debt of \$1.1 million that was recognized in fiscal year 2012 and no such allowance was booked in fiscal year 2013. Contracted services for security camera maintenance, watchstanders, and security at the cruise ship terminals decreased \$674 thousand as a result of lower cruise activity. Equipment and systems decreased \$148 thousand due to repairs and upgrades to security equipment which occurred in fiscal year 2012. These decreases were partially offset by \$1.0 million for remediation related activities, an increase in terminal fees of \$445 thousand primarily due to a higher volume of automotive imports, an increase of \$300 thousand for allocated costs for fire, police, and medical emergency contracted with the member cities, and an increase in retirement cost of \$105 thousand.
- Harbor Police operating expenses of \$33.8 million, before depreciation and G&A expense, increased \$2.3 million from \$31.5 million in the prior fiscal year. Personnel expenses increased \$1.4 million mainly due to increases in retirement costs, salaries and wages as a result of negotiated salary increases, workers' compensation expense based on reserves estimated by the carrier, and overtime. Nonpersonnel expenses and other allocated costs increased \$900 thousand.
- Other operating expenses, before depreciation and G&A expense, increased \$1.0 million from the prior fiscal year primarily due to an increase in operating grants expenses of \$909 thousand. The remaining variance was from various operating expense categories.
- Total depreciation and amortization expense of \$18.9 million decreased \$161 thousand from \$19.1 million in the prior fiscal year.
- General and Administrative (G&A) expenses of \$36.0 million increased \$1.4 million from \$34.6 million in the prior fiscal year primarily due to the following increases: \$283 thousand from purchasing grant funded communication systems equipment, a combined \$199 million from retiree health and group health insurance, and \$153 thousand in legal services. Additionally, \$441 thousand was recorded in fiscal year 2013 for various contingencies. The remaining variance was from various expense categories.

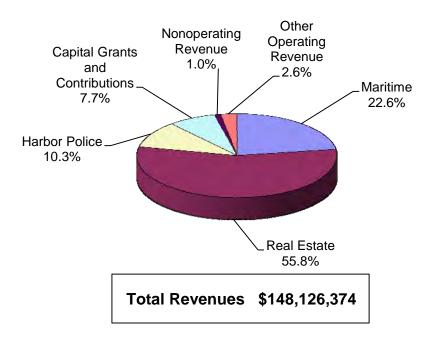
### Nonoperating Revenues and Expenses - Fiscal year 2013 compared to 2012:

- The District's nonoperating revenues of \$1.4 million, excluding capital grants and contributions, decreased \$3.4 million from \$4.8 million in the prior fiscal year. The decrease was primarily due to a prior year legal settlement of \$3.0 million and interest on investments being lower by \$593 thousand. The remaining variance was from all other nonoperating revenue sources.
- Total nonoperating expenses of \$8.8 million decreased \$3.5 million from total nonoperating expenses of \$12.3 million. The prior fiscal year includes financial assistance payments for the National City Aquatic Center, Coronado Boathouse, and the Imperial Beach Sand Replenishment projects.
- Capital grants and contributions of \$11.4 million increased \$3.1 million from \$8.3 million in the prior fiscal year. This was primarily due to the contribution from Civic San Diego for costs incurred for the NEVP Phase I project. Please refer to Note 4(d) for additional information on funding for the NEVP Phase I project.

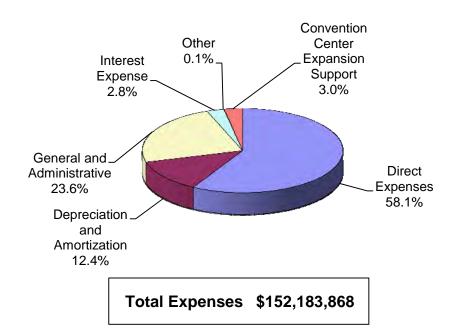
Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

The following charts show the total District revenues and expenses as percentages by major categories for fiscal year 2013:

# FY 2013 Revenues



# FY 2013 Expenses



Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

#### **Debt Administration**

The authority of the District to incur debt is described in Section 29 of the San Diego Unified Port District Act. The District is authorized, by its enabling legislation, to levy property taxes along with its five member cities (Chula Vista, Coronado, Imperial Beach, National City, and San Diego). From 1963 to 1970, the District required a small tax levy to pay debts incurred for improvements accomplished before the formation of the District. Since then, revenues from the principal operational areas have been sufficient to support District operations, service bonded indebtedness, and allow for capital improvements. As a result, no taxes have been levied since 1970.

As part of the airport transfer on January 1, 2003, as described in Note 1(a), the District issued a \$50.0 million promissory note to the SDCRAA and a \$2.4 million note for the Pond 20 real estate. As of June 30, 2013, the Pond 20 Note was paid in full. Under the Airport Transfer Agreement, the \$50.0 million promissory note was unsubordinated and fully negotiable, had an interest rate of the prime rate plus 1.0%, with monthly payments of interest only for seven years, with the principal due and payable beginning on December 31, 2009. The note was amended as a result of a settlement agreement, effective June 1, 2004, between the District and the SDCRAA. The note is now being amortized over a period of 25 years, which commenced January 1, 2006, with a fixed rate of 5.5% per annum; the note remains subordinated to all other bonded indebtedness of the District.

On October 28, 2004, the District issued \$49.5 million aggregate principal amounts of revenue bonds. The issuance consisted of \$23.0 million and \$26.5 million principal amounts for the Series A 2004 Bonds and Series B 2004 Bonds, respectively. The bonds were sold at a premium of \$2.5 million, which netted issuance proceeds of \$52.0 million. The bonds, which are composed of serial and term, are due over 25 years and bear interest rates ranging from 2.0% to 5.25%. Approximately \$47.0 million was used to reimburse the District for the prior payment of costs for certain projects in the completed fiscal year 2003-2007 CIP. The bonds are being repaid using the pledged revenues of the District, as defined in Article 1, Section 1.02 of the indenture related to these bonds.

On November 20, 2013, the District issued \$25.5 million Series A 2013 revenue refunding bonds to advance refund the entire \$26.6 million of the outstanding Series B 2004 Revenue Bonds. The District used the net proceeds to purchase U.S. Treasury State and Local Government Series (SLGS) securities that were deposited in an irrevocable trust to provide for all future debt service and for the Series B 2004 Revenue Bonds redemption on September 1, 2014. As a result, the full amount of the \$26.6 million Series B 2004 Revenue Bonds is considered defeased and the District has removed the liability from its accounts. The advance refunding reduced total debt service payments over the next 16 years by approximately \$2.5 million, and resulted in an economic gain of \$1.7 million (i.e. difference between the present value of the debt service payments on the old and new debt).

Management's Discussion and Analysis – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

Following is a summary of the District's outstanding notes and bonds payable as of June 30, 2014 and June 30, 2013:

	Balance at			Balance at	Amounts due
	June 30, 2013	Increases	Decreases	June 30, 2014	within one year
Notes:					
SDCRAA promissory note	\$ 41,333,663	\$ -	\$ (1,446,895)	\$ 39,886,768	\$ 1,528,512
Master tax-exempt lease/purchase agreement	645,918	-	(645,918)	-	-
Civic San Diego loan advance - NEVP	4,140,557	5,013,535	(797,845)	8,356,247	634,110
Revenue bonds:					
Series A and B 2004 bonds payable	39,190,000	-	(28,120,000)	11,070,000	1,650,000
Series A and B 2004 bonds premium	1,102,838	-	(882,948)	219,890	-
Series A 2013 bonds payable	-	25,475,000	(270,000)	25,205,000	-
Series A 2013 bonds premium		2,610,442	(44,014)	2,566,428	
Total notes and bonds	\$ 86,412,976	\$ 33,098,977	\$ (32,207,620)	\$ 87,304,333	\$ 3,812,622

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013	Amounts due within one year
Notes:	<u> </u>				- <u></u> -
SDCRAA promissory note	\$ 42,703,301	\$ -	\$ (1,369,638)	\$ 41,333,663	\$ 1,446,895
Pond 20 note	211,060	-	(211,060)	-	-
Master tax-exempt lease/purchase agreement	1,273,477	-	(627,559)	645,918	645,918
Civic San Diego loan advance - NEVP	-	4,140,557	-	4,140,557	850,000
Revenue bonds:					
Series A and B 2004 bonds payable	40,680,000	-	(1,490,000)	39,190,000	1,570,000
Series A and B 2004 bonds premium	1,228,592		(125,754)	1,102,838	-
Total notes and bonds	\$ 86,096,430	\$ 4,140,557	\$ (3,824,011)	\$ 86,412,976	\$ 4,512,813

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all California citizens, taxpayers, stakeholders, and the District's creditors. This financial report seeks to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the San Diego Unified Port District, Office of the District Clerk, P.O. Box 120488, San Diego, California 92112-0488. contact the District by phone 686-6203 Or, you may (619)by email publicrecords@portofsandiego.org.

BASIC FINANCIAL STATEMENTS

Statements of Net Position June 30, 2014 and 2013

ASSETS	2014	2013 as restated
Current assets:		
Cash and cash equivalents	\$ 49,026,335	\$ 45,052,705
Investments	59,910,328	69,180,276
Accounts receivable, net of allowance	16,888,045	20,167,263
Other current assets	1,372,417	1,262,092
Total current assets	127,197,125	135,662,336
Noncurrent assets:		
Cash and investments designated for specific capital projects and commitments	14,603,086	6,154,890
Restricted assets:		
Restricted cash and investments:		
Deposits and other miscellaneous	2,297,213	1,795,981
Escrow accounts:	8,671,663	10 922 462
So. Bay Power Plant remediation and other miscellaneous Workers' compensation collateral	2,804,340	10,832,462 2,619,064
Series 2004 and 2013 Bonds:	2,004,340	2,019,004
Debt service reserve funds held by trustee	3,378,688	3,467,468
Total restricted assets	17,151,904	18,714,975
Other noncurrent assets	66,757	90,022
Total noncurrent assets	31,821,747	24,959,887
Capital assets:		
Nondepreciable assets:		
Land	227,860,798	226,529,303
Construction-in-progress	54,180,658	43,200,647
Depreciable assets:	7.650.224	7.650.224
Land improvements	7,650,334	7,650,334
Buildings and structures  Machinery and equipment	535,315,340 80,243,963	525,509,049 71,613,765
Roads and parking lots	93,967,457	91,327,223
Intangible assets	2,067,468	71,321,223
Total capital assets	1,001,286,018	965,830,321
Less accumulated depreciation and amortization	(468,170,414)	(449,487,402)
Capital assets, net	533,115,604	516,342,919
Total noncurrent assets	564,937,351	541,302,806
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow from bond refunding	181,802	
Deterred outrion from bond retaining	101,002	
Total assets and deferred outflows of resources	\$ 692,316,278	\$ 676,965,142

Statements of Net Position June 30, 2014 and 2013

		2013
LIABILITIES AND NET POSITION	 2014	 as restated
Current liabilities:		
Accounts payable	\$ 14,814,667	\$ 14,663,946
Accrued liabilities	9,796,376	7,309,630
Current portion of accrued leave	4,524,850	4,222,636
Deposits and other short-term liabilities	4,204,039	2,980,652
Accrued interest payable, Series 2004 and 2013 Bonds	589,979	645,573
Notes payable, current portion	2,162,622	2,942,813
Bonds payable, current portion	 1,650,000	 1,570,000
Total current liabilities	 37,742,533	 34,335,250
Noncurrent liabilities:		
Liabilities - payable from restricted assets:		
South Bay Power Plant remediation	8,371,663	10,532,462
Other long-term liabilities:		
Notes payable to SDCRAA, net of current portion	38,358,256	39,886,767
Bonds payable, net of current portion	37,411,318	38,722,838
Accrued leave, net of current portion	976,694	1,499,734
Unearned revenue	183,910	186,465
Civic San Diego loan advance - NEVP	7,722,137	3,290,557
Net OPEB obligation	 29,536,934	 24,784,702
Total other long-term liabilities	114,189,249	108,371,063
Total noncurrent liabilities	 122,560,912	 118,903,525
Total liabilities	 160,303,445	 153,238,775
Net Position		
Net investment in capital assets	490,021,160	474,796,446
Restricted for other projects and grants	4,121,565	3,436,019
Unrestricted	 37,870,108	 45,493,902
Total net position	 532,012,833	 523,726,367
Total liabilities and net position	\$ 692,316,278	\$ 676,965,142

See accompanying notes to the basic financial statements.

Statements of Revenues, Expenses, and Changes in Net Position Years Ended June 30, 2014 and 2013

		2013
	2014	as restated
Operating revenues:		
Real Estate operations	\$ 89,281,706	\$ 82,604,486
Maritime operations	34,480,414	33,469,190
Harbor Police	17,202,471	15,312,590
Other operating revenues	4,806,963	3,883,655
Total operating revenues	145,771,554	135,269,921
Operating expenses:		
Direct expenses:		
Real Estate operations	31,279,699	33,185,960
Maritime operations	21,572,643	20,447,662
Harbor Police	32,622,641	33,756,227
Other operating expenses	5,151,159	1,122,832
Depreciation and amortization	19,596,656	18,935,091
General and administrative expenses	30,729,354	35,951,226
Total operating expenses	140,952,152	143,398,998
Income/(loss) from operations	4,819,402	(8,129,077)
Nonoperating revenue (expense):		
Interest income	693,799	627,214
Settlement income	356,250	6,250
Net increase/(decrease) in the fair value of investments	165,516	(206,298)
Interest expense	(3,998,061)	(4,206,450)
Convention Center expansion support	(4,500,000)	(4,500,000)
Other nonoperating expenses	(95,867)	(78,420)
Other nonoperating revenues	1,281,308	986,264
Nonoperating revenue (expense), net	(6,097,055)	(7,371,440)
Loss before capital contributions	(1,277,653)	(15,500,517)
Capital grants and contributions	9,564,119	11,443,024
Change in net position	8,286,466	(4,057,493)
Net position, beginning of year, as restated	523,726,367	527,783,860
Net position, end of year	\$ 532,012,833	\$ 523,726,367

See accompanying notes to the basic financial statements.

Statements of Cash Flows Years Ended June 30, 2014 and 2013

		2013
	2014	as restated
Cash flows from operating activities:		
Payments from customers	\$ 150,274,160	\$ 134,094,363
Payments to suppliers	(42,260,789)	(46,219,685)
Payments to employees	(73,188,156)	(73,768,970)
Other receipts	1,230,541	561,867
Net cash provided by operating activities	36,055,756	14,667,575
Cash flows from noncapital financing activities:		
Maintenance Fund - Salute to Bob Hope	(2,555)	84,996
Financial assistance for Convention Center expansion	(4,500,000)	(4,500,000)
Note payments	(2,890,659)	(2,208,257)
Net cash used in noncapital financing activities	(7,393,214)	(6,623,261)
Cash flows from capital and related financing activities:	(24.710.420)	(24.020.000)
Acquisition and construction of capital assets	(34,718,439)	(34,830,998)
Proceeds on sale of capital assets	149,140	64,691
Federal/state grants received Contributions for capital assets	1,774,518 7,114,477	4,996,663 5,446,361
Payment of bond principal	(1,840,000)	(1,490,000)
Interest paid	(3,450,757)	(4,255,084)
Civic San Diego loan advance - NEVP	5,013,535	4,140,557
Net cash used in capital and related financing activities	(25,957,526)	(25,927,810)
Cash flows from investing activities:	(20,507,020)	(20,527,610)
Purchase of short-term investments	(49,465,230)	(57,449,152)
Maturity of short-term investments	49,785,749	64,252,998
Interest received from investment securities	948,095	473,719
Net cash provided by investing activities	1,268,614	7,277,565
Net increase/(decrease) in cash and cash equivalents	3,973,630	(10,605,931)
Cash and cash equivalents, beginning of year	45,052,705	55,658,636
Cash and cash equivalents, end of year	\$ 49,026,335	\$ 45,052,705
•		
Reconciliation of operating income/(loss) to net cash provided by		
operating activities:		
Income/(loss) from operations	\$ 4,819,402	\$ (8,129,077)
Adjustments to reconcile loss from operations to net cash provided		
by operating activities:	10.506.656	10.025.001
Depreciation and amortization expense	19,596,656	18,935,091
Bad debt expense Loss on disposal of assets	(1,095)	1,619
Settlement income	356,250	6,250
Other nonoperating activities	1,060,662	805,871
Changes in assets and liabilities:	-,,	
Accounts receivable/notes receivable-tenant	3,279,217	(811,335)
Other current assets	(110,326)	859,592
Accounts payable	(825,055)	757,412
Accrued liabilities	2,612,741	(1,978,454)
Other restricted assets	(185,276)	(250,254)
Other long-term liabilities Deposits and other short-term liabilities	4,229,193	4,836,702
•	1,223,387 \$ 36,055,756	(365,841)
Net cash provided by operating activities	\$ 36,055,756	\$ 14,007,373
Supplemental disclosure of noncash investing, capital, and financing		
activities:	<b>.</b>	
Additions to capital assets included in accounts payable	\$ 941,856	\$ -
Donated capital assets	\$ 675,124	\$ 1,000,000
Series B 2004 Bonds - defeased	\$ (26,550,000) \$ 25,475,000	\$ -
Series A 2013 Bonds - proceeds Series A 2013 bond premium	\$ 25,475,000 \$ 2,610,442	ф - \$
Bond issuance cost	\$ 2,010,442	\$ - \$ - \$ -
Accrued interest payable Series B 2004 Bonds - paid from escrow	\$ 294,482	\$ -
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See accompanying notes to the basic financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

### (1) Nature of Organization and Summary of Significant Accounting Policies

### (a) Organization

The San Diego Unified Port District (District), an autonomous public agency, was established on December 18, 1962 in accordance with laws of the State of California for the acquisition, construction, operation, maintenance, development, management, and regulation of harbor works and improvements, including rail, water, and air terminal facilities, and tidelands and submerged lands of the Harbor of San Diego and San Diego Bay, and for the promotion of commerce, navigation, fisheries, and recreation. The District is governed by a seven-member Board of Port Commissioners (BPC) appointed by the District's five member cities (Chula Vista, Coronado, Imperial Beach, National City, and San Diego).

In 2001, the California legislature established the San Diego County Regional Airport Authority (SDCRAA) by enacting the San Diego County Regional Airport Authority Act (Airport Authority Act), California Public Utilities Code Section 170000 et seq. The Airport Authority Act was amended in 2002 and proposed a phased transfer of all airport operations of the District to SDCRAA. Effective January 1, 2003, pursuant to the Airport Authority Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, the District transferred all airport operations and certain related assets and liabilities to the SDCRAA.

## (b) Basis of Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, the District is accounted for as a proprietary fund. The accompanying basic financial statements have been prepared using the flow of economic resources measurement focus and full accrual basis of accounting. Under the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized when incurred.

#### (c) Accounts Receivable

An allowance for uncollectible accounts receivable has been provided in the amount of \$1.1 million as of June 30, 2014 and 2013. The amount is based upon management's estimate of accounts that will not be collected. Accounts receivable are carried at original invoice amount for fixed rent tenants and at estimated invoice amount for concession (i.e., variable) rent tenants, less an estimate made for doubtful receivables for both fixed rent and concession tenants based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition, credit history, and current economic conditions.

#### (d) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less at the time of purchase.

#### (e) Investments

Investments are stated at fair value (FV). Valuations are obtained by using quotations obtained from independent published sources.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

### (f) Restricted Assets

Funds are set aside as restricted assets and are not available for current spending, when constraints placed on their use are legally enforceable due to either:

- 1. Externally imposed requirements by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or,
- 2. Constitutional provisions or enabling legislation.

The District classifies assets as restricted when the resources that were received or earned contain an explicit understanding between the resource provider and the District that the funds would be used for a specific purpose. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

#### (g)Designated Assets

The BPC may designate funds, which they do not consider to be available for general operations. At June 30, 2014, the District has designated funds primarily for the unpaid contractual portion of some capital projects that are currently in progress totaling \$14.6 million compared to \$6.2 million on June 30, 2013. This designation is classified in the accompanying statement of net position as cash and investments designated for specific capital projects and commitments.

Excluded from the above designation are additional commitments against existing cash reserves that have been authorized by the BPC as follows:

- Remaining costs to complete CIP projects not funded by grants, donations, or contributions, but will be funded from existing and future cash resources totaling \$33.8 million (see Note 12 (a)i) compared to \$44.9 million in fiscal year 2013.
- Commitments for other specific projects and activities (non-CIP) totaling \$4.1 million compared to \$11.5 million in fiscal year 2013.
- Operating reserves in alignment with BPC Policy No. 117. The policy requires that operating reserves at the end of each fiscal year are equal to six months of budgeted operating and maintenance expenses.

#### (h) Capital Assets

Capital assets are carried at cost (except for property contributed by third parties, which is recorded at fair value at the date of contribution) less an allowance for accumulated depreciation/amortization. Assets acquired under capital leases are amortized over the estimated useful life. Recurring normal maintenance and repair costs are charged to operations, whereas major repairs, improvements, and replacements that extend the assets useful life are capitalized. The capitalization threshold is \$5,000 and depreciation/amortization is computed by use of the straight-line method over the following estimated useful lives:

Land improvements	30 to 40 years
Roads and parking lots	10 to 30 years
Building, water borne structures, and other terminals	10 to 50 years
Automotive and field equipment, furniture, and fixtures	3 to 15 years
Intangible assets	3 to 20 years

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## (i) Compensated Absences

All employees of the District earn annual leave that is paid upon termination or retirement. Annual leave is accrued and paid at current rates of compensation. Employees earn annual leave at the following rates as at June 30, 2014:

	Years of Active	Annual Accrued	Maximum Accrued
	Service	Hours (days)	Hours (days)
ĺ	0-5 <sup>th</sup>	144 hours (18 days)	432 hours (54 days)
ĺ	6-15 <sup>th</sup>	184 hours (23 days)	552 hours (69 days)
ĺ	16 <sup>th</sup> -up	224 hours (28 days)	672 hours (84 days)

During the September 16, 2014 board meeting, the BPC approved changes to the annual leave accrual rates effective October 1, 2014 as follows:

Years of Active Service	Annual Accrued Hours (days)	Maximum Accrued Hours (days)
0-5 <sup>th</sup>	144 hours (18 days)	432 hours (54 days)
6-10 <sup>th</sup>	184 hours (23 days)	552 hours (69 days)
11-15 <sup>th</sup>	224 hours (28 days)	552 hours (69 days)
16 <sup>th</sup> -up	254 hours (32 days)	632 hours (79 days)

### (j) District Net Position

Net investment in capital assets consists of capital assets, which are net of accumulated depreciation/amortization and further reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, and deferred outflows of resources.

Restricted net position consists of restricted assets reduced by liabilities related to those assets. Restricted amounts represent limitations imposed on its use, either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, and laws or regulations of other governments.

Unrestricted net position may be used to meet the District's commitments and ongoing obligations.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

# (k) Revenue Classifications

The District classifies revenue as operating or nonoperating revenue, based on the following criteria:

Operating revenues are derived from the revenue sources that constitute the principal ongoing activities of the District's operations. The major components of the operating revenue sources are provided as follows:

- Real Estate operating revenue is generally derived from flat-fee ground rentals, rental fees based on a fixed percentage of tenant revenues subject to certain minimum monthly fees, parking fees, and park usage fees.
- Maritime operating revenue includes charges for fixed rents, storage, other rental
  revenues, passenger fees, cruise ship security charges, dockage, wharfage, and other
  marine services subject to District tariffs filed with the Federal Maritime Commission.
  Wharfage revenue is the charge assessed to both inbound and outbound cargo when
  crossing over District property. Dockage fees are the charges assessed against a vessel for
  the right to berth at a wharf or pier of the District.
- Harbor Police operating revenue includes police services provided to the SDCRAA, citation revenues, and expense reimbursements, which include both grants and cost recovery for services provided.

Nonoperating revenues are from sources related to financing activities and other activities that do not constitute the principal ongoing activities of the District's operations. The major components of the nonoperating revenue sources are reimbursed legal fees/litigation costs, donated revenue, investment income from cash and investments, and legal settlements. Capital grants and contributions consist of grant reimbursements for capital projects, and capital contributions from external sources.

### (l) Expense Classifications

The District classifies expenses as operating or nonoperating based on the following criteria:

Operating expenses are from expense sources that constitute the principal ongoing activities of the District's operations. The major components of the District's operating expenses consist of salaries and benefits, contractual services, maintenance, administration, and materials and supplies.

Nonoperating expenses are from expense sources that are related to financing, investing, and other activities that do not constitute the principal ongoing activities of the District's operations. The major components of nonoperating expenses are financial assistance provided to other agencies and interest expense.

#### (m) Capital Grants and Contributions

When a capital grant agreement is approved and all eligibility requirements have been met, the District recognizes capital related grant revenues as capital contributions, upon qualifying expenses are incurred. When a capital asset is donated, the contributed capital asset and donated revenue are recorded at fair value in the period received.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

#### (n) Estimates

The preparation of the 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.

# (o) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

### (p) New Governmental Accounting Standards

The District implemented the following new governmental accounting standards as of July 1, 2013:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The implementation of GASB Statement No. 65 impacted the District's net position as of June 30, 2012 and 2013, and the change in net position during the fiscal year ended June 30, 2013. Refer to Note 13 for further disclosures on the financial statement impact of the implementation of GASB Statement No. 65.

GASB Statement No. 66, Technical Corrections - 2012: An Amendment of GASB Statements No. 10 and No. 62, is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. There is no impact on the District's financial statements resulting from the implementation of this statement.

#### (q) Upcoming Governmental Accounting Standards

The following governmental accounting standards have been issued, but are not yet effective:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, is intended to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability will also be enhanced through new note disclosures and required supplementary information. This statement will be effective for the District beginning in fiscal year 2015.

GASB Statement No. 69, Government Combinations and Disposals of Government Operations. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. It requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. There will be no impact on the District's financial statements resulting from the implementation of this statement.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this statement is to improve the recognition, measurement, and disclosure guidance for governments that have extended or received financial guarantees that are nonexchange transactions. There will be no impact on the District's financial statements resulting from the implementation of this statement.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68. This statement requires that, at transition, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Management has not currently determined what the impact will be as a result of the implementation of GASB Statement No. 68 and No. 71.

## (2) Cash and Investments, Escrow Accounts, and Funds Held by Trustee

Summary of cash and investments:		2014	2013
Cash and cash equivalents	\$	49,026,335	\$ 45,052,705
Investments		59,910,328	69,180,276
Restricted cash and investments:			
Refundable security deposits		822,661	910,705
Other		1,474,552	885,276
Total restricted cash and investr	nents	2,297,213	1,795,981
Designated cash and investments:			
Designated for capital project commitments		14,603,086	 6,154,890
Total cash and investments	\$	125,836,962	\$ 122,183,852
Cash and investments as of June 30, 2014 consist of the f	ollowing:		
Cash on hand, current	C		\$ 2,500
Deposits with financial institutions			4,089,712
Investments			121,744,750
Т	otal cash an	d investments	\$ 125,836,962
Cash and investments as of June 30, 2013 consist of the f	ollowing:		
Cash on hand, current			\$ 2,500
Deposits with financial institutions			3,747,101
Investments			 118,434,251
7	otal cash an	d investments	\$ 122,183,852

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## Investments Authorized by California Government Code and the District Investment Policy

California Government Code § 53600 et seq. and the BPC's Policy 115 (BPC 115), "Guidelines for Prudent Investments," regulate the investment of the District's temporarily idle cash. The table below identifies only those investments that are authorized by both California Government Code and BPC 115. The table also identifies restrictions as to investment terms to maturity and maximum allowable investment percentages. While the maximum allowable term to maturity for various investment classes may be five years, BPC 115 limits the portfolio's weighted average days to maturity to three years. At no time during fiscal year 2014 and fiscal year 2013 did the portfolio's weighted average days to maturity exceed three years. Other than the maximum allowable term to maturity, the District's BPC Policy 115 is similar to the restrictions pursuant to California Government Code § 53600 et seq.

		Maximum Allowable Investment				
Investment Types Authorized by California Government Code and BPC 115	Term to Maturity	Total (% of Portfolio)	Any One Issuer (% of Portfolio)			
U.S. Treasury Bills, Notes, Bonds	5 Years	No Restriction	No Restriction			
U.S. Agency Obligations	5 Years	No Restriction	No Restriction			
Bankers Acceptances	180 Days	40% FMV	10% FMV			
Certificates of Deposit - Account Registry Service (CDARS)	5 Years	30% FMV	FDIC Limit			
Commercial Paper <sup>1</sup>	270 Days	15% FMV	10% FMV			
Negotiable Certificates of Deposit	1 Year	30% FMV	No Restriction			
Medium-term notes - "A" rating	2 Years	30% FMV	5% FMV			
Medium-term notes - "AA" rating	3 Years	30% FMV	5% FMV			
Repurchase Agreements	1 Year	No Restriction	No Restriction			
Reverse Repurchase Agreements	60 Days	10% FMV	No Restriction			
Local Agency Investment Fund (LAIF)	Not Applicable	No Restriction	Not Applicable			
Shares of Beneficial Interest – Issued by Management Companies	Not Applicable	20% FMV	10% FMV			
Shares of Beneficial Interest – Issued by Joint Powers Authorities (JPA)	2 Years	30% FMV	Not Applicable			
State Obligations - CA and Others	5 years	No Restriction	No Restriction			
CA Local Agency Obligations	5 Years	No Restriction	No Restriction			

<sup>&</sup>lt;sup>1</sup> BPC Policy 115 allows up to 30% of A1 and P1 rated commercial paper if maturity does not exceed 31 days.

### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that fluctuations in market interest rates will adversely affect the fair value of an investment. In general, an investment with a longer term to maturity has a greater sensitivity to changes in market interest rates than does an investment with a shorter term to maturity.

One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by structuring the maturities to coincide with expected capital investment cash outflows. Investment purchases are further structured so as to mature at fairly regular intervals in order to provide liquidity sufficient for operations. The District uses remaining days to maturity, weighted average days to maturity, and duration as methods by which to analyze the portfolio's overall sensitivity to interest rate risk. The District intends to hold callable securities until maturity, however, for disclosure purposes, the District uses the call date as equivalent to maturity date.

The District's investment portfolio is conservatively managed. Although the District is authorized by Board policy to invest in securities whose fair value would be considered highly sensitive to interest rate risk, the District did not own any specific securities considered highly sensitive. The fair value of the District's position in the external pools LAIF and CalTrust (Shares of Beneficial Interest – JPA) is the same as the value of the pool shares as of June 30, 2014 and 2013.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Information pertaining to the portfolio's overall sensitivity to interest rate risk at June 30, 2014 and 2013 is provided in the following tables:

District Investments		Remaining Days to Maturity								
	Fair Value at	120 Days	120 Days 1							
Investment Type	June 30, 2014	or Less	121 to 360	361 to 720	721 to 1,080	or more				
U.S. Treasury Securities	\$ 7,016,485	\$ -	\$ -	\$ 2,002,500	\$ 5,013,985	\$ -				
Federal Agencies (Coupon)	54,478,879	29,443,563	10,015,618	13,012,292	2,007,406	-				
Federal Agencies (Discount)	7,946,134	1,999,966	2,996,919	-	2,949,249	-				
Local Agency Investment Fund - LAIF	39,600,000	1	39,600,000	-	-	-				
Shares of Beneficial Interest - JPA	7,334,119	ı	-	7,334,119	-	-				
Medium Term Notes	5,369,133	ı	-	5,369,133	-	-				
Totals:	\$ 121,744,750	\$ 31,443,529	\$ 52,612,537	\$ 27,718,044	\$ 9,970,640	\$ -				

District Investments		Remaining Days to Maturity									
Investment Type	Fair Value at June 30, 2013		120 Days or Less		121 to 360		361 to 720		721 to 1,080	1,0	080 Days or More
Federal Agencies (Coupon)	\$ 61,934,776	\$	13,971,115	\$	14,983,456	\$	22,006,731	\$	10,973,474	\$	-
Federal Agencies (Discount)	7,830,875		-		-		4,953,854		-		2,877,021
Local Agency Investment Fund - LAIF	38,000,000		-		38,000,000		-		-		-
Shares of Beneficial Interest - JPA	5,303,101		-		-		5,303,101		-		-
Medium Term Notes	5,365,499		-		-		-		5,365,499		-
Totals:	\$ 118,434,251	\$	13,971,115	\$	52,983,456	\$	32,263,686	\$	16,338,973	\$	2,877,021

# **Disclosures Relating to Credit Risk**

Credit risk is the risk that the issuer of an investment will not repay its obligation as promised. Credit quality is measured using a rating assigned by a nationally recognized statistical rating organization (NRSRO).

The information presented below identifies the minimum credit rating required by California Government Code, the District's investment policy, and the actual rating as of June 30, 2014 and 2013 for each investment type.

					(	Credit Ratin	g at	Year End	
	F	air Value at	Minimum						Not
Investment Type	Jι	ine 30, 2014	Rating	AA+		AA-	,	AAf /S1+	Rated
U.S. Treasury Securities	\$	7,016,485	n/a	\$ 7,016,485	\$	-	\$	-	\$ -
Federal Agencies (Coupon)		54,478,879	n/a	54,478,879		-		-	-
Federal Agencies (Discount)		7,946,134	n/a	7,946,134		-		-	-
Local Agency Investment Fund - LAIF		39,600,000	n/a	-		-		-	39,600,000
Shares of Beneficial Interest - JPA		7,334,119	n/a	-		-		7,334,119	-
Medium Term Notes		5,369,133	A	2,354,253		3,014,880		-	-
Totals:	\$	121,744,750	n/a	\$ 71,795,751	\$	3,014,880	\$	7,334,119	\$ 39,600,000

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Credit Rating at Year End										
	Fair Value at	Minimum							N	Not
Investment Type	June 30, 2013	Rating		AA+		AA-		AAf /S1+	R	ated
Federal agencies (Coupon)	\$ 61,934,776	n/a	\$	61,934,776	\$	-	\$	-	\$	-
Federal Agencies (Discount)	7,830,875	n/a		7,830,875		-		-		-
Local Agency Investment Fund - LAIF	38,000,000	n/a		-		-		-	38,	000,000
Shares of Beneficial Interest - JPA	5,303,101	n/a		-		-		5,303,101		-
Medium Term Notes	5,365,499	A		5,365,499		-		-		-
Totals:	\$ 118,434,251	n/a	\$	75,131,150	\$	-	\$	5,303,101	\$ 38,	000,000

On June 6, 2014, Standard & Poor's affirmed the U.S. credit rating of AA+. Moody's Investors Service affirmed their Aaa credit rating on July 18, 2013, and Fitch Ratings affirmed their AAA ratings on March 21, 2014. Funds held in trustee and fiscal agent accounts as of June 30, 2014 and 2013 met California Government Code minimum credit rating requirements.

### **Concentration of Credit Risk**

The District's investment policy is consistent with the California Government Code with respect to the categorical limitations placed on the amount that may be invested in any one issuer. The District's investment holdings at June 30, 2014 and 2013, grouped by issuer, are identified in the tables below.

Issuer	Investment Type	Fair Value at June 30, 2014	Percentage of Portfolio
United States of America	U.S. Treasury Securities	\$ 7,016,485	5.8%
Federal Home Loan Bank	Federal Agencies Securities	20,458,150	16.8%
Federal Home Loan Mortgage Corporation	Federal Agencies Securities	13,952,283	11.5%
Federal National Mortgage Association	Federal Agencies Securities	14,005,572	11.5%
Federal Farm Credit Bank	Federal Agencies Securities	14,009,008	11.5%
General Electric Company	Medium Term Notes	3,014,880	2.5%
Microsoft Corporation	Medium Term Notes	2,354,253	1.9%
CalTRUST Short-Term Fund	Shares of Beneficial Interest - JPA	7,334,119	6.0%
Local Agency Investment Fund	Local Agency Investment Fund	39,600,000	32.5%
Totals		\$ 121,744,750	100.0%

Issuer	Investment Type	Fair Value at June 30, 2013	Percentage of Portfolio
Federal Home Loan Bank	Federal Agencies Securities	\$ 14,030,028	11.8%
Federal Home Loan Mortgage Corporation	Federal Agencies Securities	15,866,601	13.4%
Federal National Mortgage Association	Federal Agencies Securities	15,941,825	13.5%
Federal Farm Credit Bank	Federal Agencies Securities	23,927,197	20.2%
General Electric Company	Medium Term Notes	2,997,162	2.5%
Microsoft Corporation	Medium Term Notes	2,368,337	2.0%
CalTRUST Short-Term Fund	Shares of Beneficial Interest - JPA	5,303,101	4.5%
Local Agency Investment Fund	Local Agency Investment Fund	38,000,000	32.1%
Totals		\$ 118,434,251	100.0%

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

#### **Custodial Credit Risk**

Custodial credit risk is the risk that investments held by the transaction counterparty may not be recoverable in the event of the failure of the counterparty firm. The District's adopted investment policy states that, "To protect against potential losses by the collapse of individual securities dealers, all securities owned by the District shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All securities will be received and delivered using standard delivery-versus-payment procedures." The District uses a custodial bank for the receipt and safekeeping of its securities and all securities purchased in fiscal year 2014 and fiscal year 2013 were received using delivery-versus-payment procedures.

California Government Code requires that financial institutions secure local government agency deposits by pledging securities in an undivided collateral pool; the depository holds the collateral. The market value of the securities held in the collateral pool must be greater than or equal to 110.0% of the total amount deposited by the public agencies. A financial institution may, in accordance with California Government Code, secure the local public agency deposits using first trust deed mortgages; however, the market value of the first trust deed mortgages collateral must be at least 150.0% of the total amount deposited.

All individual securities as of June 30, 2014 and 2013 were held by a third party bank trust department acting as agent for the District under the terms of a custody agreement. Pooled accounts as of June 30, 2014 and 2013 were held by a third party bank trust department acting as agent for each fund under the terms of a custody agreement.

### **Investments in CalTRUST Investment Pool**

The District is a voluntary participant in the Investment Trust of California (doing business as CalTRUST), a Shares of Beneficial Interest program. CalTRUST is a Joint Powers Authority (JPA) authorized by California Government Code sections 53601 and 53635 created for the purpose of pooling local agency assets for investing. The District participates in the CalTRUST short-term account which has a target duration of 0 to 2 years. Authorized securities under this account typically include U.S. treasuries, U.S federal agencies, collateralized mortgage obligations, mortgage backed securities, asset backed securities, bankers acceptances, commercial paper, certificates of deposit, repurchase agreements backed by 102% government agencies and treasuries, medium term notes, and rated money market mutual funds.

The investment objectives of CalTRUST seek to attain a high level of current income consistent with the preservation of capital. The program is subject to interest rate and credit risk. This is primarily due to interest rate movements and the potential decline of the District's share value in response to events affecting the issuer of any securities or its credit rating. CalTRUST is not registered as an investment company under the Investment Company Act of 1940 (Act) and, accordingly, is not subject to the provisions of that Act and the rules thereunder, including the protective rules relating to registered money market mutual funds and other types of mutual funds.

### **Investments in Certificates of Deposit Account Registry Service (CDARS)**

The District participates in the CDARS program through Neighborhood National Bank which is certified as a Community Development Financial Institution by the US Treasury and through Vibra Bank, a locally owned bank. Deposits through this program are authorized by California Government Code Sections 53601.8 and 53635.8, and are 100% FDIC insured.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## **Local Agency Investment Fund (LAIF)**

The District is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasury of the State of California. Funds invested in LAIF may be withdrawn daily up to \$10.0 million. LAIF withdrawals over \$10.0 million require a 24-hour notice.

### **Escrow Accounts and Funds Held by Trustee**

Pursuant to the April 27, 1999 Property Escrow Agreement between the District and Dynegy South Bay LLC (formerly Duke Energy South Bay LLC), the District had \$8.4 million as of June 30, 2014 and \$10.5 million as of June 30, 2013 in a Property Escrow Account with US Bank for decommissioning, dismantling, and environmental remediation of the South Bay Power Plant Site. All of the escrow funds are invested in an AAAm/Aaa-mf rated Wells Fargo Advantage Heritage Money Market Fund. The Property Escrow Funds may be used by Dynegy solely in connection with the End of Term Actions stated in the Lease Agreement and the Remediation Measures as stated in the Environmental Remediation Agreement.

The District has an amended escrow agreement dated July 27, 1994 with the City of Imperial Beach to provide an escrow fund of \$300 thousand for certain claim costs attributable to District property which may arise from beach clean-up, pier maintenance, and lifeguard services. The escrow funds are invested in a US Bank money market account and had a balance of \$300 thousand as of June 30, 2014 and 2013.

On July 1, 2004 the District established an escrow agreement for Payment Agreement Obligations with National Union Fire Insurance Company of Pittsburgh, PA, on behalf of itself and other member companies of American International Group, Inc., as beneficiary, and the Bank of New York Mellon as escrow agent. The escrow fund was created for the purpose of providing collateral for the District's obligations under any workers' compensation claim. The balance in the escrow account was \$2.8 million and \$2.6 million as of June 30, 2014 and 2013, respectively, and is invested in the Bank of New York Mellon's Cash Reserve account, an uncollateralized interest-bearing overnight deposit product with daily access. The assets held in this account are part of the escrow agents balance sheet whose long-term deposit rating is AA- and short-term deposit rating is A-1+ as of June 30, 2014, and AA- and A-1+ respectively as of June 30, 2013.

Under provisions of the indenture for the District's Revenue Bonds 2004 Series A and B and the 2013 Refunding Revenue Bonds Series A, the District is required to maintain a Reserve Fund of \$3.4 million with an independent trustee. The District's trustee is US Bank and the funds are invested in the Bank's Reserve Fund Certificate of Deposit, which is collateralized in accordance with the language in the District's bond documents. US Bank's long-term rating is A+ from S&P, AA- from Fitch Ratings, and A1 from Moody's as of June 30, 2014 and A+, AA- and A1 respectively as of June 30, 2013.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

# (3) Capital Assets

Following is a summary of the capital assets activity for the year ended June 30, 2014 and June 30, 2013, respectively:

#### Capital Assets

(Expressed in thousands)

	Ba	lance at			В	alance at
Description	June	30, 2013	Increases	Decreases	Jun	e 30, 2014
Nondepreciable assets:		<u>.</u>				<u>.</u>
Land	\$	226,529	\$ 1,332	\$ -	\$	227,861
Construction-in-progress		43,201	34,426	(23,446)		54,181
Depreciable/amortizable assets:						
Land improvements		7,650	-	-		7,650
Buildings and structures		525,509	9,806	-		535,315
Machinery and equipment		71,614	9,547	(917)		80,244
Roads and parking lots		91,327	2,640	-		93,967
Intangible			2,068			2,068
Total assets		965,830	59,819	(24,363)		1,001,286
Accumulated depreciation/amortization:						
Land improvements		(5,747)	(259)	-		(6,006)
Buildings and structures		(323,350)	(12,072)	-		(335,422)
Machinery and equipment		(43,633)	(4,708)	917		(47,424)
Roads and parking lots		(76,757)	(2,471)	-		(79,228)
Intangible		-	(90)	-		(90)
Total accumulated depreciation/amortization		(449,487)	(19,600)	917		(468,170)
Capital assets, net	\$	516,343	\$ 40,219	\$ (23,446)	\$	533,116

#### Capital Assets

(Expressed in thousands)

	Balance at				
Description	June 30, 2012	Increases	Decreases	June 30, 2013	
Nondepreciable assets:					
Land	\$ 207,403	\$ 19,126	\$ -	\$ 226,529	
Construction-in-progress	47,710	31,787	(36,296)	43,201	
Depreciable assets:					
Land improvements	7,650	-	-	7,650	
Buildings and structures	511,798	13,711	-	525,509	
Machinery and equipment	68,181	4,843	(1,410)	71,614	
Roads and parking lots	90,271	1,056	-	91,327	
Total assets	933,013	70,523	(37,706)	965,830	
Accumulated depreciation:					
Land improvements	(5,402)	(345)	-	(5,747)	
Buildings and structures	(311,667)	(11,683)	-	(323,350)	
Machinery and equipment	(40,682)	(4,361)	1,410	(43,633)	
Roads and parking lots	(74,209)	(2,548)	-	(76,757)	
Total accumulated depreciation	(431,960)	(18,937)	1,410	(449,487)	
Capital assets, net	\$ 501,053	\$ 51,586	\$ (36,296)	\$ 516,343	

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The District recognized depreciation/amortization expense of \$19.6 million and \$18.9 million for the years ended June 30, 2014 and 2013, respectively.

# (4) Long-Term Debt

# (a) Summary of Long-Term Liabilities

Below is a summary of long-term liabilities and their activity for the fiscal years ended June 30, 2014 and 2013, respectively:

Notes:   SDCRAA promissory note   \$41,333,663   \$ - \$ (1,446,895)   \$39,886,768   \$1,528,512		Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014	Amounts due
SDCRAA promissory note         \$ 41,333,663         \$ -         \$ (1,446,895)         \$ 39,886,768         \$ 1,528,512           Master tax-exempt lease/purchase agreement         645,918         -         (645,918)         -           Civic San Diego loan advance - NEVP         4,140,557         5,013,535         (797,845)         8,356,247         634,110           Revenue bonds:         Series A and B 2004 bonds payable         39,190,000         -         (28,120,000)         11,070,000         1,650,000           Series A and B 2004 bonds premium         1,102,838         -         (882,948)         219,890         -           Series A 2013 bonds payable         -         25,475,000         (270,000)         25,205,000         -           Series A 2013 bonds premium         -         2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:           Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave	Notes	June 30, 2013	Increases	Decreases	June 30, 2014	within one year
Master tax-exempt lease/purchase agreement         645,918         -         (645,918)         -         -         634,110           Revenue bonds:         Series A and B 2004 bonds payable         39,190,000         -         (28,120,000)         11,070,000         1,650,000           Series A and B 2004 bonds premium         1,102,838         -         (882,948)         219,890         -           Series A 2013 bonds payable         -         25,475,000         (270,000)         25,205,000         -           Series A 2013 bonds premium         -         2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:         Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabiliti		\$ 41 333 663	¢	\$ (1.446.805)	\$ 30,886,768	¢ 1.528.512
Civic San Diego loan advance - NEVP         4,140,557         5,013,535         (797,845)         8,356,247         634,110           Revenue bonds:         Series A and B 2004 bonds payable         39,190,000         -         (28,120,000)         11,070,000         1,650,000           Series A and B 2004 bonds premium         1,102,838         -         (882,948)         219,890         -           Series A 2013 bonds payable         -         25,475,000         (270,000)         25,205,000         -           Series A 2013 bonds premium         -         2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:         Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities	1		ф -		\$ 39,000,700 -	\$ 1,326,312
Revenue bonds:       Series A and B 2004 bonds payable       39,190,000       -       (28,120,000)       11,070,000       1,650,000         Series A and B 2004 bonds premium       1,102,838       -       (882,948)       219,890       -         Series A 2013 bonds payable       -       25,475,000       (270,000)       25,205,000       -         Series A 2013 bonds premium       -       2,610,442       (44,014)       2,566,428       -         Total notes and bonds       86,412,976       33,098,977       (32,207,620)       87,304,333       3,812,622         Other noncurrent liabilities:       Unearned revenue       186,465       -       (2,555)       183,910       -         Net OPEB obligation       24,784,702       7,998,232       (3,246,000)       29,536,934       -         Accrued leave       5,722,370       4,304,024       (4,524,850)       5,501,544       4,524,850         South Bay Power Plant remediation       10,532,462       -       (2,160,799)       8,371,663       -         Total other noncurrent liabilities       41,225,999       12,302,256       (9,934,204)       43,594,051       4,524,850	1 1 0	,	5 013 535	` ' '	8 356 247	634 110
Series A and B 2004 bonds payable         39,190,000         - (28,120,000)         11,070,000         1,650,000           Series A and B 2004 bonds premium         1,102,838         - (882,948)         219,890         -           Series A 2013 bonds payable         - 25,475,000         (270,000)         25,205,000         -           Series A 2013 bonds premium         - 2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:         Unearned revenue         186,465         - (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         - (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	e	4,140,337	3,013,333	(797,043)	6,550,247	054,110
Series A and B 2004 bonds premium         1,102,838         -         (882,948)         219,890         -           Series A 2013 bonds payable         -         25,475,000         (270,000)         25,205,000         -           Series A 2013 bonds premium         -         2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:         Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850		20 100 000		(28 120 000)	11 070 000	1 650 000
Series A 2013 bonds payable         -         25,475,000         (270,000)         25,205,000         -           Series A 2013 bonds premium         -         2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:         Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	1 7	, ,	-			1,030,000
Series A 2013 bonds premium         -         2,610,442         (44,014)         2,566,428         -           Total notes and bonds         86,412,976         33,098,977         (32,207,620)         87,304,333         3,812,622           Other noncurrent liabilities:         Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	*	1,102,838	- 25 475 000	` ' '	,	-
Total notes and bonds 86,412,976 33,098,977 (32,207,620) 87,304,333 3,812,622  Other noncurrent liabilities:  Unearned revenue 186,465 - (2,555) 183,910 -  Net OPEB obligation 24,784,702 7,998,232 (3,246,000) 29,536,934 -  Accrued leave 5,722,370 4,304,024 (4,524,850) 5,501,544 4,524,850  South Bay Power Plant remediation 10,532,462 - (2,160,799) 8,371,663 -  Total other noncurrent liabilities 41,225,999 12,302,256 (9,934,204) 43,594,051 4,524,850	1 7	-		` ' '		-
Other noncurrent liabilities:         Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	Series A 2013 bonds premium		2,610,442	(44,014)	2,566,428	
Unearned revenue         186,465         -         (2,555)         183,910         -           Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	Total notes and bonds	86,412,976	33,098,977	(32,207,620)	87,304,333	3,812,622
Net OPEB obligation         24,784,702         7,998,232         (3,246,000)         29,536,934         -           Accrued leave         5,722,370         4,304,024         (4,524,850)         5,501,544         4,524,850           South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	Other noncurrent liabilities:					
Accrued leave 5,722,370 4,304,024 (4,524,850) 5,501,544 4,524,850 South Bay Power Plant remediation 10,532,462 - (2,160,799) 8,371,663 -  Total other noncurrent liabilities 41,225,999 12,302,256 (9,934,204) 43,594,051 4,524,850	Unearned revenue	186,465	-	(2,555)	183,910	-
South Bay Power Plant remediation         10,532,462         -         (2,160,799)         8,371,663         -           Total other noncurrent liabilities         41,225,999         12,302,256         (9,934,204)         43,594,051         4,524,850	Net OPEB obligation	24,784,702	7,998,232	(3,246,000)	29,536,934	-
Total other noncurrent liabilities 41,225,999 12,302,256 (9,934,204) 43,594,051 4,524,850	Accrued leave	5,722,370	4,304,024	(4,524,850)	5,501,544	4,524,850
	South Bay Power Plant remediation	10,532,462		(2,160,799)	8,371,663	
Total long-term liabilities \$ 127,638,975 \$ 45,401,233 \$ (42,141,824) \$ 130,898,384 \$ 8,337,472	Total other noncurrent liabilities	41,225,999	12,302,256	(9,934,204)	43,594,051	4,524,850
Total long-term liabilities \$ 127,638,975 \$ 45,401,233 \$ (42,141,824) \$ 130,898,384 \$ 8,337,472						- <u></u>
	Total long-term liabilities	\$ 127,638,975	\$ 45,401,233	\$(42,141,824)	\$ 130,898,384	\$ 8,337,472

	Balance at			Balance at	Amounts due
	June 30, 2012	Increases	Decreases	June 30, 2013	within one year
Notes:					
SDCRAA promissory note	\$ 42,703,301	\$ -	\$ (1,369,638)	\$ 41,333,663	\$ 1,446,895
Pond 20 note - SDCRAA	211,060	-	(211,060)	-	-
Master tax-exempt lease/purchase agreement	1,273,477	-	(627,559)	645,918	645,918
Civic San Diego loan advance - NEVP	-	4,140,557	-	4,140,557	850,000
Revenue bonds:					
Series A and B 2004 bonds payable	40,680,000	-	(1,490,000)	39,190,000	1,570,000
Series A and B 2004 bonds premium	1,228,592		(125,754)	1,102,838	
Total notes and bonds	86,096,430	4,140,557	(3,824,011)	86,412,976	4,512,813
Other noncurrent liabilities:					
Unearned revenue	101,469	84,996	-	186,465	-
Net OPEB obligation	19,910,237	8,120,465	(3,246,000)	24,784,702	-
Accrued leave	5,452,688	4,492,318	(4,222,636)	5,722,370	4,222,636
South Bay Power Plant remediation	14,007,696	288,733	(3,763,967)	10,532,462	
Total other noncurrent liabilities	39,472,090	12,986,512	(11,232,603)	41,225,999	4,222,636
Total long-term liabilities	\$125,568,520	\$17,127,069	\$(15,056,614)	\$127,638,975	\$ 8,735,449

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The District's required debt service payments for the notes and bonds as of June 30, 2014, excluding the bond premium, are as follows:

Years Ending					
<b>June 30:</b>	Principal	Interest	Total Debt Service		
2015	\$ 3,812,622	\$ 4,100,591	\$	7,913,213	
2016	3,694,889	4,217,573		7,912,463	
2017	3,991,904	3,920,158		7,912,063	
2018	4,215,243	3,696,569		7,911,813	
2019	4,442,326	3,468,161		7,910,488	
2020-2024	25,110,048	13,611,690		38,721,738	
2025-2029	30,606,909	6,260,312		36,867,220	
2030-2031	8,407,671	300,310		8,707,981	
Total	\$ 84,281,612	\$ 39,575,364	\$	123,856,977	

## (b) Notes Payable

### SDCRAA Promissory Note

As part of the transfer of airport operations and the San Diego International Airport (SDIA) to the SDCRAA on January 1, 2003 and pursuant to the MOU, the District issued a \$50.0 million promissory note to the SDCRAA. The note was unsubordinated and fully negotiable, with an interest rate of the prime rate plus 1%. Monthly payments of only interest were required for seven years with the principal due and payable on December 31, 2009. The note was amended as a result of a settlement agreement, effective June 1, 2004, between the District and the SDCRAA. The note is now being amortized over a period of 25 years, which commenced January 1, 2006, with a fixed rate of 5.5% per annum; the note remains subordinated to all other bonded indebtedness of the District and matures in December 2030.

### Master Tax-Exempt Lease/Purchase Agreement

On April 15, 2009, the District entered into a Master Tax-Exempt Lease/Purchase Agreement, with Key Government Finance, Inc. to lease phone and network equipment for \$2,963,838. The lease term is for five years and the annual principal and interest payment each year is \$592,768.

On August 7, 2009, an additional lease/purchase agreement was signed with Key Government Finance for the lease of storage area network equipment over a five-year period with annual payment not to exceed \$350,000 for the first year and \$99,730 for years two through five with an option for a \$1 purchase of the equipment upon lease completion for a total amount including principal and interest, not to exceed \$748,922.

As of June 30, 2014, both outstanding leases with Key Government Finance, Inc. have been paid in full.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The District has entered into a capital lease for phone and network equipment. The value of capital assets acquired under the leasing arrangement as of June 30, 2014 and 2013, is as follows:

Equipment Description		Gross Value		Accumulated Depreciation		Net Book Value June 30, 2014	
Phone Infrastructure System	\$	2,909,769	\$	1,588,870	\$	1,320,899	
Storage Area Network Equipment		647,756		353,632		294,124	
Total	\$	3,557,525	\$	1,942,502	\$	1,615,023	
Equipment Description		Gross Value		Accumulated Depreciation		Net Book Value June 30, 2013	
Phone Infrastructure System	\$	2,909,769	\$	1,225,149	\$	1,684,620	
Storage Area Network Equipment		647,756		272,663		375,093	
Total	\$	3,557,525	\$	1,497,812	\$	2,059,713	

## (c) Revenue Bonds and Pledge of Revenues

### Series A and B 2004 Bonds

On October 28, 2004, the District issued \$49.5 million (par value) of Series A and B 2004 Revenue Bonds (Bonds), which are secured by a pledge and lien on net pledged revenues.

The Bonds were issued for a term of 25 years with interest rates ranging from 2% to 5.25% for the Series A 2004 Bonds, and 4.40% to 5% for the Series B 2004 Bonds, with the last debt service payment due September 1, 2029. The proceeds from the sale of the Bonds were used to reimburse the District for certain previous capital expenditures, fund the Bonds' reserve requirement, and finance the costs of issuance.

The Series A and B 2004 Bonds include serial and term bonds, with mandatory sinking fund requirements. Principal payments remaining on the Series A 2004 serial bonds are \$1.7 million. Term bonds outstanding on the Series A 2004 bonds are \$3.5 and \$5.9 million, due September 1, 2016 and September 1, 2019, respectively. Mandatory sinking fund payments related to the term bonds range from \$1.7 million to \$2.0 million. Sinking fund payments are due annually on September 1, 2016 through September 1, 2019.

## Advance Refunding Series 2004 Bonds

On November 20, 2013, the District issued \$25.5 million Series A 2013 revenue refunding bonds to advance refund the entire \$26.6 million of the outstanding Series B 2004 Revenue Bonds. The District used the net proceeds to purchase U.S. Treasury State and Local Government Series (SLGS) securities that were deposited in an irrevocable trust to provide for all future debt service and for the Series B 2004 Revenue Bonds redemption on September 1, 2014. As a result, the full amount of the \$26.6 million Series B 2004 Revenue Bonds is considered defeased and the District has removed the liability from its accounts. The advance refunding reduced total debt service payments over the next 16 years by approximately \$2.5 million. This results in an economic gain of \$1.7 million (i.e. difference between the present values of the debt service payments on the old and new debt).

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## Series A 2013 Bonds

Series A 2013 Bonds were issued for a term of 16 years with interest rates ranging from 2.0% to 5.0%. Serial bonds range in maturity from \$270 thousand to \$3.1 million, with maturity dates ranging from September 1, 2014 to September 1, 2029. Principal payments remaining as of June 30, 2014 total \$25.2 million.

### Pledged Revenues

Pledged revenues for the year ended June 30, 2014, totaled \$145.1 million. This represents approximately 92.0% of total District revenues and 281.1% of the remaining Series A 2004 and 2013 Bonds' principal and interest requirements compared to \$132.7 million for the year ended June 30, 2013. Net pledged revenues for the year ended June 30, 2014 totaled \$30.8 million, which represents 840.2% of the Series A 2004 and 2013 Bonds' annual principal and interest requirements compared to \$16.7 million for the year ended June 30, 2013.

## (d) Civic San Diego Advance - North Embarcadero Alliance Visionary Plan

On April 9, 2007, the District entered into a Joint Exercise of Powers Agreement (JPA), with the City of San Diego and the former Redevelopment Agency of the City of San Diego (Agency) acting through the Centre City Development Corporation (which, as of June 2012, was renamed Civic San Diego), to design and fund phases of the North Embarcadero Alliance Visionary Plan (NEVP) and to exercise the powers described in the JPA. The JPA identified the first phase of the NEVP (First Phase) to be Harbor Drive and Esplanade improvements between West Broadway and B Street. It also provided that the District and the Agency equally share the cost for the First Phase design, and that costs for subsequent phases shall be agreed to between the parties to the JPA in the form of an amendment to be approved by the governing body of each party.

On February 28, 2011, a First Amendment to the JPA (First Amendment) was signed with the City of San Diego and the Agency acting through Civic San Diego. The First Amendment revised the definition of the First Phase to include improvements to West Broadway and extended the boundary of work on Harbor Drive south to the northern edge of Navy Pier and the Esplanade, and established an estimated total cost for the construction of the First Phase of \$28.6 million, including hard and soft costs, to be shared equally between the District and the Agency acting through Civic San Diego, subject to certain credits to the District. After certain credits for previous work on Broadway Pier and offsets for future maintenance totaling approximately \$5.7 million, the Agency through Civic San Diego will advance the balance of the District's adjusted share estimated at \$8.6 million.

The First Amendment also revised the scope of the First Phase to include an approximately two-acre public park/plaza to be designed and constructed within a 150-foot setback from North Harbor Drive along Lane Field, to be designed to a quality similar to the public spaces to be constructed as part of the First Phase (Setback Park/Plaza). The District has an agreement with the developers of Lane Field to design and construct the Setback Park/Plaza at their sole expense. If, and only if, the developer of the adjacent Lane Field site fails to timely design and commence construction of the Setback Park/Plaza, the District shall design and commence construction of the Setback Park/Plaza, and the District and Civic San Diego shall each divide the actual costs of the Setback Park/Plaza equally. The First Amendment set an estimated cost for the Setback Park/Plaza at approximately \$6.0 million, which the District shall advance unless Civic San Diego agrees otherwise in writing, and the District shall cause its construction as provided in the First Phase coastal development permit. The District's commitment for the First Phase, without

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

the Setback Park/Plaza, is \$8.6 million plus interest estimated at \$400 thousand, for a total of approximately \$9.0 million. The total District's share on the proposed project budget for the First Phase, without the Setback Park/Plaza, is \$14.7 million, which includes the District share of \$14.3 million and interest estimated at \$400 thousand. Additionally, the Agency acting through Civic San Diego agreed to contribute up to \$1.0 million for the design and construction of the Broadway Pier Surface improvements to provide a visual connection from the NEVP to areas on the pier that will be available to the public.

The District will repay the Civic San Diego advances using 50.0% of any and all lease/income payments received by the District from Lane Field. In the event that the Lane Field lease is delayed beyond June 13, 2013, the District shall begin annually to repay the Civic San Diego advances at the lesser of \$850 thousand or 50.0% of revenue received from Lane Field. The District may prepay any advances anytime.

In the event that the District advances the project costs for Setback Park/Plaza, the District shall be entitled to deduct the Civic San Diego share of the project costs for Setback Park/Plaza from the annual payment the District would otherwise have to make, until such time as Civic San Diego's equal share of the project costs for Setback Park/Plaza are repaid in full. If the District advances the funds to design and commence construction of Setback Park/Plaza, but later recoups the costs of such design and construction from a future developer of Lane Field, the District shall repay Civic San Diego for any portion of the project costs for Setback Park/Plaza paid by Civic San Diego to the District, whether that payment was made through a cash payment or through a deduction from funds owing to Civic San Diego from the District.

Six months after the completion of the First Phase, the District must establish a separate maintenance reserve (First Phase Maintenance Reserve) and deposit each year an amount of \$400 thousand, escalated at 3.0%, representing the incremental maintenance costs, which amount will be increased to reflect the maintenance costs of Setback Park/Plaza. The District shall also deposit to the First Phase Maintenance Reserve annually \$150 thousand escalated at 3.0%, beginning six months after completion of the First Phase, representing the current costs of maintenance. The project is estimated to be completed at the end of June 2015.

## (e) Accrued Leave

All employees of the District earn annual leave that is paid upon termination or retirement. Annual leave is accrued and paid at current compensation rates.

### (f) South Bay Power Plant Site Demolition and Remediation

Pursuant to the Asset Sale Agreement between the District and San Diego Gas & Electric Company (SDG&E), the District acquired the South Bay Power Plant (Plant) in April 1999. The District recognized that it would be in the bay wide region's best interest to acquire the Plant as the means to accelerate the closure, decommissioning, and/or relocation of the Plant. The California Independent System Operator (CalISO) designated the Plant as a "must-run" facility, which means that the Plant must remain in operation until a replacement plant is constructed or CalISO removes the "must-run" designation. The Plant was leased to Duke Energy South Bay, LLC (Duke South Bay) in April 1999.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

In fiscal year 1999, pursuant to the Real Property Contribution Agreement that was entered into between the District and SDG&E, SDG&E donated approximately 165 acres of land located beneath and adjacent to the Plant with a fair value of \$24.9 million. The land transaction was recorded as contributed capital and is included in the District's capital assets in the basic financial statements.

In early 2006, Duke Energy Americas, LLC, the parent company of Duke South Bay, requested the District's approval of its sale of the equity interest in Duke South Bay to LS Power Generation, LLC (LS Power). In May 2006, the BPC adopted a resolution granting consent to transfer ownership of Duke South Bay to LS Power subject to conditions expressed in the resolution. One of the conditions included is that Duke Capital, LLC the guarantor of Duke South Bay obligations to the District, has acknowledged and agreed the "Duke Guarantees" (the Lease Guaranty dated April 1, 1999, the Environmental Remediation Guaranty dated April 22, 1999, and the Guaranty of Contract and Permit Rights Assignment and Property Escrow Agreement dated April 22, 1999, each made by Duke Capital, LLC in favor of the District) shall remain in effect until such time as the District grants its consent for the release of said Duke Guarantees. The purchase and sale agreement between Duke Energy and LS Power required that the Series 1999 bonds be defeased; the bonds were defeased in August 2006.

In October 2006, LS Power requested the District's approval of LS Power's merger with Dynegy Inc. (Dynegy). The merger, which was consented to by the BPC at the November 2006 Board meeting, included a transfer of control of the equity interests in the Plant's operating entity, LSP South Bay, along with a number of other power generation assets, from LS Power to Dynegy. The post-transaction Dynegy is comprised of the combined assets of LS Power (and other LS Power assets) and Dynegy (the new entity retained the name Dynegy Inc.). The Duke South Bay guarantees have remained in effect since the Dynegy transaction.

Also in fiscal year 1999, the California State Legislature appropriated \$15.0 million to assist the District in mitigating environmental and community issues associated with the Plant. The District deposited \$15.0 million into the Property Escrow Account, which was initially established by the District and Duke South Bay. The escrow funds together with their earnings are to be retained in the Property Escrow Account to be used for the "End of Term Actions" as described in the Lease, including decommissioning, demolition, and remediation of the Plant facility and site. The balance in the property escrow account after drawdown and income on investments as of June 30, 2014 and 2013 were \$8.4 million and \$10.5 million, respectively. This amount is reported in the statement of net position as restricted assets and also reported as a noncurrent liability payable from restricted assets. Costs associated with decommissioning and demolition of the plant in excess of amounts available in the escrow account are the responsibility of Dynegy. Dynegy and SDG&E have allocated responsibilities between themselves for the cost and performance of the environmental remediation of the Plant and site. Pursuant to the lease document and other agreements, Dynegy is required to decommission, dismantle, remove the facility and improvements, and return the Plant site free and clear of all structures and improvements.

In October 2010, CalISO removed the "reliability must run" designation from the Plant, effective December 31, 2010. The District placed the lease and all transactions documents on holdover status through December 31, 2014.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

On February 2, 2013, the above ground superstructure for the Plant was demolished. Subsurface demolition commenced in early 2014 and is anticipated to be completed by April 2015. Future remediation of the property will require additional entitlements with additional regulatory oversight. Once the property has been fully remediated, the future use will include active and passive parks and industrial pads.

## (5) San Diego Convention Center

In 1985, the District entered into an agreement, which was subsequently amended four times, (collectively, the Original Agreement) with the City of San Diego (City) for the management of the San Diego Convention Center (Convention Center). The Original Agreement provides that the City will manage, operate, maintain, and promote the Convention Center, and the District will manage, operate, and maintain the parking facility of the Convention Center.

In consideration of the District's investment in constructing the Convention Center and managing, operating, and maintaining the parking facility, the City paid the District \$20 (\$1 per year). The City operates and maintains the Convention Center and receives all income from, and bears all expenses of, the Convention Center. The District receives all income from, and bears all expenses of, the operations and maintenance of the parking facility.

During fiscal year 1994, the District entered into a Memorandum of Understanding (MOU) with the City regarding a proposed expansion of the Convention Center (Expansion Project). The MOU provides that the District will assist the City in the annual payment of any debt obligation created to finance the Expansion Project by contributing up to \$4.5 million per year for 20 years, not to exceed total payments of \$90.0 million, and will reimburse the City for the costs of the program manager and other consultants and contractors associated with the planning, design, and construction of the Expansion Project, not to exceed \$4.5 million per year as part of the annual obligation.

During fiscal year 1997, the District incurred expenses of \$9.3 million, including a payment to the City of \$9.0 million toward the planning and design costs for the Expansion Project and approximately \$300 thousand of District costs for the Expansion Project. The MOU provides that the \$9.0 million payment to the City would be applied toward the 19th and the 20th annual payments.

During August 1998, the District entered into a series of additional agreements with the City. These agreements include a Support Agreement that supersedes the 1994 MOU, a 1998 Convention Center Management Agreement (1998 Agreement) that supersedes the Original Agreement, and a Purchase Option and Lease Agreement.

The Support Agreement provides for a payment of \$9.0 million to the City, in lieu of the 17th and 18th annual payments required under the MOU upon the sale of bonds to finance the construction of the Expansion Project and an annual payment of \$4.5 million for 16 years beginning on June 30, 1999. On September 17, 1998, the lease revenue bonds were issued to finance the construction of the Expansion Project. The debt obligation for the bonds was structured as the City's sole legal responsibility. On September 21, 1998, \$9.0 million, less the costs incurred by the District for the Expansion Project in the amount of approximately \$300 thousand, totaling \$8.7 million, was paid to the City in accordance with the terms of the Support Agreement. On June 30, 1999, the District accrued \$4.5 million representing the first annual payment, which was subsequently paid on July 1, 1999. Each year thereafter, beginning with fiscal year 2000, an annual payment of \$4.5 million has been made by the District in accordance with the terms of the Support Agreement. Under this

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

agreement, the amount that has been paid to the City of San Diego as of June 30, 2014 and 2013 was \$90.0 million and \$85.5 million, respectively. The last annual payment was made during the year ended June 30, 2014.

The 1998 Agreement contains modifications that take into account the debt financing on the Expansion Project as well as the authorization for the City to operate the expanded Convention Center. Other terms contained in the Original Agreement remain unchanged in the 1998 Agreement.

## (6) Defined Benefit Pension Plan

#### (a) Plan Description

The District's defined benefit pension plan, administered by the San Diego City Employees' Retirement System (SDCERS), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. SDCERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District, and the SDCRAA. The Group Trust is administered by a Board of Administration (Board). The plan is a qualified governmental pension plan under Sections 401(a) and 414(d) of the Internal Revenue Code and is integrated with the federal Social Security program. The Board issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 West A Street, Suite 400, San Diego, California 92101, or by calling (619) 525-3600. The report is also available online at www.sdcers.org.

## (b) Funding Policy

The Participation and Administration Agreement of the Group Trust requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of compensation, vary according to age at entry, benefit tier level, and certain negotiated contracts that require the District to pay a portion of the employees' contributions, which is referred to as the "offset." The contribution rates for fiscal year 2014, expressed as a percentage of compensation, were determined by the June 30, 2012 actuarial valuation. The contribution rates were 9.99% for general members and 13.57% for safety members. The contribution rates for fiscal year 2013, expressed as a percentage of compensation, were determined by the June 30, 2011 actuarial valuation. The contribution rates were 10.17% for general members and 13.22% for safety members.

All or part of the member contribution rate is subject to potential offset. For employees hired prior to October 1, 2006, the offset rates, expressed as a percentage of compensation, are 8.8% for safety employees, 8.5% for management employees, and 7.0% for all other employees. For non-safety employees hired on or after October 1, 2006, the offset rates are 7.5% for management employees and 6.0% for all others. Employees hired after January 1, 2009, other than safety, are not eligible to participate in a new defined benefit plan until the completion of 5 years of service. However, they are able to contribute to a 457 Deferred Compensation plan, where the District will match up to 4.0% of salary in a 401(a) plan.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Effective January 1, 2013, new District employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions and are required to pay at least 50.0% of the normal cost with no offset.

The District contributes at an actuarially determined rate. The rates for fiscal years 2014 and 2013, expressed as a percentage of covered payroll, are as follows:

## **Actuarial Contribution Rates**

(Actuarial valuation approved by SDCERS)

	2014	2013
General Members	37.91%	37.82%
Safety Members	42.00%	40.76%
Weighted Total	39.31%	38.82%

The contribution requirements of plan members and the District are established by the SDCERS actuary and may be amended by the District's Board.

## (c) Annual Pension Cost

For fiscal years ended June 30, 2014 and 2013, the District recorded a total annual pension cost of \$13.9 million and \$13.2 million, respectively. Included in these amounts are the District's Annual Required Contribution (ARC) of \$13.9 million for fiscal year 2014 and \$13.2 million for fiscal year 2013. The ARC was determined as part of an actuarial valuation using the Entry Age Normal funding method. The District's annual pension cost for fiscal year 2014 and 2013 is based on the SDCERS June 30, 2012 and 2011 actuarial valuations, respectively.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The following table summarizes the principal actuarial methods and assumptions used in the June 30, 2011, June 30, 2012 and June 30, 2013 actuarial valuations:

	Method / Assumption for the Valuation Ended						
Description	June 30, 2011	June 30, 2012	June 30, 2013				
Actuarial Method (1)	Entry Age Normal	Entry Age Normal	Entry Age Normal				
Amortization Method	Level Percent Closed	Level Percent Closed	Level Percent Closed				
Equivalent Single Amortization Period	14.229 years <sup>(2)</sup>	13.677 years <sup>(3)</sup>	13.382 years <sup>(4)</sup>				
Asset Valuation Method	Expected Value Method	Expected Value Method	Expected Value Method				
Annual Rate of Return on Investments	7.5%, net of administrative and investment expenses	7.5%, net of administrative and investment expenses	7.25%, net of administrative and investment expenses (5)				
Projected Salary Increase Due to Inflation (6)	3.75% per year	3.75% per year	3.3% per year				
Cost of Living Adjustment	2.0% per year, compounded annually	2.0% per year, compounded annually	2.0% per year, compounded annually				

<sup>(1)</sup> The entry age normal actuarial cost method is designed to fund a member's total benefit over the course of his or her career and to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level % of payroll). SDCERS adopted this actuarial cost method as of the June 30, 2007 Actuarial Valuation.

For additional information, actuarial reports are available through the SDCERS website.

<sup>(2) 10</sup> years for the outstanding balance of the 2007 unfunded actuarial liability, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

<sup>(3)</sup> Nine years for the outstanding balance of the 2007 unfunded actuarial liability, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

<sup>(4)</sup> Eight years for the outstanding balance of the 2007 unfunded actuarial liability, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

<sup>(5)</sup> The investment return assumption was lowered from 7.5% to 7.25%.

<sup>(6)</sup> Additional merit salary increases of 0.5% to 8.0% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization of the District's unfunded actuarial liability.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Three-year Annual Pension Cost (APC) trend information for SDCERS is presented below.

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation		
2012	\$12,600,000	100%	\$	_	
2013	\$13,200,000	100%	\$	-	
2014	\$13,900,000	100%	\$	_	

The following table summarizes the District's defined benefit pension plan's funded status as reported in the most recent actuarial valuation:

## Schedule of Funding Progress (Expressed in thousands) - (Unaudited)

		Actuarial				UAAL as a
Actuarial		accrued	Unfunded			percentage
valuation	Actuarial	liability	AAL		Covered	of covered
date	value of assets	(AAL)	(UAAL)	Funded ratio	payroll	payroll
June 30, 2013	\$302.322	\$410.026	(\$107.705)	73.7%	\$34.528	311.9%

The schedule presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projection of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations

#### (7) Other Postemployment Benefits (OPEB)

## Plan Description and Funding Policy:

In addition to pension benefits described in Note 6, the District has a defined benefit plan that provides medical, dental, and life insurance coverage to all eligible current and retired employees. Employees hired prior to October 1, 2006 are eligible for these benefits as retirees if they retire from active employment with at least 5 years of District service. Employees hired on or after October 1, 2006 are eligible for these benefits as retirees if they retire from active employment with at least 10 years of District service. Separate financial statements are not issued for the District's OPEB plan.

For Harbor Police (sworn) employees hired on or after January 1, 2010, and all other employees hired on or after January 1, 2009, in lieu of the above benefits, the District will create an employer funded Health Reimbursement Account (HRA) to pay for health care related expenses incurred by a retired employee and/or a qualified dependent. Employees are eligible for these benefits as retirees if they retire from active employment with at least 10 years of District service. Harbor Police start accruing the benefits the day they are hired and General Members start accruing the benefits beginning in year 6. The HRA will be managed by a third-party administrator and funded through a trust. The trust will not be activated until the actuarially determined annual required contribution reaches \$100,000.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The contribution requirements of the District and plan members (if any) are established by the District's Board.

For the years ended June 30, 2014 and 2013, the District funded benefits on a "pay as you go" basis and elected not to pre-fund its OPEB obligation.

## **OPEB** Cost and Net **OPEB** Obligation:

To determine the Unfunded Actuarial Accrued Liability (UAAL) and the ARC of the employer, the District retained Sunlin Consulting, LLP, to prepare the actuarial valuation bi-annually in accordance with the parameters of GASB Statement No. 45. Based on the latest actuarial report issued on May 9, 2013, the UAAL as of July 1, 2012 was \$90.5 million and the ARC for the fiscal years ended June 30, 2014 and 2013 was \$8.5 million. The District recognized \$8.0 million and \$8.1 million as OPEB expense for the years ended June 30, 2014 and 2013, respectively. Of this amount, \$3.2 million was the total contributions made and \$4.8 million was added to the net OPEB liability.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for the years ended June 30, 2014 and 2013:

	 2014	2013		
Annual required contribution	\$ 8,482,400	\$	8,482,400	
Interest on net OPEB obligation	1,115,312		895,961	
Adjustment to annual required contribution	 (1,599,480)		(1,257,896)	
Annual OPEB cost (expense)	 7,998,232		8,120,465	
Contributions made	 3,246,000		3,246,000	
Increase in net OPEB obligation	4,752,232		4,874,465	
Net OPEB obligation - beginning of year	 24,784,702		19,910,237	
Net OPEB obligation - end of year	\$ 29,536,934	\$	24,784,702	

The District's annual OPEB cost, the percentage of annual OPEB cost contributed during the year to the plan, and the net OPEB obligation for 2012, 2013, and 2014 were as follows:

			Percentage of	
			Annual OPEB	
Fiscal Year	Ar	nual OPEB	Cost	Net OPEB
Ended		Cost	Contributed	Obligation
6/30/2012	\$	7,908,074	32%	\$ 19,910,237
6/30/2013	\$	8,120,465	40%	\$ 24,784,702
6/30/2014	\$	7,998,232	41%	\$ 29,536,934

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## Funded Status and Funding Progress:

The following table summarizes the District's OPEB plan funded status as of the most recent actuarial valuation:

## Other Post Employment Benefit Plan Schedule of Funding Progress (Expressed in thousands) - (Unaudited)

				Actuarial					UAAL as a
Actuarial				accrued	Unfunded				percentage
valuation	Ac	tuarial		liability	AAL			Covered	of covered
date	value	of asset	s	(AAL)	(UAAL)	Funded ratio	_	payroll	payroll
July 01, 2012	\$	-	\$	90,510	\$ (90,510)	0.0%	\$	41,099	220.2%

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required annual contribution and unfunded liability was determined as part of the June 30, 2012 actuarial valuation that assumes: (a) 4.5% investment rate of return, and (b) annual cost increase ranging from an initial rate of 9.0% to an ultimate rate of 5.0% over an eight year period. The valuation was performed using the projected unit credit and the UAAL is being amortized over 26 years on a level dollar basis.

The schedule presented as required supplementary information following the notes to the basic financial statements presents information regarding the funded status for the three most recent actuarial valuations. The schedule of funding progress is intended to present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## (8) Employees' Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to the District's employees who are eligible for benefits, permits them to defer a portion of their salary until future years. The District, at its discretion, can make employer contributions to the Plan.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The deferred compensation is not available to employees until termination, retirement, total disability, death, or unforeseeable emergency. Employees may borrow from their account but must repay the borrowed amount with interest.

The Plan is administered by the District and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets held in IRC Section 457 plans are not the property of the District and are not subject to the claims of the District's general creditors. In accordance with Governmental Accounting Standards Board Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, employee assets are not reflected in the District's basic financial statements.

## (9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The District maintains a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control, and claims administration. The District purchases excess liability, police professional liability, public officials liability, workers' compensation liability, employment practices liability, property insurance, fiduciary liability, crime/public employee dishonesty, marine protection and indemnity, and automobile liability, as well as other miscellaneous insurance coverage. The District's coverage includes a variety of self-insured retentions or deductibles. The District's self-insured retentions or deductibles as of June 30, 2014, were as follows:

Self-Insured Retentions/Deductibles (as of June 30, 2014)					
Coverage	r	lf-insured etention/ eductible			
Excess liability	\$	1,000,000			
Workers' compensation	\$	500,000			
Employment practices liability	\$	250,000			
Police professional liability	\$	250,000			
Public officials liability	\$	250,000			
Property insurance	\$	100,000			
Fiduciary liability	\$	25,000			
Crime/public employee dishonesty	\$	5,000			
Marine protection and indemnity	\$	5,000			
Automobile Liability		N/A			

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Since July 1, 2004, the District has participated in a loss-sensitive workers' compensation program and is responsible for the first \$500 thousand of any workers' compensation claim. As of June 30, 2014 and 2013, the District is required to fund an escrow account totaling \$2.8 million and \$2.6 respectively, which is held as security in the unlikely event the District's fails to meet its required obligations. The escrow account is not drawn upon for the deductible payments. There have not been any significant reductions in insurance coverage from the prior year and settled claims have not exceeded coverage for each of the last three years.

As of June 30, 2014, the District recorded \$1.8 million for workers' compensation claims liabilities, which include anticipated future expenses on open workers' compensation claims based on estimates provided by the District's workers' compensation carrier. The insurance carrier determines the reserves required to pay for future liabilities by estimating the probable ultimate cost for the life of each claim, including consideration of any incremental claim adjustment expenses. This is done by estimating the three categories of exposure on each claim: temporary or permanent disability, medical expenses, and legal and other associated claims expenses. However, the District's ultimate exposure is limited to the amount of the self-insured retention for each claim as identified in the above table. These reserves are adjusted as the claim develops over time. While the ultimate losses incurred are dependent on future developments, District management believe that the accrued liability is adequate to cover such losses. Changes in the District's claims liabilities for the years ended June 30, 2014 and 2013 were as follows:

	Claims Liability at	Claims Incurred During the Period, and Changes in		Claims Liability
Fiscal Year	Beginning of Period	Estimates	Claims Payment	at End of Period
FY 2013	\$ 1,513,527	\$ 1,197,894	\$ (735,225)	\$ 1,976,196
FY 2014	\$ 1,976,196	\$ 642,677	\$ (797,020)	\$ 1,821,853

## (10) Lease Revenues

A substantial portion of the District's land and water and some of its facilities, including marine terminal facilities and office and commercial space, are leased to tenants. The Port Act prohibits transfer of land ownership to the lessee and the leases are accounted for as operating leases. The majority of lease agreements are not cancelable and permit the District to periodically adjust rents. In addition, many of these leases are secured by letters of credit, which totaled approximately \$2.4 million at June 30, 2014 and 2013. In the normal course of operations, it is expected that all significant expiring leases will be renewed or replaced by similar agreements.

The District leases its land and facilities on both a fixed (i.e., flat) and variable (i.e., percentage) basis. Percentage rentals are received on the basis of percentages of sales and are protected by stipulated minimums. Such percentage rentals totaled approximately \$57.9 million in 2014 and \$52.9 million in 2013. Both numbers exclude the minimum annual guarantees for the marine terminal facilities which are accounted for in wharfage revenue. Rentals received under flat rate leases, including marine terminal facilities, totaled approximately \$37.2 million in 2014 and \$37.1 million in 2013.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Stipulated minimum rents under non-cancelable operating leases having initial or remaining terms of more than one year are as follows:

Years Ending June 30:	
2015	\$ 75,125,971
2016	74,275,675
2017	75,498,959
2018	74,748,689
2019	72,696,280
2020-2024	342,610,496
2025-2029	320,104,566
2030-2034	284,757,461
2035-2039	260,340,570
2040-2044	208,986,750
2045-2049	171,974,617
2050-2054	159,608,186
2055-2059	152,211,307
2060-2064	133,041,582
2065-2069	96,862,973
2070-2074	22,477,500
2075-2079	8,961,418
Total	\$ 2,534,283,000

Future rents were determined based on minimum rents stipulated under the leases up to the lease expiration date assuming that options to extend, for some Marine Terminal tenants, will be exercised. However, these rents may increase or decrease based on the periodic lease rental reviews, at which time new rents may be established.

The amounts in the above table are net of the rent credits for One Park Boulevard (OPB) dba Hilton San Diego Bayfront Hotel. The 66-year lease commenced January 1, 2006; OPB is obligated to pay the District the greater of minimum rents versus percentage rents on a monthly basis. The District granted OPB rent credits of up to 60% of rent after construction and 100% of rent during 34 months of construction. Rent credits during construction totaled \$8.3 million. The minimum annual rent to the District after the hotel's eighth lease year is \$4.9 million before rent credits. The District will retain 40% of the total rent paid until OPB receives rent credits totaling \$46.5 million or when the rent credit expires on December 31, 2016. The District will receive an increase in percentage rental rates if hotel revenues exceed the projected lease revenues. OPB also leased 894 parking spaces in the adjacent District-owned Convention Center Hotel Public Parking facility.

#### (11) Lease Commitments

### (a) Administration Building Parking Lot

The District leases the northeast portion of the property the District uses for its administration building parking lot from the California Department of Transportation (Caltrans), the property owner since 1984. The lease term is for ten years commencing on July 1, 2013. The rental rates shall be subject to adjustment every five years by negotiating a fair market lease rate agreed upon by both parties. If a fair market lease rate cannot be agreed upon, the adjustment will be determined by using the Consumer Price Index (CPI). The District and Caltrans agreed that the monthly rent would be \$1,780 or \$21,360 annually.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## (b) San Diego County Regional Airport Authority Employee Parking and Visitor Lot

The SDCRAA is sub-leasing a portion of the former General Dynamics (GD) leasehold to the District for use as an employee and visitor parking lot. The lease is for 66 years commencing January 1, 2003. The rent is based on the same square foot rental rate determined for the entire former GD property leased from the District to the SDCRAA. Rental increases are determined by appraisal, review and negotiation. The District and SDCRAA agreed that the monthly rent would be \$12,074 plus a \$381 cost recovery for electricity for a total monthly rent of \$12,455 or \$149,460 annually.

#### (c) Submerged Land Adjacent to 880 Harbor Island Drive, San Diego Bay

The District leases approximately 0.3 acres of submerged land in the bed of San Diego Bay from the California State Lands Commission (CSLC). The submerged land is adjacent to 880 Harbor Island Drive. The lease is for 40 years commencing June 28, 2010. The annual amount to be paid for the first year is \$3,000. In years two and three a minimum annual rent of \$6,000 per year is to be applied against 3.8% of District's gross income from gross sales revenues generated by the sublease of the premises in excess of the minimum annual rental. Year four and forward the minimum annual rent increases to \$12,009 per year. Beginning in the fifth year and every fifth year thereafter, CSLC also reserves the right to modify the minimum rental amount owed by applying the percentage change of the Consumer Price Index over the prior five year lease period to the current minimum annual rent owed for such period.

## (d) Tide and Submerged Lands in San Diego Bay in the Cities of San Diego, Coronado, and National City

The District leases approximately 108 acres of tide and submerged lands in multiple locations in the cities of San Diego, Coronado, and National City from the CSLC for the purposes of statewide public benefit including but not limited to commercial and recreational navigation, and existing industrial marine terminal facilities. The lease is for 28 years commencing July 1, 1997. The annual amount to be paid is a minimum annual rent of \$10,000 or the total of the following, whichever is greater: (1) 10.0% of District's gross income from operated moorings; and (2) 25.0% of Lessee's gross income from revenues generated by subleases on the leased premises. Annual rent of \$100 for the operation of a maintenance access road will remain fixed during the term on the lease.

### (e) Hybrid Vehicles

In fiscal year 2008, the District entered into a lease agreement with Enterprise Fleet Management to lease 11 hybrid vehicles for use by District staff. The lease term is for five years and the annual amount to be paid for the first year is \$59,233 and each year after is \$59,839 for a total of \$298,589 over five years. Due to the California sales tax increase of 1.0% from 7.75% to 8.75% that occurred on April 1, 2009, an amendment to the lease agreement increased the expense for years two through five. On March 5, 2013, the District extended the agreement with Enterprise Fleet Management for an additional two years with annual payments of \$59,839. The hybrid lease, which originally covered the period of May 1, 2012 to April 30, 2013, was extended to April 2015. At the end of the two-year extension, the District will own these vehicles. On May 12, 2014, the District made the final annual payment of \$59,839, and the title deeds to the vehicles are being transferred to the District.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## (f) Compressed Natural Gas (CNG) Vehicles

In fiscal year 2009, the District amended the lease agreement with Enterprise Fleet Management to lease an additional three vehicles for use by Harbor Police Department staff. The lease term is for five years and the annual amount to be paid for the first year is \$16,688 and each year after for a total of \$83,440 over five years. On September 2, 2014, the District exercised a two-year option with Enterprise Fleet Management and the annual amount to be paid is \$12,607.

## (g) Electric Vehicles

In fiscal year 2013, the District amended the lease agreement with Enterprise Fleet Management to lease an additional two vehicles for use by District staff. The lease term is for three years and the annual amount to be paid for the first year is \$20,468 and each year after for a total of \$61,423 over three years.

Future rent payments under the above operating lease agreements as of June 30, 2014 are as follows:

Years Ending June 30:	
2015	\$ 230,969
2016	227,558
2017	198,197
2018	198,689
2019	199,202
2020-2024	983,077
2025-2029	844,878
2030-2034	838,065
2035-2039	847,141
2040-2044	857,125
2045-2049	868,108
2050-2054	771,462
2055-2059	747,300
2060-2064	747,300
2065-2069	672,570
Total	\$ 9,231,641

Total rental expenses for the above mentioned operating leases for the year ended June 30, 2014 and 2013, were approximately \$300 thousand and \$263 thousand, respectively.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## (12) Commitments and Contingencies

#### (a) Commitments

As of June 30, 2014, the District had significant commitments for capital expenditures and other matters as described below:

i. <u>Capital Improvement Program (CIP)</u>: Beginning in fiscal year 1992, the BPC approved a five-year CIP for the development of certain capital outlay projects. Each project in the plan is reviewed and authorized by the BPC in accordance with Board Policy 120, Capital Improvement Program. The CIP is renewed every five years, and annually the program is reviewed and revised as appropriate. On April 4, 2012, the fiscal year 2009-2013 CIP was amended and approved by the Board. On June 7, 2012, the new fiscal year 2014-2018 CIP was approved. As of June 30, 2014, the remaining cost to complete CIP projects which were approved to be funded from existing and future cash resources, excluding projects funded by grants, donations, and contributions, was approximately \$33.8 million compared to approximately \$44.9 million as of June 30, 2013.

Funds have been designated for the unpaid contractual portion of CIP projects that are not funded by grants, donations, or contributions. The designated funds are classified in the accompanying statement of net position as cash and investments designated for specific capital projects and commitments with a total balance of \$14.6 million.

ii. Fire, Police, Emergency Medical, and Lifeguard Services: The District enters into a new contract with the five member cities for annual fire, police, and emergency medical services on the non-taxpaying tidelands that cover services from July 1, 2012 through June 30, 2021. This new agreement has an annual escalation based on San Diego County Consumer Price Index (CPI), except for years when the District's actual percentage increase in operating revenue is less than the CPI, CPI will be based on the index change from the prior calendar year. Additionally, the District contracts with Imperial Beach for lifeguard services on the non-taxpaying tidelands. The combined cost for these services was \$7.4 million for fiscal year 2014 compared to \$7.1 million in fiscal year 2013. In addition, the District has a contract with the City of Imperial Beach for tidelands maintenance services at a cost of \$914 thousand for fiscal year 2014 and \$877 thousand in fiscal year 2013.

## (b) Contingencies

As of June 30, 2014, the District was subject to contingencies arising from legal and environmental matters as described below:

i. Environmental Matters: The District owns, in public trust, tidelands and submerged lands adjacent to San Diego Bay. Most of that land is leased to operators of facilities located on the properties. The operations of many of those facilities have generated waste discharges either on the land adjacent to San Diego Bay or into the waters of the bay, which threaten the bay environment. Administrative agencies such as the San Diego County Department of Environmental Health Services and the California Regional Water Quality Control Board, San Diego Region (RWQCB) are increasing enforcement efforts directed at these operations to regulate ongoing activities and to clean up alleged environmental damage from past facility operations. These enforcement efforts frequently include discussions

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

with the District and consideration of adding the District to the permits, as a responsible party, regulating the operations and cleanup obligations.

In addition, the District's leases and operating agreements with these tenants typically include provisions requiring the tenant/operators to indemnify the District for any damage to property or losses to the District as a result of the tenant's operations. Also, the leases and operating agreements typically require the District to be named as an additional insured under certain insurance policies of the tenant/operators. According to the District's legal counsel, when these types of claims are asserted against the District, the District not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all responsible parties involved, including the tenant/operators and any applicable insurers. The District's legal counsel can neither predict the net exposure to the District with respect to these matters nor the probability or remoteness of any outcome. However, the District believes that the recoveries discussed above will be sufficient to reduce the District's financial responsibility for any pollution remediation known as of the date of the financial statements to amounts not considered to be material to the financial statements of the District.

(a) Contamination at NASSCO and Southwest Marine leasehold vicinity: The District is involved in a multi-party environmental litigation brought under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the California Hazardous Substances Account Act (HSAA), and numerous other state and federal laws, styled as City of San Diego v. National Steel and Shipbuilding Company, et al., (S.D. Cal.), filed on October 19, 2009 in federal court in San Diego (Lawsuit). The Lawsuit relates to the alleged liabilities of the parties to the Lawsuit for the cleanup of marine sediment contamination at what is known and referred to as the "Shipyard Sediment Site" located in a portion of San Diego Bay in San Diego, California (Site). The Site is the subject of a Cleanup and Abatement Order (CAO) adopted by the RWOCB in March 2012. The District was named as a discharger in the CAO based upon its status as the statutorily-mandated trustee of the subject tidelands, which are alleged to have been contaminated by tenants of the District (and others) with a variety of pollutants over many years of operations of shipbuilding and power plant facilities, City of San Diego (City) storm drains, and a United States Navy shipyard. The District was also named as a discharger on the grounds that it, along with the City, is a co-permittee of the MS4 storm drains that discharge into the Site. Consequently, the District is named as a defendant and cross-defendant (and has brought its own counterclaim and crossclaims) in the complaint and various cross-claims filed in the Lawsuit, which seek to allocate liability among the parties. Although the potential cleanup of the sediments was at one time estimated by the RWQCB to exceed \$120.0 million, more recent estimates are in the range of \$75.0 million. The claims against the District are that it is responsible for a share of the costs.

The District currently is engaged in litigation and in mediation-related settlement discussions with certain parties to the lawsuit. A \$1.4 million settlement with NASSCO regarding the southyard remedial footprint of the Site has been accrued and recognized as a liability. The settlement was presented to the Court. As of June 30, 2014, the District's overall share of liability for the entirety of the Site remediation cannot be reasonably estimated; however, the District accrued an additional \$2.1 million as a contingent liability.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

- (b) Former Campbell Shipyard: This matter involves industrial contamination from shipyard activities, which impacted the land, groundwater, and sediments at the site. In 1995, the RWQCB issued a Clean-up and Abatement Order (CAO 95-21) that named Campbell Industries, a former District tenant, and its parent, Marine Construction and Design Company. The cleanup has been completed and the District is now implementing the long-term Monitoring and Reporting Program. The best estimate for the cost at this time is \$600 thousand based on the current awarded contract. Costs for each future fiscal year are not estimated.
- (c) Shelter Island Yacht Basin (SIYB): In 1996, the Shelter Island Yacht Basin (SIYB) portion of San Diego Bay was placed on the Clean Water Act section 303(d) list of impaired waters due to elevated levels of dissolved copper in the water column. A Total Maximum Daily Load (TMDL) study was conducted for the site and found that the majority of the copper was attributed to boat hull paint. The TMDL requires a 76.0% overall reduction of residual copper loading to SIYB over a 17-year staged compliance schedule period. The TMDL identified the District, the SIYB marina owners/operators, persons owning boats moored in SIYB, and SIYB underwater hull cleaners as accountable for the discharges of copper from boat hull antifouling paints to the waters of the SIYB.

The District has been actively involved in the search for alternative hull coatings, since this level of reduction can most likely be achieved only by using alternative paints. To this end, the US Environmental Protection Agency (USEPA) has funded the District to conduct a project to identify these alternative paints. In 2008, the District funded a second study, through San Diego State University, to identify other possible sources of alternative paints. The District also funded a third project in 2009 to test alternative paints not evaluated in the USEPA funded project. In 2011, the RWQCB awarded the District a grant to assist with voluntary hull paint conversions from copper antifouling paints to non-copper alternatives. At the same time, the District and the tenants of the SIYB cooperatively developed the SIYB Dissolved Copper TMDL Implementation Plan to obtain TMDL compliance and describe the Best Management Practices that may be implemented in order to achieve a reduction. In 2011, the RWQCB named the District as a responsible party in an investigative order requiring only sampling and monitoring of the SIYB. The District continues to comply with the terms of the Investigative Order. At this time, the District is unable to estimate the likely outcome of these actions or the range of potential costs. However, in early 2013, it was determined that the District and other parties to the TMDL were able to reach the 2012 10.0% reduction mandated by the RWQCB. The District is currently working on the next TMDL target of a 40.0% reduction by 2017 and developing activities to meet that goal.

(d) Lockheed Tow Basin: The District is involved in a cost recovery action against defendants Lockheed Martin Corporation and General Dynamics Corporation, who leased the site from the District and conducted operations that resulted in contamination. The District is subject to cross-complaints from these defendants, who are seeking to apportion to the District some liability for these costs and fees incurred in the investigation of environmental contamination in sediment.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

Currently, the parties are analyzing sediment remedial alternatives in consultation with the RWQCB. The soil and groundwater investigations that were also subject to this action have been concluded. All parties are also subject to an Imminent or Substantial Endangerment Determination and Remedial Action Order issued by the Department of Toxic Substance Control (DTSC) dated 1998. The DTSC transferred oversight responsibilities of the site to the RWQCB in 2010. Currently, litigation is effectively stayed pending site investigations.

The District's liability under the environmental law arises from its status as landowner of the contaminated site. However, since the District has not directly caused the environmental contamination, the allocation of damages should be less significant in comparison to the other defendants. In the past, the parties operated under a cost sharing agreement for the site investigation costs. The District is now using its own environmental consultant due to differing interests among the parties. The District's historical insurance will pay for this investigation. It is anticipated that this insurance will also significantly, if not entirely, cover the District's ultimate liability at the site when the matter is resolved. Therefore, no liability has been recorded in the District's basic financial statements as of June 30, 2014.

(e) Redevelopment of the Former BF Goodrich South Campus Site: In 1999 the District began the redevelopment of the former BF Goodrich South Campus Site, which was formerly an aircraft plant which operated at the site since the 1940's. The South Campus Site consists of historic tidelands that were leased to BF Goodrich and uplands, formerly owned by BF Goodrich, that were exchanged with the District through a Land Transfer Agreement. The RWQCB issued a clean-up and abatement order to BF Goodrich to address the site contaminant discharges to nearby wetland areas. The District's Relocation Agreement, as amended, with BF Goodrich includes District contribution towards the site clean-up, and Goodrich's support for the site redevelopment. To date the District has contributed \$2.8 million towards site clean-up which is the District's entire obligation under the cost sharing provision under this Agreement.

Recently, the RWQCB issued a revised Cleanup and Abatement Order to United Technology Aerospace System (UTAS) which requires UTAS to clean-up both soil and groundwater and the South Campus Site on a set schedule. The District and UTAS' joint consultant are completing additional sampling plan and a Remedial Action Plan for the Pacifica Exchange Parcel.

The District is a defendant in a lawsuit initiated by the Successor Agency for the Redevelopment Agency of the City of Chula Vista against UTAS. UTAS has cross-complained against the District and the District has brought a counter-claim against UTAS related to UTAS's obligation to clean-up and abate hazardous materials released by UTAS on and around the Site. The parties are currently mediating issues related to the lawsuit. Formal litigation has been stayed by the parties in order to attempt to resolve the issues through mediation.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

(f) Pepper Oil: The District is involved in litigation over environmental contamination at and around 2300 Tidelands Avenue, National City, which the District leases to the Pepper Oil Company and its affiliate, Southern California Truck Stop. The California Department of Toxic Substance Control (DTSC) has found that soils at the property contain contaminants of concern, including volatile organic compounds, polychlorinated biphenyls (PCBs), and metals. DTSC has also found PCBs and free product through a groundwater investigation. The District, Pepper Oil, and Southern California Truck Stop are also working with DTSC to address this property contamination.

The District filed its complaint against Pepper Oil, Southern California Truck Stop, and several affiliated entities in January 2013, alleging claims for nuisance, trespass, contribution, indemnity, and breach of contract, among others. Defendants have asserted counterclaims against the District, alleging that the District is liable for contamination existing in and around the property. The parties are currently engaged in discovery.

The District's share of liability cannot be reasonably estimated at the present time. The District anticipates that insurance will cover the liability incurred in this matter.

(g) Laurel Hawthorn Central Embayment: In June 2014, the RWQCB issued Investigation Order No. R9-2014-0007 (Order) directing the District, the SDCRAA, and General Dynamics to conduct a sediment chemistry investigation in an area of San Diego Bay defined by the RWQCB as the Laurel Hawthorn Central Embayment (LHCE). The LHCE is located between of the US Coast Guard facility and Solar Turbines, bound by imaginary lines projecting from Laurel and West Hawthorn Streets.

The RWQCB issued the Order to fill a data gap. Previous sampling conducted by SDCRAA from a 42-inch storm water outfall that discharges to the LHCE demonstrated elevated levels of metals, polychlorinated biphenyls (PCBs), and polycylic aromatic hydrocarbons (PAHs). This outfall conveys storm water from portions of the San Diego International Airport, the former General Dynamics Lindbergh Field Plant, Pacific Highway, and upland properties owned by the City of San Diego. Based on these sampling results, the RWQCB concluded that an initial assessment of sediment chemistry is needed to determine the extent and magnitude of pollutants and to determine if additional assessment and/or cleanup are required. The RWQCB also found that jet fuel (PAHs) and brake pad residuals (metals) from the airport, PCB and metals from the former General Dynamics site are some of the likely sources of wastes discharged to the LHCE. The RWQCB named the District, SDCRAA, and General Dynamics as potentially responsible parties.

The Order requires the District, SDCRAA, and General Dynamics to submit a sediment chemistry assessment work plan sufficient to delineate the extent of sediment contamination within the LHCE by September 18, 2014, and a report following implementation of that work plan by April 17, 2015.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

The District's share of liability cannot be reasonably estimated at the present time and the District anticipates that insurance will likely cover the liability incurred in this matter.

ii. The District has been named as a defendant in a lawsuit filed by property owner SLPR, LLC in February 2006. The complaint alleges that dredging in the San Diego Bay performed by the District and the Army Corps of Engineers compromised the integrity of the "rip-rap" barrier and pool wall located on the plaintiff's Coronado bay front property. Two neighboring property owners joined the lawsuit in late 2007, making similar claims. The District denies liability and intends to vigorously contest any liability or claims. The District has again prevailed on a motion in the trial court which was appealed to the Appellate Court. There is presently a stay on all proceedings until the Appellate Court rules. The Appellate Court hearing is set for December 9, 2014. A trial court status conference is set for January 16, 2015.

The likelihood of an unfavorable outcome is not reasonably possible or there is a low likelihood that the case will result in a finding of liability against the District. However, if liability is determined against the District, potential exposure could range in the millions of dollars, but should be covered by available insurance, except any attorney's fees awarded relative to an inverse condemnation cause of action.

iii. A determination by the California Department of Industrial Relations (DIR) that a work of improvement commonly referred to as the Hilton San Diego Bayfront Hotel (Project) was a public works project, and a consequent wage and penalty assessment by the Division of Labor Standards Enforcement (DLSE) against Hensel Phelps Construction Co. (Hensel Phelps) for its failure to pay prevailing wages in connection with the construction of the Project.

Hensel Phelps and Phelps Portman San Diego, LLC (PPSD) claim that they are entitled to be indemnified by the District for all damages, costs, and legal expenses incurred by them as a result of said assessment. The District has denied all liability in connection with the claims of Hensel Phelps and PPSD. In addition, the District has tendered said claims to One Park Blvd., LLC (OPB), and demanded that OPB defend, indemnify and hold the District harmless in accordance with the Hold Harmless provision of a ground lease between the District and OPB that required the construction of the Project.

On June 14, 2013, Hensel Phelps and PPSD initiated the Hensel Phelps Action by filing a complaint against the District alleging causes of action for statutory indemnity under Labor Code §1726(c), statutory indemnity under Labor Code §1781 and negligence per se, and seeking the recovery of damages alleged to be in excess of \$9.5 million.

Concurrently, the District sought coverage for the claims alleged in the Hensel Phelps Action from ACE American Insurance Company (ACE), which provides coverage to the District for such claims under a \$5.0 million Public Officials Liability policy. However, ACE wrongly denied coverage. Accordingly, on August 9, 2013 the District initiated Case No. 37-2013-00062180-CU-IC-CTL entitled San Diego Unified Port District v. ACE American Insurance Company by filing its complaint against ACE alleging causes action for declaratory relief, breach of contract, and breach of the implied covenant of good faith and fair dealing.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

On August 28, 2013, the District filed and served its answer to the complaint in the Hensel Phelps Action, denying all liability in connection therewith, and alleging various affirmative defenses. On the same day, the District also sent OPB's counsel a Notice of Action and Demand for Defense regarding the Hensel Phelps Action.

The District initiated discovery in the Hensel Phelps Action by serving a document request on Hensel Phelps and PPSD and a business records subpoena on OPB. Hensel Phelps and PPSD likewise served a document request on the District.

Meanwhile, there are on-going discussions between Hensel Phelps, PPSD, and OPB (Parties) relating to the completion of their discovery obligations, consisting of the production of their respective documents, discovery responses, and privilege logs. Concurrently, the Parties have expressed their willingness to participate in mediation to resolve the claims and disputes that are the subject of the Hensel Phelps Action. If the Parties agree to engage in mediation, they will file a joint ex parte application asking the Court to stay the Hensel Phelps Action pending the outcome of the mediation.

The District contends that it has no liability in connection with the claims and disputes that are the subject of the Hensel Phelps Action. Although the District is prepared to vigorously litigate all of the defenses, issues, rights, and remedies and counterclaims available to it, the District's preference would be to utilize the mediation process in an effort to achieve a global settlement between the Parties in connection with the Hensel Phelps Action.

- iv. The District has been named as a defendant in a lawsuit filed by Khavari Construction, Inc. (Khavari) in April 2014. The complaint alleges that the District breached its construction contract with the plaintiff involving the Imperial Beach Pier Deck Refurbishment Project. The District has denied liability and filed a cross-complaint against Khavari and its owners alleging breach of contract. While the District contends that it has no liability to Khavari and that Khavari owes the District, if liability is determined against the District, potential exposure could reach \$500,000.
- v. The District has been named as a defendant in a lawsuit filed by Fifth Avenue Landing, LLC, a District tenant, in March 2013, but not served on the District until May 2014. The complaint alleges that the District breached its lease with the plaintiff by requiring it to complete a larger and more expensive promenade construction project than it was obligated to build. While the District contends that it has no liability to Fifth Avenue Landing, LLC, if liability is determined against the District, potential exposure could reach \$500,000.
- vi. The District has certified claims against it and is named as a defendant in certain other legal actions arising from transactions conducted in the ordinary course of business. The District's legal counsel has indicated that it is not currently possible to estimate the amount or range of potential loss to the District related to these cases. Therefore, no liability has been recorded in the District's basic financial statements as of June 30, 2014 for these claims.

Notes to the Basic Financial Statements Years Ended June 30, 2014 and June 30, 2013

## (13) Implementation of GASB 65 and Impact on Net Position

During the fiscal year ended June 30, 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect on the beginning net position and the change in net position, as well as certain asset accounts and expenses, have been restated from previously issued financial statements to reflect the District's expensing of unamortized bond issue costs. Previously, these costs were capitalized in the Statements of Net Position and amortized over the remaining life of the associated debt.

The effect on the District's beginning net position and changes in net position for the year ended June 30, 2013 have been restated as follows:

	Previously Reported as of June 30, 2013		Increase (Decrease)		Balance Restated as o June 30, 2013	
Statement of Net Position:						
Deferred costs - Series 2004 Bonds, net	\$	542,319	\$	(542,319)	\$	-
Total assets	\$	677,507,461	\$	(542,319)	\$	676,965,142
Total net position	\$	524,268,686	\$	(542,319)	\$	523,726,367
Statement of Revenues, Expenses and Changes in	1					
Net Position:						
Depreciation and amortization	\$	19,003,918	\$	(68,827)	\$	18,935,091
Change in net position	\$	(4,126,320)	\$	68,827	\$	(4,057,493)
Net position, beginning of year	\$	528,395,006	\$	(611,146)	\$	527,783,860
Net position, end of year	\$	524,268,686	\$	(542,319)	\$	523,726,367

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information – (Unaudited) Years Ended June 30, 2014 and June 30, 2013

## Defined Benefit Pension Plan Schedule of Funding Progress (Expressed in thousands)

			A	ctuarial						UAAL as a
Actuarial				accrued	U	nfunded				percentage
valuation		Actuarial	l	iability		AAL		C	overed	of covered
date	val	lue of assets		(AAL)		(UAAL)	Funded ratio	I	ayroll	payroll
June 30, 2011	\$	259,315	\$	354,837	\$	(95,522)	73.1%	\$	34,633	275.8%
June 30, 2012	\$	277,822	\$	382,013	\$	(104,192)	72.7%	\$	34,542	301.6%
June 30, 2013	\$	302,322	\$	410,026	\$	(107,705)	73.7%	\$	34,528	311.9%

## Other Postemployment Benefit Plan Schedule of Funding Progress (Expressed in thousands)

			A	ctuarial						UAAL as a
Actuarial			a	ccrued	U	nfunded				percentage
valuation	Act	ıarial	li	ability		AAL		C	overed	of covered
date	value o	f assets	(	(AAL)	(	UAAL)	Funded ratio	payroll		payroll
July 01, 2008	\$	-	\$	67,829	\$	(67,829)	0.0%	\$	43,203	157.0%
July 01, 2010	\$	-	\$	80,436	\$	(80,436)	0.0%	\$	42,918	187.4%
July 01, 2012	\$	_	\$	90.510	\$	(90.510)	0.0%	\$	41.099	220.2%





## STATISTICAL SECTION (UNAUDITED)

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This section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the basic financial statements, notes to the basic financial statements, and required supplementary information shows about the District's overall financial health.

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FINANCIAL TRENDS 98-99

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

REVENUE CAPACITY 100-107

These schedules contain information to help the reader assess the District's most significant local revenue sources from Real Estate Operations, Maritime Operations, and Harbor Police.

#### **OPERATING INFORMATION**

108-111

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial report relates to the services the District provides and the activities it performs.

DEBT CAPACITY 112-113

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

### DEMOGRAPHIC AND ECONOMIC INFORMATION

114-115

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.



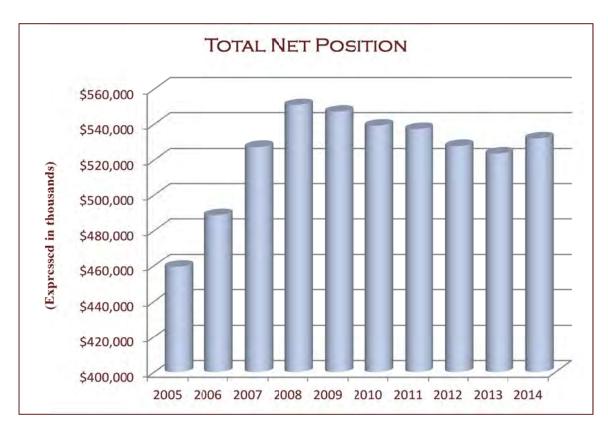


## NET POSITION - LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2005	\$ 377,425	\$ 30,120	\$ 51,845	\$ 459,390
2006	384,438	20,927	83,288	488,653
2007	393,819	23,989	109,478	527,286
2008	405,709	29,861	115,378	550,948
2009	413,928	29,163	103,970	547,061
2010	427,013	26,759	85,450	539,222
2011	439,531	19,202	78,600	537,333
20121	460,701	12,872	54,211	527,784
20131	474,797	3,436	45,494	523,727
2014	490,021	4,122	37,870	532,013

<sup>1</sup>In 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, by restating the financial statements for 2012 and 2013. The restatement reflects the District's expensing of unamortized bond issue costs.



## CHANGES IN NET POSITION - LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	20121	20131	2014
Operating revenues:										
Real Estate operations	\$ 76,957	\$ 77,055	\$ 82,807	\$ 87,181	\$ 78,536	\$ 71,560	\$ 80,904	\$ 79,782	\$ 82,604	\$ 89,282
Maritime operations	23,569	34,633	37,750	42,520	40,694	37,604	34,033	33,090	33,469	34,480
Harbor Police	10,381	11,239	11,406	12,289	12,464	12,934	13,190	15,639	15,313	17,203
Other operating revenues	2,017	1,538	1,765	2,140	2,816	2,511	3,240	2,225	3,884	4,807
Total operating revenues	112,924	124,465	133,728	144,130	134,510	124,609	131,367	130,736	135,270	145,772
Operating expenses:										
Direct expenses:										
Real Estate operations	22,709	21,156	19,745	21,897	21,191	26,704	26,512	34,656	33,186	31,280
Maritime operations	15,503	19,080	20,499	23,328	23,243	22,338	19,031	20,612	20,448	21,573
Harbor Police	25,734	27,060	29,626	31,049	32,974	33,043	35,407	31,458	33,756	32,623
Other operating expenses	5,524	8,669	7,007	8,442	11,732	2,502	1,830	75	1,123	5,151
Depreciation and amortization	17,510	17,183	16,983	17,412	18,117	18,511	19,267	19,096	18,935	19,597
General and administrative expenses	25,885	25,454	28,223	27,867	31,428	30,902	31,357	34,600	35,951	30,729
Total operating expenses	112,865	118,602	122,083	129,995	138,685	134,000	133,404	140,497	143,399	140,953
Income/(loss) from operations	59	5,863	11,645	14,135	(4,175)	(9,391)	(2,037)	(9,761)	(8,129)	4,819
Nonoperating revenue/(expense):										
Interest income	2,278	5,126	8,325	8,319	5,518	2,672	1,678	1,127	627	694
Settlement income	500	8	16,444	36	1,166	128	2,623	5	6	356
Net inc/(dec) in the fair value of invest.	(237)	(52)	291	(19)	1,117	(259)	(392)	(349)	(206)	166
Interest expense	(4,644)	(5,997)	(4,923)	(4,834)	(4,702)	(4,576)	(4,564)	(4,396)	(4,206)	(3,998)
Financial assistance other	(1,780)	(1,683)	(3,047)	(968)	(5,983)	(206)	(2,163)	(3,330)	-	-
Convention Center expansion support	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)
Other nonoperating expenses	(1,919)	(1,626)	(357)	(390)	(1,043)	(456)	(205)	(80)	(78)	(96)
Other nonoperating revenues	6,893	29,191	4,782	6,458	3,371	3,759	4,741	4,007	986	1,281
Nonoperating income/(loss)	(3,409)	20,467	17,015	4,102	(5,056)	(3,438)	(2,782)	(7,516)	(7,371)	(6,097)
Capital grants and contributions	6,429	2,933	9,973	5,425	5,347	4,990	2,930	8,339	11,443	9,564
Change in net position	3,079	29,263	38,633	23,662	(3,884)	(7,839)	(1,889)	(8,938)	(4,057)	8,286
Beginning net position	456,311	459,390	488,653	527,286	550,948	547,061	539,222	537,333	527,784	523,727
Restatement					(3)			(611)		
<b>Ending net position</b>	\$459,390	\$488,653	\$527,286	\$550,948	\$547,061	\$539,222	\$537,333	\$527,784	\$523,727	\$532,013

<sup>&</sup>lt;sup>1</sup>In 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, by restating the financial statements for 2012 and 2013. The restatement reflects the District's expensing of unamortized bond issue costs.

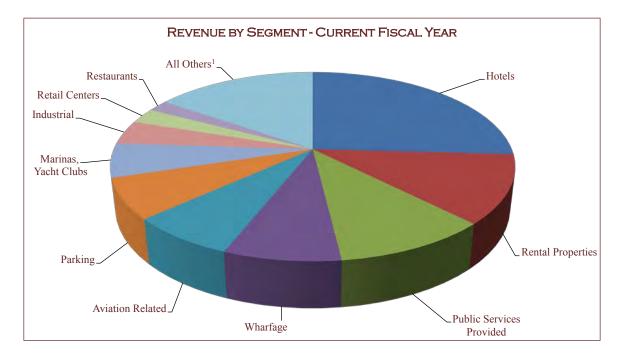
## REVENUE BY SEGMENT — LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

Segment	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Hotels <sup>1</sup>	\$ 30,238	\$ 33,448	\$ 36,716	\$ 37,484	\$ 32,323	\$ 25,125	\$ 30,866	\$ 32,824	\$ 33,667	\$ 37,700
Rental Properties	10,295	14,879	17,012	15,518	18,141	15,499	15,585	15,439	16,191	17,101
Public Services Provided <sup>2</sup>	9,580	10,421	10,336	11,324	11,550	11,567	12,130	14,200	13,922	15,309
Wharfage	6,962	10,177	11,609	13,687	9,839	9,723	9,755	10,867	11,270	11,535
Aviation Related	10,628	10,776	11,514	11,338	11,488	11,504	11,503	11,564	11,053	10,575
Parking	7,454	8,447	9,160	10,324	8,989	8,690	7,303	7,532	8,598	10,082
Marinas, Yacht Clubs <sup>3</sup>	6,635	7,006	8,026	8,308	8,735	8,116	8,099	8,736	9,216	8,529
Industrial	8,299	3,017	2,941	4,722	4,270	5,379	10,439	6,008	6,023	5,919
Retail Centers	2,657	2,750	3,400	3,126	3,119	2,867	3,053	3,491	3,604	3,815
Restaurants <sup>4</sup>	2,178	2,088	2,397	2,459	2,540	2,627	2,560	2,316	2,326	2,888
Dockage	2,680	2,938	2,828	3,175	2,676	2,553	2,404	1,967	1,938	1,920
Passenger Fees	2,416	3,788	3,379	6,076	4,964	4,756	2,422	1,554	1,289	1,133
Passenger Security Charges	465	1,830	1,892	3,238	3,078	3,066	1,841	1,174	989	999
Grant Revenue	403	466	682	435	489	932	628	873	846	959
Citations	272	231	271	300	284	307	322	373	395	794
Piers & Floats	114	108	104	107	93	84	86	128	89	97
Other	11,648	12,095	11,461	12,509	11,932	11,814	12,371	11,690	13,854	16,417
Total	\$112,924	\$124,465	\$133,728	\$144,130	\$134,510	\$124,609	\$131,367	\$130,736	\$135,270	\$145,772

<sup>&</sup>lt;sup>1</sup>All hotel leases include restaurants and six hotel leases include marinas.

<sup>&</sup>lt;sup>4</sup>The District has eight direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.



<sup>&</sup>lt;sup>1</sup>All Others segment includes Dockage, Passenger Fees, Passenger Security Charges, Grant Revenue, Citations, Piers & Floats, and Other.

<sup>&</sup>lt;sup>2</sup>Includes police services to San Diego County Regional Airport Authority (SDCRAA).

<sup>&</sup>lt;sup>3</sup>Not included are marinas under hotel operations or under a restaurant lease.

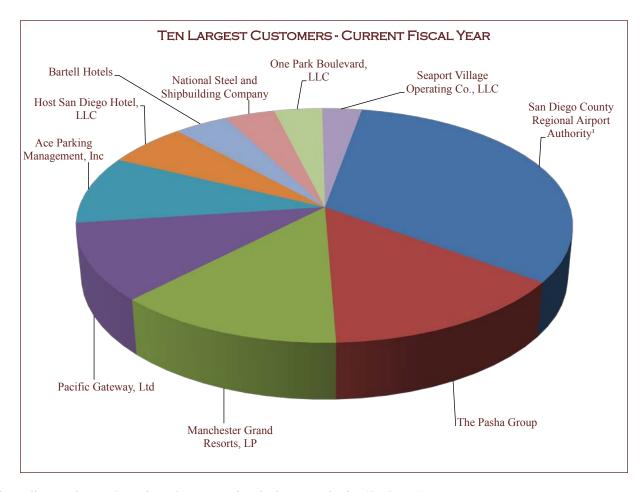
## TEN LARGEST CUSTOMERS

## **CURRENT FISCAL YEAR AND NINE YEARS AGO**

(EXPRESSED IN THOUSANDS)

Customer	2005	%	Customer	2014	%
San Diego County Regional Airport Authority <sup>1</sup>	\$ 21,945	19.4%	San Diego County Regional Airport Authority <sup>1</sup>	\$ 27,516	18.9%
Manchester Grand Resorts, LP	9,137	8.1%	The Pasha Group	12,026	8.2%
Pacific Gateway, Ltd	7,529	6.7%	Manchester Grand Resorts, LP	10,902	7.5%
The Pasha Group	6,378	5.6%	Pacific Gateway, Ltd	9,016	6.2%
Host San Diego Hotel, LLC	5,144	4.6%	Ace Parking Management, Inc	7,980	5.5%
Ace Parking Management, Inc	3,862	3.4%	Host San Diego Hotel, LLC	5,107	3.5%
Paxton, Shreve, & Hayes, Inc	3,125	2.8%	Bartell Hotels	3,469	2.4%
Meissner Jacquet Investment Management Services	2,428	2.2%	National Steel and Shipbuilding Company	3,217	2.2%
Bartell Hotels	2,613	2.3%	One Park Boulevard, LLC	3,069	2.1%
ABM/Ampco System Parking	2,213	2.0%	Seaport Village Operating Co, LLC	2,533	1.7%
Total Ten Largest Customers	64,374	57.1%	Total Ten Largest Customers	84,835	58.2%
Other	48,550	42.9%	Other	60,937	41.8%
Total Operating Revenue	\$ 112,924	100.0%	Total Operating Revenue	\$ 145,772	100.0%

<sup>&</sup>lt;sup>1</sup>Includes police services to San Diego County Regional Airport Authority (SDCRAA).



<sup>&</sup>lt;sup>1</sup>Includes police services to San Diego County Regional Airport Authority (SDCRAA).

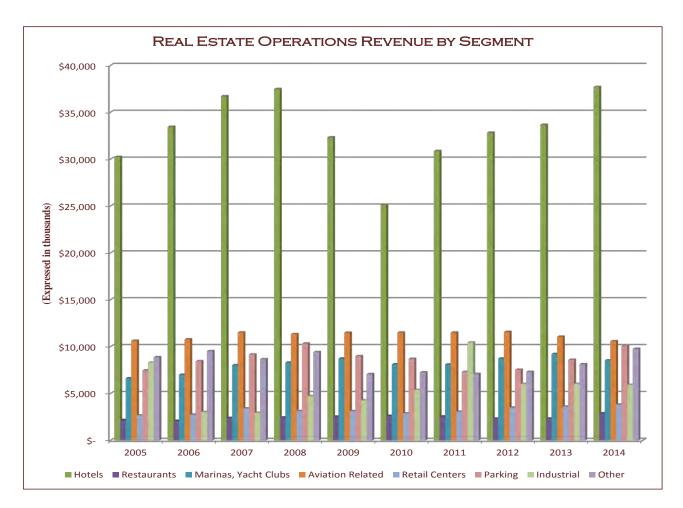
# REAL ESTATE OPERATIONS REVENUE BY SEGMENT LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

Segment	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Hotels <sup>1</sup>	\$30,238	\$33,448	\$36,716	\$37,484	\$32,323	\$25,125	\$30,866	\$32,824	\$33,667	\$37,700
Restaurants <sup>2</sup>	2,178	2,088	2,397	2,459	2,540	2,627	2,560	2,316	2,326	2,888
Marinas, Yacht Clubs <sup>3</sup>	6,635	7,006	8,026	8,308	8,735	8,116	8,099	8,736	9,216	8,529
Aviation Related	10,628	10,776	11,514	11,338	11,488	11,504	11,503	11,564	11,053	10,575
Retail Centers	2,657	2,750	3,400	3,126	3,119	2,867	3,053	3,491	3,604	3,815
Parking	7,454	8,447	9,160	10,324	8,989	8,690	7,303	7,532	8,598	10,082
Industrial	8,299	3,017	2,941	4,722	4,270	5,379	10,439	6,008	6,023	5,919
Other	8,868	9,523	8,653	9,420	7,072	7,252	7,081	7,311	8,117	9,774
Total	\$76,957	\$77,055	\$82,807	\$87,181	\$78,536	\$71,560	\$80,904	\$79,782	\$82,604	\$89,282

<sup>&</sup>lt;sup>1</sup>All hotel leases include restaurants and six hotel leases include marinas.

<sup>&</sup>lt;sup>3</sup>Not included are marinas under hotel operations or under a restaurant lease.



<sup>&</sup>lt;sup>2</sup>The District has eight direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.

# REAL ESTATE OPERATIONS TEN LARGEST FIXED RENT TENANTS

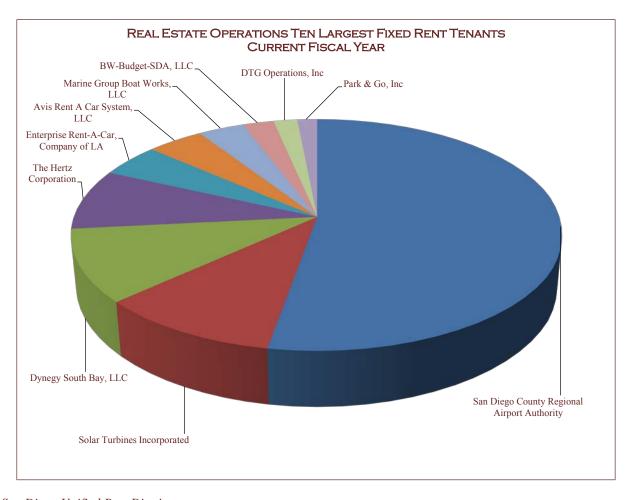
### **CURRENT FISCAL YEAR AND NINE YEARS AGO**

(EXPRESSED IN THOUSANDS)

Tenant	2005	%
San Diego County Regional Airport Authority	\$ 10,690	44.1%
National Steel and Shipbuilding Company <sup>1</sup>	2,126	8.8%
Solar Turbines Incorporated	1,191	4.9%
The Hertz Corporation	757	3.1%
ANC Corporation	665	2.7%
Continental Maritime of San Diego, Inc <sup>1</sup>	632	2.6%
Lee-Al, Inc	615	2.5%
AFS Industries, LLC	555	2.3%
Knight & Carver Yachtcenter	555	2.3%
Southwest Marine, Inc	547	2.3%
Total Ten Largest Fixed Rent Tenants	18,333	75.6%
Other Fixed Rent	5,900	24.4%
Total Real Estate Operations Fixed Rent	\$ 24,233	100.0%

Tenant	2014	%
San Diego County Regional Airport Authority	\$ 10,407	45.1%
Solar Turbines Incorporated	2,063	8.9%
Dynegy South Bay, LLC	2,000	8.7%
The Hertz Corporation	1,672	7.3%
Enterprise Rent-A-Car, Company of LA	914	4.0%
Avis Rent A Car System, LLC	855	3.7%
Marine Group Boat Works, LLC	693	3.0%
BW-Budget-SDA, LLC	464	2.0%
DTG Operations, Inc	358	1.6%
Park & Go, Inc	298	1.3%
Total Ten Largest Fixed Rent Tenants	19,724	85.6%
Other Fixed Rent	3,330	14.4%
Total Real Estate Operations Fixed Rent	\$ 23,054	100.0%

<sup>&</sup>lt;sup>1</sup>Properties were transferred to Maritime Operations in fiscal year 2006.



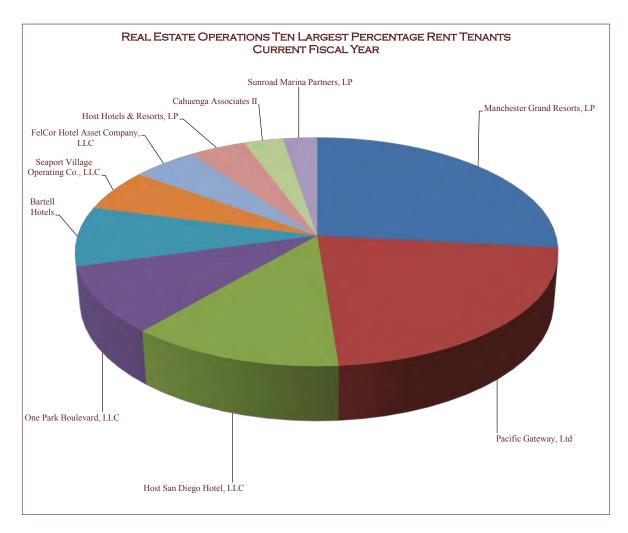
## REAL ESTATE OPERATIONS TEN LARGEST PERCENTAGE RENT TENANTS

### **CURRENT FISCAL YEAR AND NINE YEARS AGO**

(EXPRESSED IN THOUSANDS)

Tenant	2005	%
Manchester Grand Resorts, LP	\$ 8,963	19.7%
Pacific Gateway, Ltd	7,375	16.2%
Starwood Sheraton San Diego CMBS I, LLC	5,064	11.1%
FelCor Asset Company, LLC	2,197	4.8%
San Diego Seaport, Ltd	2,041	4.5%
Host Hotels & Resorts, LP	1,608	3.5%
Sunroad Marina Partners, LP	1,282	2.8%
Bartell Hotels	1,197	2.6%
HIW Associates	1,078	2.4%
Atlas-Kona Kai, LLC	1,013	2.2%
Total Ten Largest Percentage Rent Tenants	31,818	69.8%
Other Percentage Rent	13,682	30.2%
Total Real Estate Operations Percentage Rent	\$ 45,500	100.0%

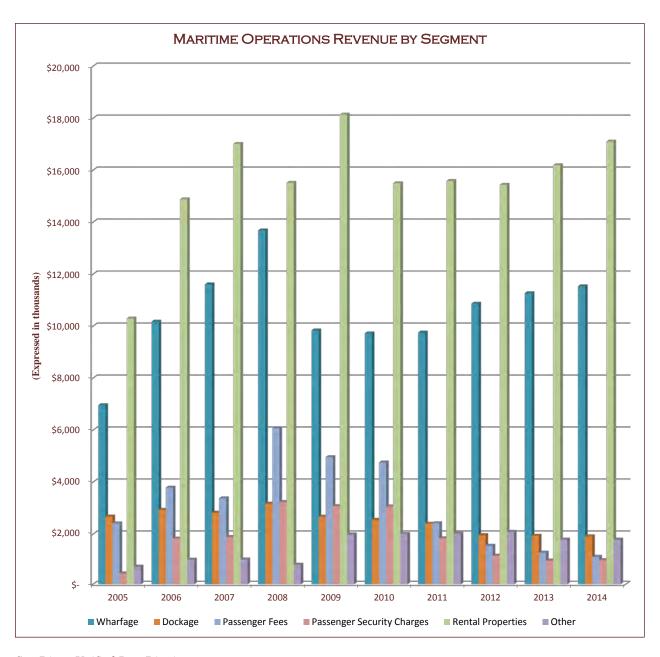
Tenant	2014	%
Manchester Grand Resorts, LP	\$ 10,891	19.3%
Pacific Gateway, Ltd	9,009	16.0%
Host San Diego Hotel, LLC	5,100	9.1%
One Park Boulevard, LLC	3,868	6.9%
Bartell Hotels	3,426	6.1%
Seaport Village Operating Co, LLC	2,424	4.3%
FelCor Hotel Asset Company, LLC	2,034	3.6%
Host Hotels & Resorts, LP	1,760	3.1%
Cahuenga Associates II	1,225	2.2%
Sunroad Marina Partners, LP	1,071	1.9%
Total Ten Largest Percentage Rent Tenants	40,808	72.5%
Other Percentage Rent	15,486	27.5%
Total Real Estate Operations Percentage Rent	\$ 56,294	100.0%



## MARITIME OPERATIONS REVENUE BY SEGMENT - LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

Segment	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Berths:										
Wharfage	\$ 6,962	\$10,177	\$11,609	\$13,687	\$ 9,839	\$ 9,723	\$ 9,755	\$10,867	\$11,270	\$11,535
Dockage	2,680	2,938	2,828	3,175	2,676	2,553	2,404	1,967	1,938	1,920
Passenger Fees	2,416	3,788	3,379	6,076	4,964	4,756	2,422	1,554	1,289	1,133
Passenger Security Charges	465	1,830	1,892	3,238	3,078	3,066	1,841	1,174	989	999
Rental Properties	10,295	14,879	17,012	15,518	18,141	15,499	15,585	15,439	16,191	17,101
Other	751	1,021	1,030	826	1,996	2,007	2,026	2,089	1,792	1,792
Total	\$23,569	\$34,633	\$37,750	\$42,520	\$40,694	\$37,604	\$34,033	\$33,090	\$33,469	\$34,480



### MARITIME OPERATIONS TEN LARGEST FIXED RENT TENANTS

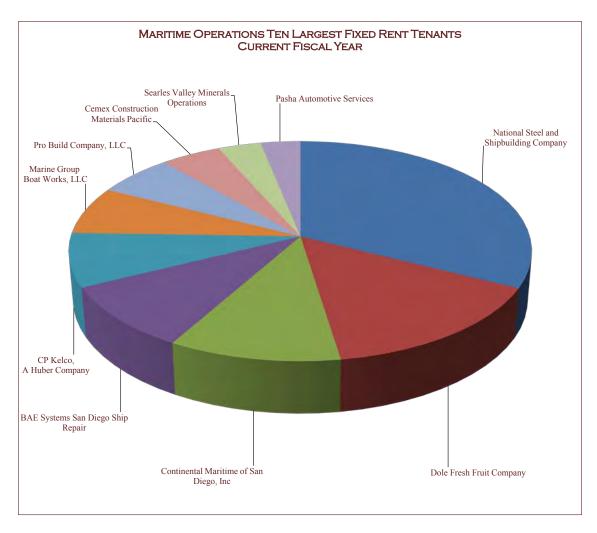
#### **CURRENT FISCAL YEAR AND NINE YEARS AGO**

(EXPRESSED IN THOUSANDS)

22.6% 10.5% 7.4% 6.6% 5.5% 4.9% 4.2% 3.3% 2.4% 2.2% 69.6% 30.4%

Tenant	2005	%	Tenant	2014
Dole Fresh Fruit Company	\$ 1,500	20.0%	National Steel and Shipbuilding Company <sup>1</sup>	\$ 3,188
Dixieline Lumber Company	822	11.0%	Dole Fresh Fruit Company	1,485
BAE Systems San Diego Ship Repair	332	4.4%	Continental Maritime of San Diego, Inc <sup>1</sup>	1,043
Copley Press, Inc	253	3.4%	BAE Systems San Diego Ship Repair	929
Pasha Group, The	231	3.1%	CP Kelco, A Huber Company	774
Searles Valley Minerals Operations	216	2.9%	Marine Group Boat Works, LLC	691
San Diego Refrigerated Services, Inc	208	2.8%	Pro Build Company, LLC	599
Cemex Construction Materials Pacific	196	2.6%	Cemex Construction Materials Pacific	470
USA General Services Administration	190	2.5%	Searles Valley Minerals Operations	335
PLA-ART International	172	2.3%	Pasha Automotive Services	311
Total Ten Largest Fixed Rent Tenants	4,120	55.0%	Total Ten Largest Fixed Rent Tenants	9,825
Other Fixed Rent	3,380	45.0%	Other Fixed Rent	4,273
Total Maritime Operations Fixed Rent	\$ 7,500	100.0%	Total Maritime Operations Fixed Rent	\$ 14,098

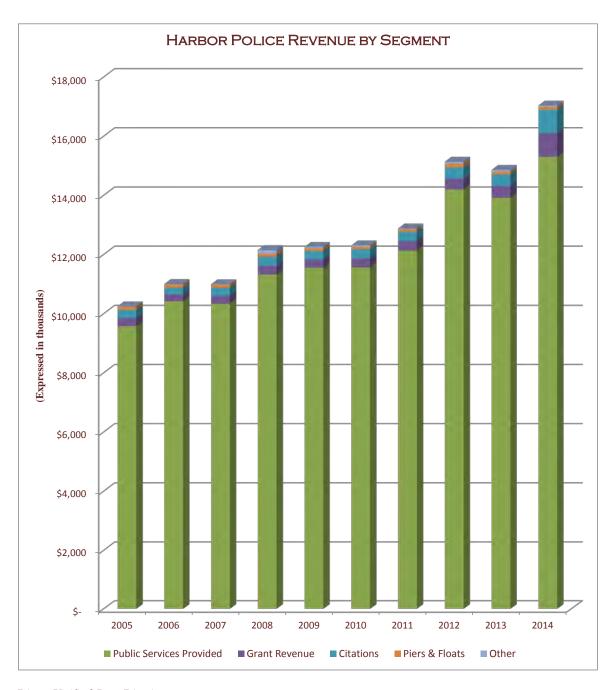
<sup>&</sup>lt;sup>1</sup>Properties were transferred from Real Estate Operations in fiscal year 2006.



### HARBOR POLICE REVENUE BY SEGMENT - LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

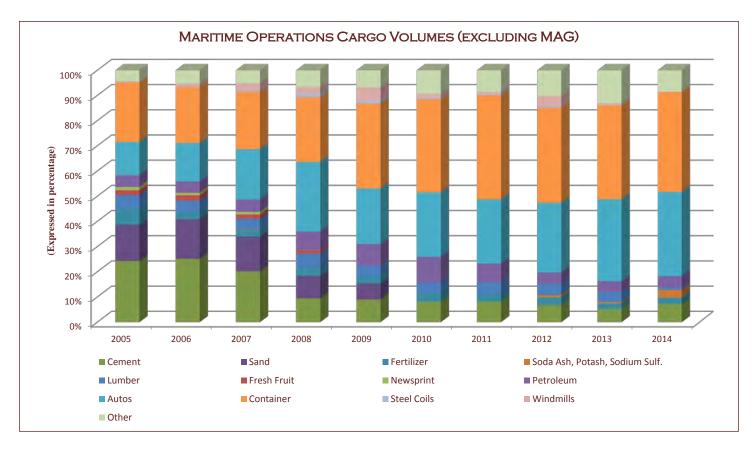
Segment	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public Services Provided	\$ 9,580	\$10,421	\$10,336	\$11,324	\$11,550	\$11,567	\$12,130	\$14,200	\$13,922	\$15,309
Grant Revenue	403	466	682	435	489	932	628	873	846	959
Citations	272	231	271	300	284	307	322	373	395	794
Piers & Floats	114	108	104	107	93	84	86	128	89	97
Other	12	13	13	123	48	44	24	65	61	44
Total	\$10,381	\$11,239	\$11,406	\$12,289	\$12,464	\$12,934	\$13,190	\$15,639	\$15,313	\$17,203



### MARITIME OPERATIONS CARGO VOLUMES - LAST TEN FISCAL YEARS

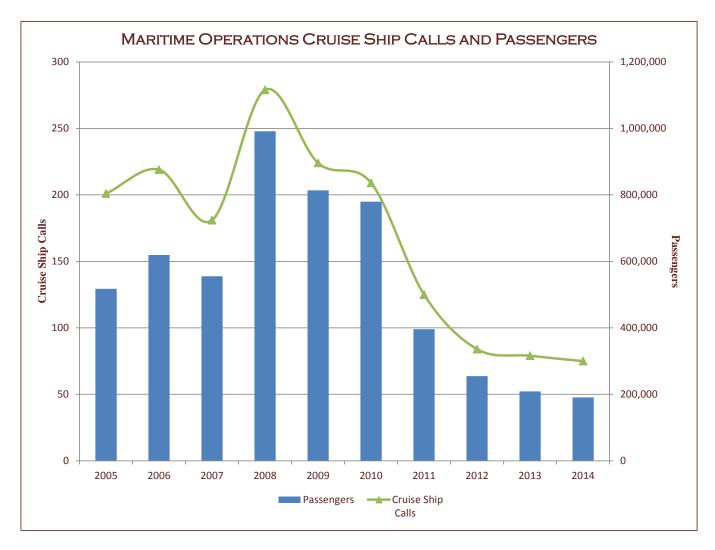
(EXPRESSED IN METRIC TONS)

Cargo	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cement	651,488	759,942	547,708	227,423	160,590	127,679	122,233	115,962	88,618	121,218
Sand	390,331	474,748	378,422	215,501	114,537	-	-	-	-	-
Fertilizer	163,284	85,406	69,263	77,470	46,849	54,478	41,494	50,917	36,503	41,304
Soda Ash, Potash, Sodium Sulf.	-	-	5,184	-	-	-	-	14,928	10,897	51,570
Lumber	151,407	142,127	116,958	134,732	80,146	63,994	72,645	77,188	65,344	17,701
Fresh Fruit	51,848	59,866	45,295	29,870	-	-	-	-	-	-
Newsprint	34,410	29,922	27,628	2,283	-	-	-	-	-	-
Petroleum	126,721	137,900	133,086	178,078	153,589	162,225	111,078	75,806	71,822	74,003
Autos	352,147	458,900	543,715	664,870	394,569	401,375	379,821	468,786	545,001	556,954
Container	639,476	670,246	615,208	618,830	604,841	580,822	617,289	640,586	621,921	660,586
Steel Coils	8,544	335	3,831	31,358	20,400	5,546	6,732	9,849	43	-
Windmills	-	41,819	93,262	63,191	94,101	25,106	10,763	68,541	15,360	3,942
Other	118,728	160,446	139,239	162,002	121,384	150,015	129,487	172,800	219,577	140,966
Total Cargo	2,688,384	3,021,657	2,718,799	2,405,608	1,791,006	1,571,240	1,491,542	1,695,363	1,675,086	1,668,244
Minimum Annual Guarantee (MAG)	613,875	559,310	474,086	625,322	1,028,467	1,306,058	1,338,920	1,224,974	1,007,575	996,412
Total Cargo with MAG	3,302,259	3,580,967	3,192,885	3,030,930	2,819,473	2,877,298	2,830,462	2,920,337	2,682,661	2,664,656

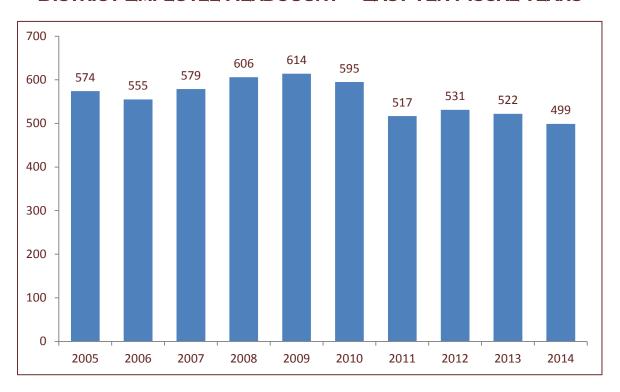


# MARITIME OPERATIONS CRUISE SHIP CALLS AND PASSENGERS LAST TEN FISCAL YEARS

	Cruise Ship	
Fiscal Year	Calls	Passengers
2005	201	517,529
2006	219	619,292
2007	181	555,071
2008	279	991,559
2009	224	813,822
2010	209	779,721
2011	125	396,018
2012	84	254,774
2013	79	208,812
2014	75	190,782



## DISTRICT EMPLOYEE HEADCOUNT - LAST TEN FISCAL YEARS



This chart reflects the number of permanent full-time employees at June 30th of each fiscal year.

## CAPITAL ASSETS - CURRENT FISCAL YEAR

Total Land and Water	
District's Jurisdiction:	
Land - Estimated (in acres)	2,403
Water - Estimated (in acres)	3,535
Leased Area:	- ,
Leased Land - Estimated (in square feet)	81,041,267
Leased Water- Estimated (in square feet)	43,721,303
Leased Buildings - Estimated (in square feet)	5,942,295
Leased Piers - Estimated (in square feet)	76,525
Public Safety	
Stations	1
Sub-stations	3
Sworn Officers	123
Number of Calls	56,257
Traffic Citations	2,715
Parking Citations	3,507
Arrests	1,862
Number of Parks	20
Total Acreage	147.1
Parking (number of short-term and long-term spaces)	
Navy Pier	386
Lane Field	210
B Street Pier	198
Hilton Garage	1,790
Convention Center Garage	1,900
Imperial Beach	100
Metered (throughout District)	975
Unmetered (throughout District)	2,662
Number of Cargo Terminals	2
National City Marine Terminal:	
Size (in acres)	125
Number of Berths	7
Wharf (in linear feet)	4,925
Warehouse Capacity (in square feet)	334,720
Tenth Avenue Marine Terminal:	0.6
Size (in acres)	96
Number of Berths	8
Wharf (in linear feet)	4,347
Storage Facilities:	(
Cold Storage (in million cubic feet)	724.287
Warehouse Capacity (in square foot)	724,287
Number of Cruise Terminals	2
B Street Cruise Ship Terminal:	0.2
Size (in acres)	9.2
Wharf (in linear feet)	2,400
Number of Berths	5
Broadway Pier Cruise Ship Terminal:	2.1
Size (in acres) Wharf (linear feet)	3.1
Number of Berths	2,135 5
Millingt of Definit	3

### DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS)

Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Pledged Revenues <sup>1</sup>	\$112,434	\$152,329	\$158,471	\$151,982	\$140,754	\$125,401	\$133,350	\$133,385	\$132,702	\$145,141
Operating and Maintenance Expenses <sup>2</sup>	(94,934)	(99,620)	(104,180)	(110,250)	(124,681)	(113,795)	(108,826)	(114,155)	(115,988)	(114,368)
Net Pledged Revenues - Senior Debt	\$ 17,500	\$ 52,709	\$ 54,291	\$ 41,732	\$ 16,073	\$ 11,606	\$ 24,524	\$ 19,230	\$ 16,714	\$ 30,773
Senior Debt Service <sup>3</sup>										
P rincipal	\$ -	\$ 1,125	\$ 1,170	\$ 1,215	\$ 1,255	\$ 1,305	\$ 1,360	\$ 1,420	\$ 1,490	\$ 1,840
Interest	807	2,339	2,295	2,248	2,208	2,159	2,105	2,010	1,949	1,822
Total Senior Debt Service	\$ 807	\$ 3,464	\$ 3,465	\$ 3,463	\$ 3,463	\$ 3,464	\$ 3,465	\$ 3,430	\$ 3,439	\$ 3,662
Senior Debt Coverage Ratio	21.69	15.22	15.67	12.05	4.64	3.35	7.08	5.61	4.86	8.40

<sup>&</sup>lt;sup>1</sup>Pledged Revenues are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

<sup>&</sup>lt;sup>2</sup>Operating and Maintenance Expenses are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

<sup>&</sup>lt;sup>3</sup>Senior Debt Service is calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

### RATIOS OF OUTSTANDING DEBT BY TYPE - LAST TEN FISCAL YEARS

(EXPRESSED IN THOUSANDS, EXCEPT FOR PER CAPITA)

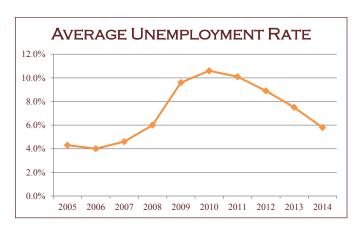
	Revenue		Capital	Total	Percent of Personal	
Fiscal Year	Bonds	Notes <sup>1</sup>	Leases	Debt	Income <sup>2</sup>	Per Capita <sup>2</sup>
2005	\$ 49,530	\$ 52,652	\$ -	\$ 102,182	0.08%	\$ 35
2006	48,405	51,860	-	102,422	0.08%	34
2007	47,235	50,561	-	97,796	0.07%	32
2008	46,020	49,198	-	95,218	0.07%	31
2009	44,765	48,098	2,698	95,561	0.07%	31
2010	43,460	46,589	2,508	92,557	0.06%	29
2011	42,100	44,610	1,931	88,641	0.06%	28
2012	40,680	42,914	1,273	84,867	0.05%	26
2013	39,190	45,474	646	85,310	0.05%	27
2014	36,275	48,243	-	84,518	0.05%	26

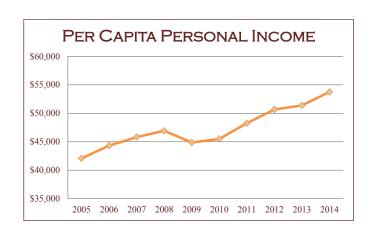
<sup>&</sup>lt;sup>1</sup>Includes the San Diego County Regional Airport Authority (SDCRAA), Pond 20, and Civic San Diego notes. <sup>2</sup>Refer to the Demographic and Economic Statistics table for further detail on population and per capita information.

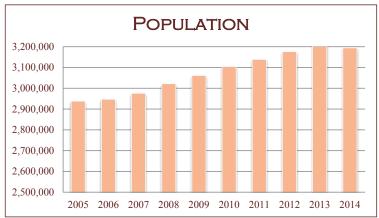
# DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

Calendar Year	Estimated Population <sup>1</sup>	Personal Income (in thousands) <sup>1</sup>	Per Capita Personal Income <sup>1</sup>	Average Unemployment Rate <sup>2</sup>
2005	2,938,375	\$123,631,177	\$42,075	4.3%
2006	2,947,289	130,655,397	44,331	4.0%
2007	2,975,742	136,331,810	45,814	4.6%
2008	3,022,116	141,796,326	46,920	6.0%
2009	3,061,203	137,336,773	44,864	9.6%
2010	3,104,182	141,243,429	45,501	10.6%
2011	3,138,550	151,466,837	48,260	10.1%
2012	3,176,138	160,914,306	50,664	8.9%
2013	3,211,252	165,008,428	51,384	7.5%
2014	3,194,3623	171,690,569 4	53,748 4	5.8%

# POPULATION AND PER CAPITA PERSONAL INCOME SAN DIEGO COUNTY







#### Sources:

<sup>&</sup>lt;sup>1</sup>US Department of Commerce, Bureau of Economic Analysis

<sup>&</sup>lt;sup>2</sup>California Employment Development Department

<sup>&</sup>lt;sup>3</sup>California Department of Finance, E-4 Population Estimates for Cities, Counties and States, at January 1<sup>st</sup> of the calendar years shown.

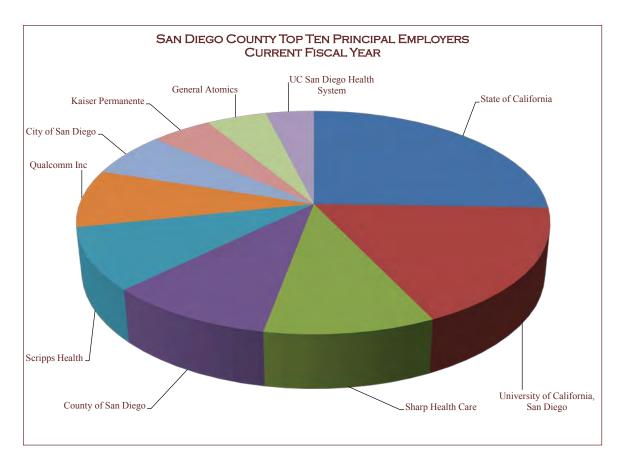
<sup>&</sup>lt;sup>4</sup>Personal Income and Per Capita Personal Income were estimated based on percentage of annual state personal income changes projected for 2014 from California Department of Commerce website.

# SAN DIEGO COUNTY TOP TEN PRINCIPAL EMPLOYERS CURRENT FISCAL YEAR AND NINE YEARS AGO

2005				2014			
Emmlanan	Local	Donle	0/0	Everlana	Local	Dank	%
Employer	Employees	Rank	70	Employer	Employees	Rank	70
Federal government	38,900	1	3.04%	State of California	40,800	1	3.09%
State of California	38,700	2	3.02%	University of California, San Diego	27,832	2	2.11%
University of California, San Diego	26,654	3	2.08%	Sharp Health Care	15,960	3	1.21%
San Diego Unified School District	21,073	4	1.65%	County of San Diego	15,667	4	1.19%
County of San Diego	16,803	5	1.31%	Scripps Health	14,381	5	1.09%
Sharp Health Care	13,175	6	1.03%	Qualcomm Inc	13,400	6	1.01%
City of San Diego	12,384	7	0.97%	City of San Diego	10,306	7	0.78%
Scripps Health	10,617	8	0.83%	Kaiser Permanente	7,800	8	0.59%
Kaiser Permanente	7,121	9	0.56%	General Atomics <sup>1</sup>	7,668	9	0.58%
US Postal Service, San Diego District	6,464	10	0.51%	UC San Diego Health System	6,132	10	0.46%

Total Industry Employment in San Diego County (June 2013): 1,321,800 Total Industry Employment in San Diego County (June 2004): 1,279,700

<sup>&</sup>lt;sup>1</sup>Affiliates include General Atomics Aeronautical Systems, Inc



Sources:

San Diego Business Journal Book of Lists (2005 & 2014)

Total Industry Employment - California Employment Development, Labor Market Info June 2014 - March 2013 Benchmark





