

SAN DIEGO UNIFIED PORT DISTRICT
CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014



Port of
San Diego

GOTTWALD
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National City Aquatic Center



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CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014



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Pond 20 Fence



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North Embarcadero Comfort Station



INTRODUCTORY SECTION (Unaudited)



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District Overview

SAN DIEGO UNIFIED PORT DISTRICT

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 1970.

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, Mission, and Core Values

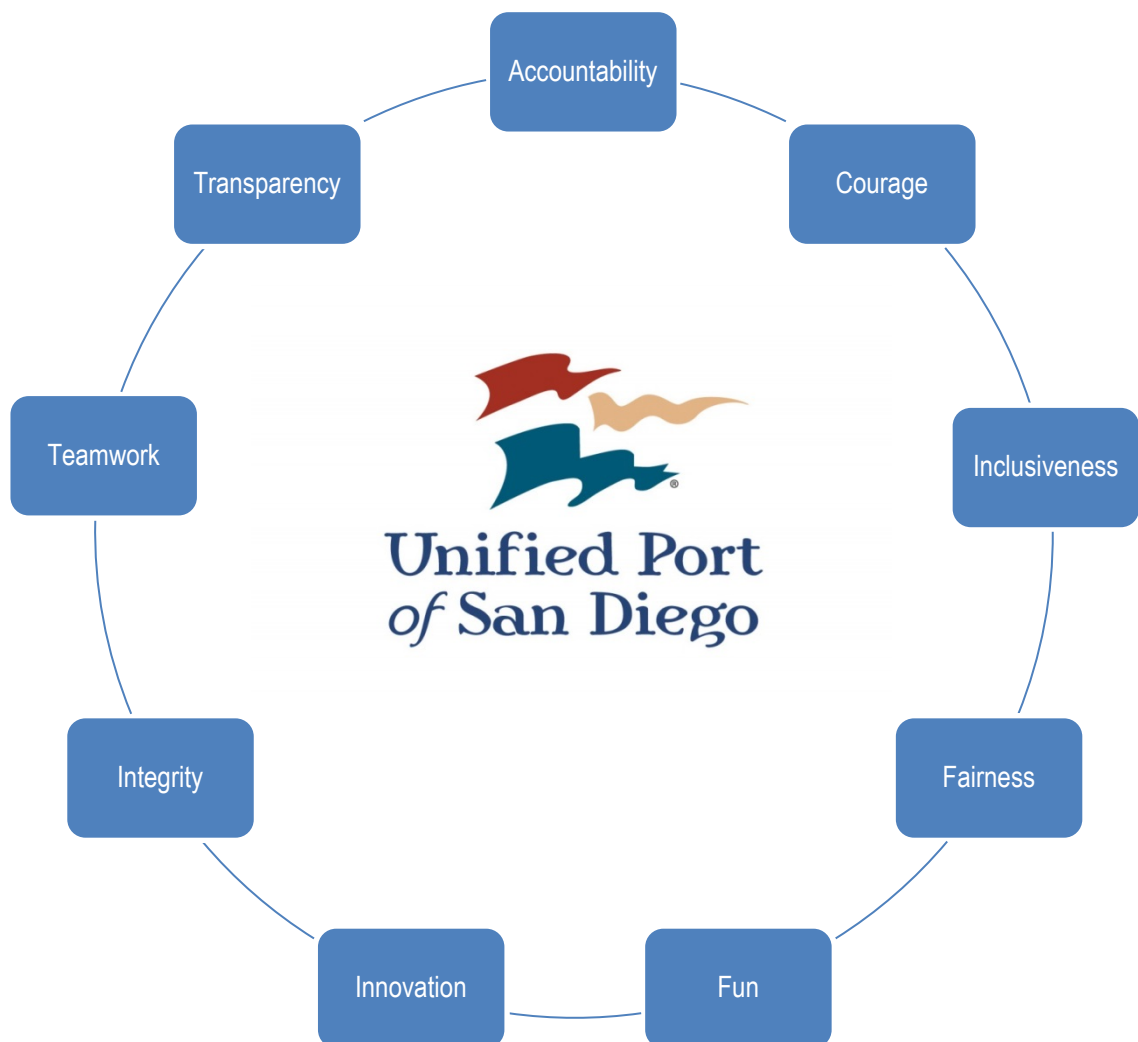
VISION

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



Letter of Transmittal



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P.O. Box 120488, San Diego, CA 92112-0488
619.686.6200 • www.portofsandiego.org

November 24, 2015

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, 2015. The purpose of this report is to provide the Board of Port Commissioners (BPC), member cities, the public, and other interested parties with reliable information concerning the financial condition and results of operations for the District.

The District's Financial Services Department prepared this report following the guidelines recommended by 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 (GAAP). 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.

GAAP requires that management provide a narrative overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

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, 2015. The independent auditor's report is presented as the first component of the Financial Section of the report.

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

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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 be 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, 28 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 is considered the 4th largest of 11 California Ports and the largest break-bulk (non-container) port in California. The District also maintains 22 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;
- Harbor Police, which implements and coordinates public safety, marine firefighting, and homeland security measures on tidelands and San Diego Bay, and provides airport law enforcement services to the San Diego County Regional Airport Authority.

The District is an environmental steward of the Bay and through its Environmental and Land Use Management Department sets measurable goals for conservation, waste reduction, and pollution prevention, and supports a well-planned waterfront through sustainable development, protection of natural resources and creative place making on our waterfront.

Board of Port Commissioners

District policies are established by a seven member BPC 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. The Chief Executive Officer and executive staff then implement these policies.

Committees and Organizational Structure

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

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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.

Environmental Advisory 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.

Public Art Advisory 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 activates the District tidelands, and develops its recommendations.

LOCAL ECONOMY AND OUTLOOK

The national economy has been expanding at a moderate pace in calendar year 2015, with increased household spending and further improvement in the housing sector and the labor market. According to various economic reports, the economy, as measured by gross domestic product (GDP), grew at an annual average rate of 2.4% and the unemployment rate improved to 5.2% with solid job gains indicating strength in the U.S. labor market in the third quarter of 2015. Inflation has remained low at an annualized rate of 0.3%, below the 2.0% Federal Reserve Bank's target rate.

The U.S. economic outlook for year 2016 is positive with cautious optimism. Economic gains are anticipated in the domestic front while primary risks to the economic forecasts are more notable in the global outlook and will continue to be a challenge for calendar year 2016. Nationwide, the economy is forecasted to grow at a 2.7% annualized rate in 2016 with an unemployment forecast of 4.9% while anticipating the inflation rate to increase to about 2.0%. (Source: Bloomberg survey of U.S. economic indicators from over 80 economists' forecasts, September 10, 2015).

California's economic growth has been outpacing the nation in the last few years and is expected to continue this trend for the next five years. The State accounts for about 13.0% of the national GDP and is the eighth largest economy in the world. California's labor market continues to strengthen

Letter of Transmittal

although the unemployment rate is still elevated with a 2015-forecast of 6.4%. The housing market recovery is expected to continue in spite of slow growth in wages. Overall, the California economic forecasts project solid gains through 2016 with strong growth in technology, life sciences, leisure and hospitality, and homebuilding and construction industries. The 2016-forecast unemployment rate for California is 5.8% and the growth state product is anticipated at 2.9%. (Source: Los Angeles County Economic and Development Corporation – The Kyser Center for Economic Research: September 2015).

The economic outlook for San Diego remains positive given this year's surge in the housing market and increased jobs in construction, scientific and technical services, leisure and hospitality, and healthcare sectors. The San Diego unemployment rate is anticipated at 5.1% for 2015 and is forecast to decline to 4.3% in 2016. (Source: Los Angeles County Economic and Development Corporation – The Kyser Center for Economic Research: September 2015).

FINANCIAL POLICIES AND LONG TERM FINANCIAL PLANNING

The District believes that strategic financial discipline is essential for the economic sustainability of any organization in order to insure effective operations and sound fiscal health. Performing regular financial reviews and developing timely financial strategies that are aligned with the organizational goals can provide valuable information for the District's management and the Board of Port Commissioners decision-making process. At the September 2015 Board meeting, the Board accepted staff's recommendation for a **"Framework for a Long Term Financial Strategy"** (framework).

The framework emphasizes key pillars for fiscal sustainability as follows:

- Budget surpluses after all guiding principles are satisfied
- Prudent debt levels
- Pension liability funding
- Asset maintenance and renewal management

The District has adopted a comprehensive set of financial policies, including policies related to reserves, budget development, five-year financial forecast, investments, Capital Improvement Program (CIP), and Major Maintenance Program, among others.

Operating Reserves

The District continues to maintain a healthy level of operating reserves so it can 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

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balance is \$57.8 million, which is funded at the required policy level. The operating reserve includes a \$20 million minimum required balance 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 https://www.portofsandiego.org/public-documents/cat_view/161-port-commissioners/206-bpc-policies.html.

Five Year Financial Forecast

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

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.

Letter of Transmittal

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.

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 https://www.portofsandiego.org/public-documents/cat_view/161-port-commissioners/206-bpc-policies.html.

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 https://www.portofsandiego.org/public-documents/cat_view/161-port-commissioners/206-bpc-policies.html.

Strategic Plan

The District's Compass Strategic Plan for 2012-2017 guides the organization's business lines, programs, and 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	<i>A Port that the public understands, trusts, and values</i>
2	<i>A thriving and modern maritime seaport</i>
3	<i>A vibrant waterfront destination where residents and visitors converge</i>
4	<i>A Port with a healthy and sustainable bay and its environment</i>
5	<i>A Port with a comprehensive vision for Port land and water uses integrated to regional plans</i>
6	<i>A Port that is a safe place to visit, work, and play</i>
7	<i>A Port with an innovative and motivated workforce</i>
8	<i>A financially sustainable Port that drives regional job creation and regional economic vitality</i>

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. To date, the Integrated Planning Vision includes a BPC accepted Vision Statement, Guiding Principles, and Assessment Report. These components reflect a comprehensive public engagement effort and represent a balanced approach to the broad desires and inputs from various interest groups in the region. Currently, the District is completing the final portion of its visioning effort, which will result in a Framework Report. The Framework Report will contain planning ideas in the following key areas: land use, water use, mobility, public access and recreation, natural resources, safety and resilience, and economic development. Once the Framework Report is completed, it will serve as a guiding document for a comprehensive update to the District's Port Master Plan.

Chula Vista Bayfront

The 535-acre Chula Vista Bayfront (CVB) 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. The District and the City of Chula Vista are working jointly on implementation of the CVB. The next step in advancing the CVB development vision was the issuance of a Request for Qualifications (RFQ) for a large-scale resort hotel and convention center. In October 2014, RIDA Development Corporation (RIDA) was selected as the successful respondent to the RFQ. Negotiations are ongoing with RIDA for the development of a resort hotel and convention center and associated infrastructure.

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. In December 2013, the BPC adopted a Climate Action Plan (CAP) placing the Port at the forefront of the San Diego region's climate planning efforts to reduce greenhouse gas (GHG) emissions. The CAP provides a long-term, integrated, strategic vision for the Green Port Program and establishes GHG reduction goals for District tidelands. It contains a palette of potential GHG reduction measures to achieve the goals. 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.

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Fiscal year 2014-2015 marked the first year of implementation for the CAP. To date, over a third of the measures has completed actions or is in progress. As a result, the District has saved over \$3.4 million from energy and water conservation initiatives and has experienced a 24% decrease in GHG emissions, when compared to 2008.

North Harbor Drive Realignment

The North Harbor Drive Realignment Project realigned and reconstructed approximately 1,600 linear feet of North Harbor Drive, including parking, bike lanes, and driving lanes. Collaboration between the District, local businesses, the City of San Diego, and the community of Point Loma, the project made this portion of North Harbor Drive safer for pedestrians, cyclists, and drivers. The project was completed on October 12, 2015.

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 February 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 opened to the public in January 2015.

Cargo

The District continues to actively market the Tenth Avenue Marine Terminal (TAMT) to target accounts and cargos that are ideally suited to the terminal. These efforts have resulted in increased utilization by regional companies. Eight import shipments for National Steel and Shipbuilding Company (NASSCO) provided raw materials that were used in the construction of new ocean-going vessels, including the world's first LNG-powered container vessel. Other cargo moves included export of project cargos, and a long-term agreement with Mitsubishi Cement Corporation towards the development of a cement importation facility. Dole Fresh Fruit is currently constructing larger refrigerated container ships that will be deployed into service in December 2015. These new vessels will accommodate more than 1½ times the number of containers currently transported by existing vessels.

The District worked with Vickerman & Associates to develop a proposed TAMT Redevelopment Plan, which is currently undergoing an Environmental Impact Report (EIR). The proposed plan and EIR will identify potential targeted infrastructure improvements to meet cargo market needs. The District was awarded a \$10 million Transportation Investment Generating Economic Recovery (TIGER) grant that will fund the demolition of antiquated infrastructure, create flexible open space, and enhance rail capability, benefiting current and potential cargo customers.

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Automobile imports at the National City Marine terminal (NCMT) have continued to grow since fiscal year 2011-2012. The District is also working with Vickerman & Associates to develop a long-term optimization plan for NCMT that addresses the growth projections in the automobile market. The District has also worked closely with the City of National City to advance a "Balanced Plan" in the National City Marina District that maintains cargo efficiencies while maximizing public access to the water.

The District has partnered with other regional, state, and national agencies to advance goods movement initiatives in the areas of sustainability, planning, and energy savings.

Pond 20

Pond 20 is a 95-acre, undeveloped parcel of land near Imperial Beach. It is an area that many consider to be the gateway to South County's beaches. The District acquired the site in October 1998 as part of the Western Salt land acquisition. In January 2012, an MOU entered into between the District, the City of Imperial Beach, and the City of San Diego that allowed the three entities to move forward with exploring future uses for the site. After extensive public outreach, the District received proposals ranging from partial economic development to habitat restoration. Permitting is necessary for any potential development and requires land use planning and zoning designation. The District has issued a Request for Proposals for the development of a mitigation bank on approximately 80 acres of Pond 20 reserving two other parcels for commercial development.

Awards Received by the District

- 2015 LUNG Force Award, American Lung Association
- 2015 Achievement of Excellence in Procurement Award, National Procurement Institute
- 2015 Outstanding Project Award, Urban or Land Development Project (NEVP), American Society of Civil Engineers
- 2015 General Counsel of the Year Award- category of Government and Non-Profit Work (Thomas Russell), San Diego Business Journal
- 2015 Hard-Won Victories Award of Excellence (Barrio Logan sign), American Planning Association (APA)
- 2015 The Certificate of Achievement for Excellence in Financial Reporting Award, GFOA
- 2015 Award of Financial Reporting Achievement (Finance Department), GFOA
- 2015 Outstanding Project - Urban or Land Development Project Category (NEVP – Phase 1), American Society of Civil Engineers
- 2015 Implementation Award: Large Jurisdiction (Barrio Gateway Sign), American Planning Association – San Diego
- 2015 EPA Climate Leadership Award – Innovative Partnerships category (San Diego Regional Climate Collaborative), Environmental Protection Agency
- 2015 Honor Award (TAMT Port Access Project - includes Barrio Logan sign), American Public Works Association
- 2015 Top Influentials Award (Acting CEO John Bolduc), San Diego Daily Transcript

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- 2015 Honor Award (Chula Vista Bayfront H Street Extension), American Public Works Association
- 2015 Project Achievement Award \$5M - \$15 M (Chula Vista Bayfront H Street Extension), Construction Management Association of America
- 2015 Project of the Year for Transportation Projects over \$15M (NEVP – Phase I), Construction Management Association of America
- 2015 Chief Financial Officer of the Year (CFO/Treasurer Bob DeAngelis – second year in a row), San Diego Business Journal
- 2015 Emmy Nominee (Marketing & Communications, Hands of the Harbor video), National Academy of Television Arts & Sciences – Pacific Southwest Region
- 2015 Hermes Creative Award - Honorable Mention; Integrated Marketing Campaign category (Green Business Network Campaign Participant-Engagement Campaign)
- 2015 Hermes Creative Award - Gold Award; Direct Mail category (Green Business Network Participant-Engagement Campaign Postcard)
- 2015 Hermes Creative Award - Gold Award; Outdoor Promotion category (Green Business Network Event Banner)
- 2015 Hermes Creative Award - Gold Award; Email Blast category (Green Business Network Participant-Engagement Campaign Email)
- 2014 Special Olympics Award – Most Money Raised in San Diego County (Harbor Police), Special Olympics
- 2014 Top Influentials Award (Chairman Bob Nelson), San Diego Daily Transcript
- 2014 Achievement of Excellence in Procurement Award, National Procurement Institute
- 2014 Green California Leadership Award – Green Economic Development Category (Green Port Program), Green California Summit
- 2014 National Planning Achievement Award (Chula Vista Bayfront Master Plan), American Planning Association Award
- 2014 Public Works Project of the Year (Shore Power), American Public Works Association
- 2014 CMAA Construction Management Award (Shore Power Project Manager Yeshi Mulugeta), Construction Management Association of America – San Diego Chapter
- 2014 SANDAG iCommute Diamond award – Agency Leadership Category, San Diego Association of Governments

ACKNOWLEDGMENTS

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended June 30, 2014. This is the first year that the District has received this prestigious award. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial recording. In order to be awarded a Certificate of Achievement, the District has to publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable legal requirements. The preparation of this report could not have been accomplished without the hard work and dedication demonstrated by the District's Financial Services Department.

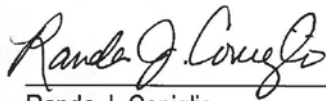
Letter of Transmittal

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Programs' requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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.

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

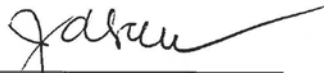
Respectfully Submitted,



Randa J. Coniglio
President/CEO



Robert DeAngelis
CFO/Treasurer



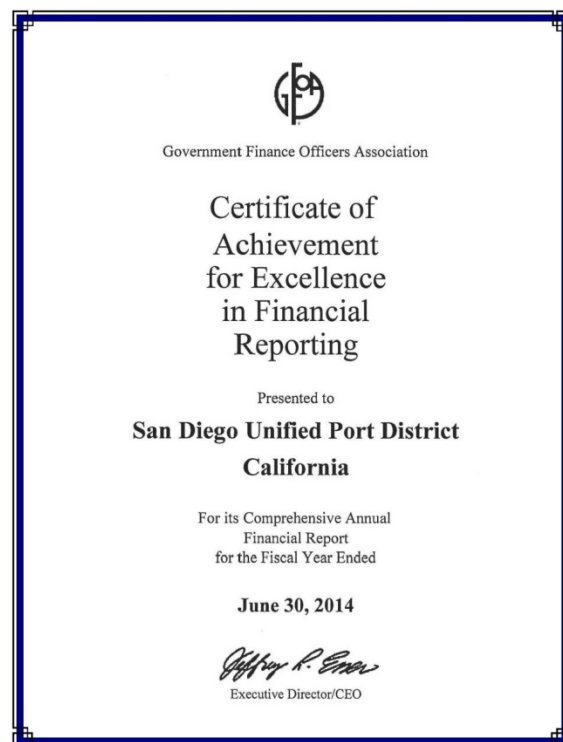
Jeanette Sales, CPA
Director, Financial Services

Certificate of Achievement for Excellence in Financial Reporting

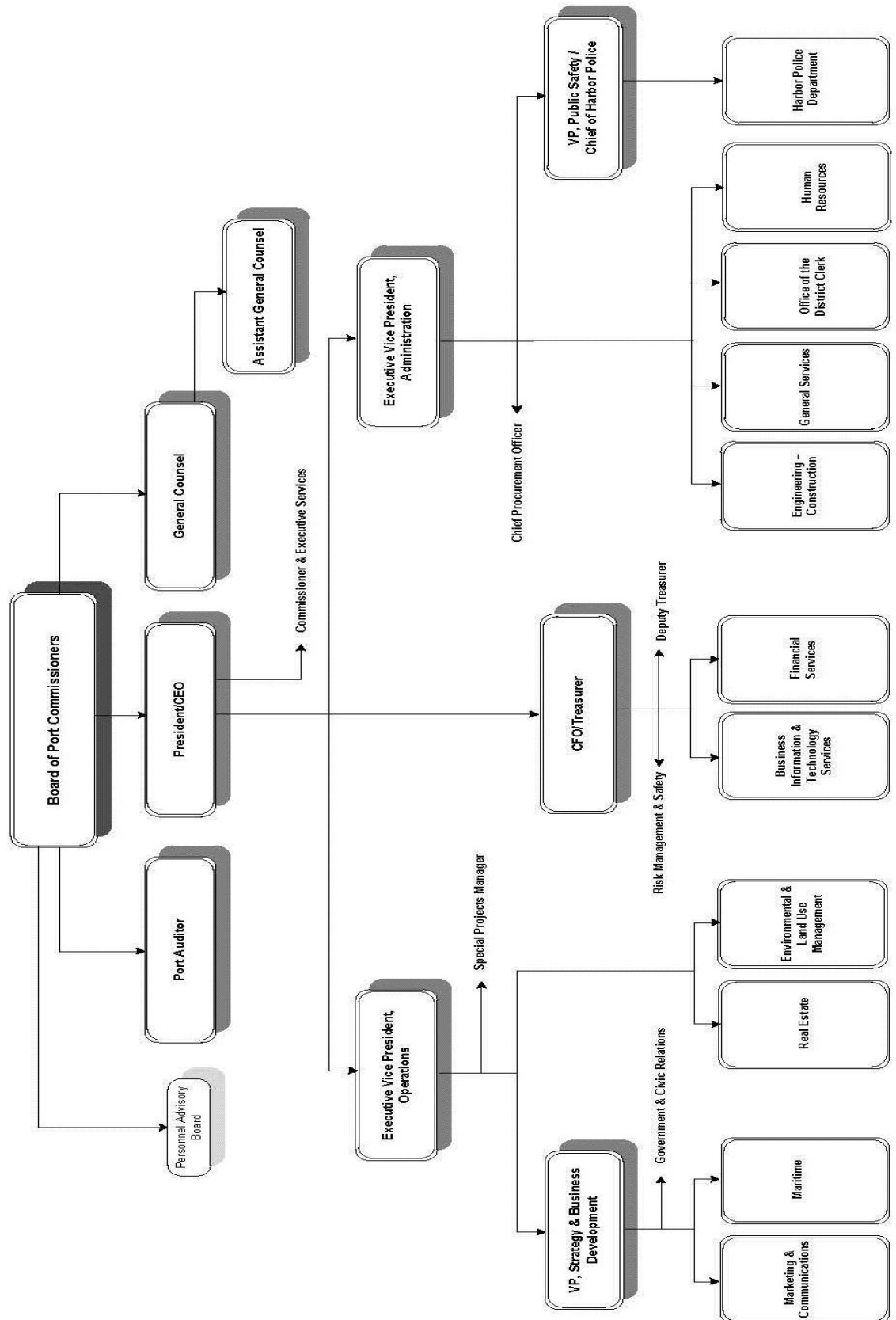
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego Unified Port District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

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.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



District Organization Chart



Board of Port Commissioners

CHAIRMAN

Dan Malcolm
City of Imperial Beach

VICE CHAIRMAN

Marshall Merrifield
City of San Diego

SECRETARY

Robert “Dukie” Valderrama
City of National City

COMMISSIONERS

Bob Nelson
City of San Diego

Ann Moore
City of Chula Vista

Rafael Castellanos
City of San Diego

Garry J. Bonelli
City of Coronado

Executive Leadership Group

PRESIDENT / CEO

Randa J. Coniglio

GENERAL COUNSEL

Thomas A. Russell

PORT AUDITOR

Robert Monson

ASSISTANT GENERAL COUNSEL

Ellen F. Gross

EXECUTIVE VICE PRESIDENT, ADMINISTRATION

Karen Porteous

ACTING EXECUTIVE VICE PRESIDENT, OPERATIONS

Shaun D. Sumner

CHIEF FINANCIAL OFFICER / TREASURER

Robert DeAngelis

VICE PRESIDENT / CHIEF OF HARBOR POLICE

John A. Bolduc

VICE PRESIDENT, STRATEGY & BUSINESS DEVELOPMENT

Vacant

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Embarcadero Marina Park North



FINANCIAL SECTION

Coronado Tideland Park



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Chula Vista Marina



Independent Auditor's Report

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Independent Auditor's Report

To the Honorable Commissioners of the
San Diego Unified Port District
San Diego, California

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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Notes 1(p) and 12 to the basic financial statements, effective July 1, 2014, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of 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*. As a result of the implementation of GASB Statement Nos. 68 and 71, net position as of July 1, 2014, was restated and reduced by \$83,731,992. The District's basic financial statements as of and for the fiscal year ended June 30, 2014 were not restated because defined benefit pension information prepared in accordance with the requirements of GASB Statement No. 68 was not available for periods prior to July 1, 2014. 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 on pages 30-44 and the schedule of changes in net pension liability and related ratios, schedule of employer contributions, defined benefit pension plan schedule of funding progress, and other postemployment benefit plan schedule of funding progress on pages 98-100 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion 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 section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and statistical section 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*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015, 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.

Macias Gini & O'Connell LLP

San Diego, California
November 19, 2015

Management's Discussion and Analysis (Unaudited)

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SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

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 fiscal years ended June 30, 2015 and June 30, 2014. 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, 2015

- As of June 30, 2015, the assets of the District exceeded liabilities by \$457.4 million.
- Operating revenues for the District were \$149.6 million for fiscal year 2015 compared to \$145.8 million for fiscal year 2014.
- Operating expenses, including depreciation and amortization, for the District were \$139.3 million for fiscal year 2015 compared to \$141.0 million for fiscal year 2014.
- Nonoperating revenues for the District were \$9.6 million for fiscal year 2015 compared to \$2.5 million for fiscal year 2014.
- Nonoperating expenses for the District were \$15.5 million for fiscal year 2015 compared to \$8.6 million for fiscal year 2014.
- Revenues from capital grants and contributions totaled \$4.8 million for fiscal year 2015 compared to \$9.6 million for fiscal year 2014.
- The District's total net position decreased by \$74.6 million (including a restatement of \$83.7 million for GASB Statement No. 68) during fiscal year 2015 compared to an \$8.3 million increase in fiscal year 2014.

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 decreased by \$8.3 million during fiscal year 2014 compared to a \$4.1 million decrease in fiscal year 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.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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.

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 \$457.4 million at the end of fiscal year 2015, compared to \$532.0 million at the end of fiscal year 2014 and \$523.7 million at the end of fiscal year 2013. The largest portion of the District's net position in fiscal year 2015, 93.8% excluding GASB 68 restatement, is its net investment in capital assets compared to 92.1% in fiscal year 2014 and 90.6% in fiscal year 2013.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

The District's financial position at June 30, 2015, 2014, and 2013 is summarized as follows:

Condensed Statements of Net Position
(Expressed in thousands)

	2015	2014	2013
Current assets	\$ 137,787	\$ 127,197	\$ 135,662
Other noncurrent assets	18,338	31,822	24,960
Capital assets	<u>547,886</u>	<u>533,116</u>	<u>516,343</u>
Total assets	<u>704,011</u>	<u>692,135</u>	<u>676,965</u>
Deferred outflows of resources	<u>16,950</u>	<u>182</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 720,961</u>	<u>\$ 692,317</u>	<u>\$ 676,965</u>
Current liabilities	\$ 47,727	\$ 37,743	\$ 34,335
Noncurrent liabilities	<u>191,253</u>	<u>122,561</u>	<u>118,903</u>
Total liabilities	<u>238,980</u>	<u>160,304</u>	<u>153,238</u>
Deferred inflows of resources	<u>24,590</u>	<u>-</u>	<u>-</u>
Net investment in capital assets	507,624	490,021	474,797
Restricted	4,787	4,122	3,436
Unrestricted	<u>(55,020)</u>	<u>37,870</u>	<u>45,494</u>
Total net position	<u>457,391</u>	<u>532,013</u>	<u>523,727</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 720,961</u>	<u>\$ 692,317</u>	<u>\$ 676,965</u>

As of June 30, 2015, the District's assets exceeded liabilities by \$457.4 million compared to \$532.0 million as of June 30, 2014 and \$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. 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 was (\$55.0) million as of June 30, 2015 which includes a restatement of net position of \$83.7 million due to implementation of GASB 68, \$37.9 million as of June 30, 2014, and \$45.5 million as of June 30, 2013 and may be used to meet the District's commitments and ongoing obligations. Refer to Note 11(a) for additional information on the District's Capital Improvement Program (CIP) commitments, and Note 12 for additional information on the restatement due to the implementation of GASB 68.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Capital Assets

The District's net book value was \$547.9 million as of June 30, 2015, \$533.1 million as of June 30, 2014, and \$516.3 million as of June 30, 2013. 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.

Capital Assets
(Expressed in thousands)

Description	June 30, 2015	June 30, 2014	June 30, 2013
Nondepreciable assets:			
Land	\$ 239,275	\$ 227,861	\$ 226,529
Construction-in-progress	22,441	54,181	43,201
Depreciable/amortizable assets:			
Land improvements	7,650	7,650	7,650
Buildings and structures	564,204	535,315	525,509
Machinery and equipment	86,482	80,244	71,614
Roads and parking lots	114,592	93,967	91,327
Intangible	2,377	2,068	-
Total assets	1,037,021	1,001,286	965,830
Accumulated depreciation/amortization	(489,135)	(468,170)	(449,487)
Capital assets, net	<u>\$ 547,886</u>	<u>\$ 533,116</u>	<u>\$ 516,343</u>

Capital Assets – Fiscal year 2015 compared to 2014:

The District invested a total of \$27.1 million in construction-in-progress during fiscal year 2015 (refer to Note 3 for the summary of capital assets activity). Some of these projects were completed and capitalized during the fiscal year.

Following are amounts expended during fiscal year 2015 for some of the major capital projects:

- \$5.8 million, North Embarcadero Visionary Plan (NEVP) Phase I
- \$4.4 million, Goodrich South Campus Demolition
- \$3.6 million, Chula Vista Bayfront – H Street Extension
- \$2.7 million, America's Cup Harbor Improvements – Phase I, North Harbor Drive Realignment
- \$1.9 million, National City Aquatic Center
- \$857 thousand, Broadway Pier Surface Enhancements
- \$815 thousand, Chula Vista Bayfront Master Plan Pre-Design
- \$631 thousand, Chula Vista L Ditch
- \$586 thousand, National City Marine Terminal (NCMT) Fire Alarm System Replacement
- \$571 thousand, Administration Building Annex Emergency Roof Replacement

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

- \$559 thousand, Tenth Avenue Marine Terminal (TAMT) Diesel Tank 4 Emergency Repairs
- \$559 thousand, Harbor Police Headquarters New Patrol Building
- \$508 thousand, Point Loma Pavement Repair
- \$464 thousand, Port Security Grants Projects
- \$441 thousand, 32nd Street and Water Street Pavement Repair
- \$423 thousand, TAMT Berths 10-3, 10-4, 10-7, and 10-8 Fuel and Water Vaults Modifications
- \$344 thousand, Parks & Facilities Light Emitting Diode (LED) Lighting Retrofit
- \$326 thousand, TAMT Transit Shed 1 Phase II Demolition
- \$313 thousand, Pond 20 Short Term Aesthetic Improvement
- \$1.2 million, all other capital projects

The \$58.8 million decrease in construction-in-progress was primarily due to projects that were completed and capitalized to the appropriate asset categories during fiscal year 2015.

Capital Assets – Fiscal year 2014 compared to 2013:

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.

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

- \$14.3 million, NEVP Phase I
- \$4.2 million, Chula Vista Bayfront – H Street Extension
- \$3.2 million, TAMT Shore Power System Project
- \$2.2 million, Goodrich South Campus Demolition
- \$1.7 million, Port Security Grants Projects
- \$1.2 million, Chula Vista Bayfront Master Plan Pre-Design
- \$1.0 million, TAMT Transit Shed 1 Bay D and Head House 1 & 2 Demolition
- \$969 thousand, Enterprise Content Management System
- \$564 thousand, NCMT Berth Structural and Mooring Repair
- \$465 thousand, Crosby Street Pier Modernization
- \$404 thousand, National City Aquatic Center
- \$372 thousand, Imperial Beach Pier Deck Refurbishment
- \$346 thousand, TAMT Shed 1 Phase II Demolition
- \$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

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

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.

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 fiscal years ended June 30, 2015, 2014, and 2013 are presented below:

**Condensed Statements of
Revenues, Expenses, and Changes in Net Position**
(Expressed in thousands)

	2015	2014	2013
Operating revenues:			
Real Estate operations	\$ 95,940	\$ 89,282	\$ 82,604
Maritime operations	35,265	34,480	33,469
Harbor Police	14,729	17,203	15,313
Other operating revenues	3,631	4,807	3,884
Total operating revenues	<u>149,565</u>	<u>145,772</u>	<u>135,270</u>
Operating expenses:			
Direct expenses			
Real Estate operations	27,782	31,280	33,186
Maritime operations	18,002	21,573	20,448
Harbor Police	31,081	32,623	33,756
Other operating expenses	9,685	5,151	1,123
Depreciation and amortization	21,218	19,597	18,935
General and administrative expenses	31,561	30,729	35,951
Total operating expenses	<u>139,329</u>	<u>140,953</u>	<u>143,399</u>
Income/(loss) from operations	<u>10,236</u>	<u>4,819</u>	<u>(8,129)</u>
Nonoperating revenues	9,615	2,497	1,413
Nonoperating expenses	15,522	8,594	8,784
Nonoperating loss	<u>(5,907)</u>	<u>(6,097)</u>	<u>(7,371)</u>
Capital grants and contributions	4,781	9,564	11,443
Change in net position	9,110	8,286	(4,057)
Beginning net position	532,013	523,727	527,784
Restatement - GASB 68	(83,732)	-	-
Ending net position	<u>\$ 457,391</u>	<u>\$ 532,013</u>	<u>\$ 523,727</u>

The major components of the District's operating revenues include concession fees, land and building leases, Harbor Police and General and Administrative (G&A) cost reimbursements for services provided to the San Diego County Regional Airport Authority (SDCRAA), wharfage, parking fees, storage space rentals, cruise ship passenger and security fees, dockage fees, and citations issued for vehicle code violations.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

The District's operating expenses consist primarily of personnel expense, contractual services, community and environmental support (including municipal services for fire, police, and medical emergency), and maintenance and repairs.

Nonoperating revenues include gain/loss from disposal of capital assets, reimbursed legal fees, grant revenue, asset forfeiture proceeds, interest income, legal insurance settlements, insurance proceeds, and miscellaneous other nonoperating revenues.

The major components of nonoperating expenses are legal expense and interest expense.

Capital grants and capital project contributions include Port Security capital grants and NEVP project contributions.

Operating Revenues – Fiscal year 2015 compared to 2014:

(Expressed in thousands)	2015	2014	\$ Change Increase (Decrease)	% Change
Real Estate operations	\$ 95,940	\$ 89,282	\$ 6,658	7.5%
Maritime operations	35,265	34,480	785	2.3%
Harbor Police	14,729	17,203	(2,474)	(14.4%)
Other operating revenues	3,631	4,807	(1,176)	(24.5%)
Total operating revenues	<u>\$ 149,565</u>	<u>\$ 145,772</u>	<u>\$ 3,793</u>	2.6%

- Real Estate operating revenue of \$95.9 million increased \$6.7 million from \$89.3 million in the prior fiscal year. Concession revenue increased \$4.8 million due to stronger performance by tidelands hotels, restaurants, and other visitor-serving businesses. Parking and parking meter revenue increased approximately \$1.8 million mainly due to an increase in the parking rates at managed lots and an increase in visitors to the waterfront, plus a pilot program at metered lots along the Embarcadero area, which included increased parking meter rates, new hours, and seven day enforcement. The remaining variance was from all other operating revenue sources.
- Maritime operating revenue of \$35.3 million increased by \$785 thousand from \$34.5 million in the prior fiscal year. Wharfage revenue increased by \$543 thousand due to an increase in the number of automobiles and general cargos including project cargos, steel, and refrigerated containers. Storage space rental revenue increased by \$239 thousand due to an increased number of storage days from automobile operations at NCMT and from miscellaneous cargo at TAMT. Concession revenue increased by \$208 thousand mainly due to increased business in harbor excursion cruises. Dockage revenue increased by \$163 thousand due to the above stated cargo business increase in both terminals, and from research vessels at TAMT. These increases were partially offset by a reduction in fixed rent revenue of \$331 thousand due to the termination of certain lease agreements. Other rental revenue decreased by \$110 thousand due to less event rental at the Port Pavilion.
- Harbor Police operating revenue of \$14.7 million decreased \$2.5 million from \$17.2 million in the prior fiscal year. The fiscal year 2015 reimbursements for airport police services decreased by \$1.9 million due to additional billing adjustments in fiscal year 2014 stemming from the Memorandum of Understanding (MOU) with the SDCRAA and additional reimbursements from audited true up of prior year police costs. Grant revenue decreased by \$959 thousand due to accounting reclassification of grants revenue from operating to nonoperating. These decreases are partially offset by higher citations revenue of \$350 thousand due to continued increased enforcement of parking violations around the tidelands.
- Other operating revenue decreased \$1.2 million primarily due to a \$943 thousand reclassification of grant revenue to nonoperating revenue.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Operating Revenues – Fiscal year 2014 compared to 2013:

(Expressed in thousands)	2014	2013	\$ Change Increase (Decrease)	% Change
Real Estate operations	\$ 89,282	\$ 82,604	\$ 6,678	8.1%
Maritime operations	34,480	33,469	1,011	3.0%
Harbor Police	17,203	15,313	1,890	12.3%
Other operating revenues	4,807	3,884	923	23.8%
Total operating revenues	<u>\$ 145,772</u>	<u>\$ 135,270</u>	<u>\$ 10,502</u>	7.8%

- 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.
- 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.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Operating Expenses - Fiscal year 2015 compared to 2014:

(Expressed in thousands)			\$ Change Increase (Decrease)	% Change
	2015	2014		
Direct expenses				
Real Estate operations	\$ 27,782	\$ 31,280	\$ (3,498)	(11.2%)
Maritime operations	18,002	21,573	(3,571)	(16.6%)
Harbor Police	31,081	32,623	(1,542)	(4.7%)
Other operating expenses	9,685	5,151	4,534	88.0%
Depreciation and amortization	21,218	19,597	1,621	8.3%
General and administrative expenses	31,561	30,729	832	2.7%
Total operating expenses	<u>\$ 139,329</u>	<u>\$ 140,953</u>	<u>\$ (1,624)</u>	<u>(1.2%)</u>

- Real Estate operating expenses of \$27.8 million, before depreciation and G&A expense, decreased \$3.5 million from the prior fiscal year primarily due to a change in reporting of expenses of \$5.9 million for the Municipal Services Agreement (MSA) with member cities for fire, police, and medical emergency and an accounting adjustment of \$1.4 million due to the implementation of GASB 68. The decrease was partially offset by an increase in the following: legal contingencies of approximately \$1.5 million, tenant environmental compliance projects of \$815 thousand, completion of Americans with Disabilities Act (ADA) improvements at various locations along the tidelands of \$458 thousand, engineering support for capital development and major maintenance assistance of \$359 thousand, additional maintenance needed for the North Embarcadero area of \$327 thousand as the result of the completion of the NEVP Phase I project, an increase in parking enforcement at District parking metered lots of \$224 thousand, and a rise in facility management service fees of \$191 thousand which is based on parking revenues collected. The remaining variance was from all other operating expense sources.
- Maritime operating expenses of \$18.0 million, before depreciation and G&A expense, decreased \$3.6 million from \$21.6 million in the prior fiscal year. The decrease was primarily due to a \$2.1 million remediation cost incurred in the prior fiscal year and none in the current year. A \$1.1 million decrease was due to a change in reporting of expenses for MSA with member cities for fire, police, and medical emergency and an accounting adjustment of \$800 thousand due to the implementation of GASB 68. These decreases were partially offset by increases in the following: \$355 thousand increase in facility management services for a temporary trailer rental to house a new tenant, services operator retention at NCMT increased by \$278 thousand due to increased automobile activity, and \$260 thousand for Maritime studies and other consulting fees.
- Harbor Police operating expenses of \$31.1 million, before depreciation and G&A expense, decreased \$1.5 million from \$32.6 million in the prior fiscal year. The decrease of \$3.7 million was primarily due to the implementation of GASB 68. This was partially offset by increased in overtime by \$1.0 million and the remaining increase was primarily due to stipend, higher benefit costs (retirement, Other Post-Employment Benefits (OPEB), and health insurance), and a newly added cost for providing security at NEVP Phase I and Lane Field Park .
- Other operating expenses of \$9.7 million, before depreciation and G&A expense, increased \$4.5 million from \$5.2 million in the prior fiscal year. The increase was primarily due to a change in reporting of expenses of \$7.0 million for MSA with member cities for fire, police, and medical emergency. The increase was partially offset by an accounting adjustment of \$1.1 million for the implementation of GASB 68 and a decrease of \$1.2 million in environmental project costs for Regional Harbor Monitoring Program, Goodrich South Campus Site, and Green Port Clean Air.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

- Total depreciation and amortization expense of \$21.2 million increased \$1.6 million from \$19.6 million in the prior fiscal year due to depreciation for newly completed capital projects, the largest being NEVP Phase I.
- G&A expenses of \$31.6 million increased \$832 thousand from \$30.7 million in the prior fiscal year primarily due to the following increases: \$1.2 million increased marketing and outreach efforts, \$603 thousand increased technology infrastructure and cloud software services, \$367 thousand increased costs associated with retiree healthcare, and approximately \$302 thousand increased costs at administrative building primarily due to energy efficiency retrofit efforts. The increase was partially offset by an accounting adjustment of \$2.0 million due to the implementation of GASB 68. The remaining variance was from various nonpersonnel expense categories.

Operating Expenses - Fiscal year 2014 compared to 2013:

(Expressed in thousands)			\$ Change	
	2014	2013	Increase (Decrease)	% Change
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	<u>\$ 140,953</u>	<u>\$ 143,399</u>	<u>\$ (2,446)</u>	(1.7%)

- 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.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

- 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.
- 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.

Nonoperating Revenues, Expenses, and Capital Grants and Contributions - Fiscal year 2015 compared to 2014:

(Expressed in thousands)			\$ Change Increase (Decrease)	% Change
	2015	2014		
Nonoperating revenues	\$ 9,615	\$ 2,497	\$ 7,118	285.1%
Nonoperating expenses	\$ 15,522	\$ 8,594	\$ 6,928	80.6%
Capital grants and contributions	\$ 4,781	\$ 9,564	\$ (4,783)	(50.0%)

- The District's nonoperating revenues of \$9.6 million, excluding capital grants and contributions, increased \$7.1 million from \$2.5 million in the prior fiscal year. The increase was primarily due to a gain from disposal of capital assets of \$4.5 million from a land exchange transaction, reimbursed legal fees of \$1.2 million, grant revenue-other which was classified as operating revenue in the prior fiscal year of \$943 thousand, legal settlements of \$237 thousand, and asset forfeiture proceeds of \$235 thousand.
- Total nonoperating expenses of \$15.5 million increased \$6.9 million from total nonoperating expenses of \$8.6 million. The increase is mainly due to a legal settlement of \$9.4 million and a write-off of previously capitalized project expenditures of \$1.9 million. This increase was partially offset by a decrease in financial assistance of \$4.5 million for the annual payment to the City of San Diego for the Convention Center expansion project. The last annual payment was made during the year ended June 30, 2014.
- Capital grants and contributions of \$4.8 million decreased \$4.8 million from \$9.6 million in the prior fiscal year. This was primarily due to reduced capital contributions of \$3.9 million from Civic San Diego for costs incurred for the NEVP Phase I project as the project has completed, donations of \$628 thousand, and port security grant reimbursements of \$142 thousand. Please refer to Note 4(b) for additional information on funding for the NEVP Phase I project.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Nonoperating Revenues, Expenses, and Capital Grants and Contributions - Fiscal year 2014 compared to 2013:

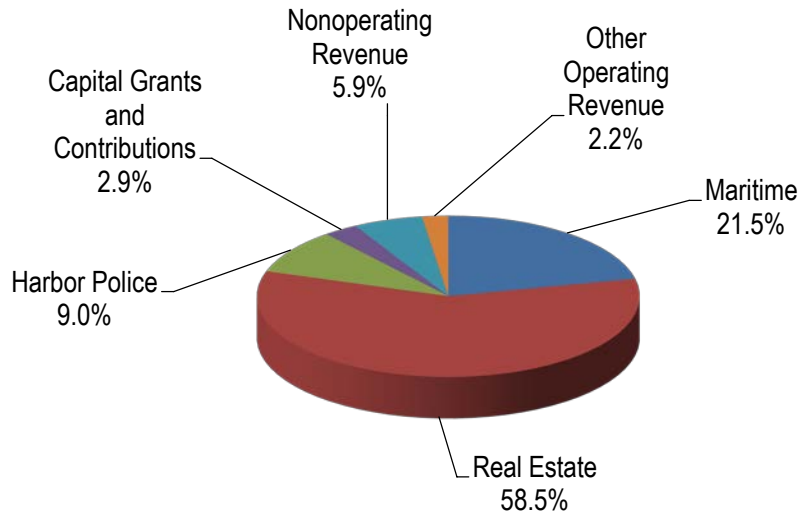
(Expressed in thousands)			\$ Change	
	2014	2013	Increase (Decrease)	% Change
Nonoperating revenues	\$ 2,497	\$ 1,413	\$ 1,084	76.7%
Nonoperating expenses	\$ 8,594	\$ 8,784	\$ (190)	(2.2%)
Capital grants and contributions	\$ 9,564	\$ 11,443	\$ (1,879)	(16.4%)

- 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 \$1.9 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(b) for additional information on funding for the NEVP Phase I project.

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

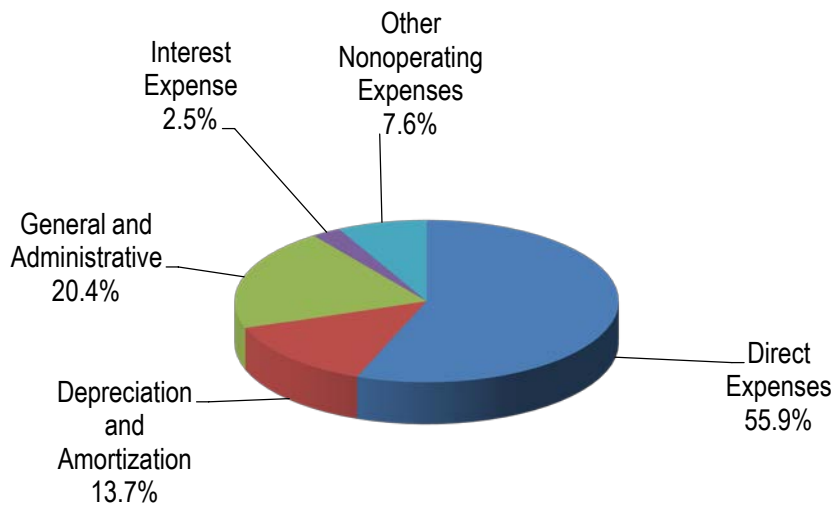
The following charts show the total District revenues and expenses as percentages by major categories for fiscal year 2015:

Fiscal Year 2015 Revenues



Total Revenues \$163,960,883

Fiscal Year 2015 Expenses



Total Expenses \$154,851,171

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 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).

SAN DIEGO UNIFIED PORT DISTRICT
Management's Discussion and Analysis – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Following is a summary of the District's outstanding notes and bonds payable as of June 30, 2015 and June 30, 2014:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015	Amounts due within one year
Notes:					
SDCRAA promissory note	\$ 39,886,768	\$ -	\$ (1,528,512)	\$ 38,358,256	\$ 1,608,986
Civic San Diego loan advance - NEVP	8,356,247	4,336,243	(5,017,972)	7,674,518	500,084
Revenue bonds:					
Series A 2004 bonds payable	11,070,000	-	(1,650,000)	9,420,000	1,725,000
Series A 2004 bonds premium	219,890	-	(38,215)	181,675	-
Series A 2013 bonds payable	25,205,000	-	-	25,205,000	-
Series A 2013 bonds premium	2,566,428	-	(216,838)	2,349,590	-
Total notes and bonds	<u>\$ 87,304,333</u>	<u>\$ 4,336,243</u>	<u>\$ (8,451,537)</u>	<u>\$ 83,189,039</u>	<u>\$ 3,834,070</u>
	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014	Amounts due 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	<u>\$ 86,412,976</u>	<u>\$ 33,098,977</u>	<u>\$ (32,207,620)</u>	<u>\$ 87,304,333</u>	<u>\$ 3,812,622</u>

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. Or, you may contact the District by phone (619) 686-6203 or by email at publicrecords@portofsandiego.org.

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Basic Financial Statements

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Net Position
June 30, 2015 and June 30, 2014

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	\$ 56,681,270	\$ 49,026,335
Investments	64,241,785	59,910,328
Accounts receivable, net of allowance	15,302,884	16,888,045
Other current assets	1,560,874	1,372,417
Total current assets	137,786,813	127,197,125
Noncurrent assets:		
Restricted assets:		
Restricted cash and investments:		
Deposits and other miscellaneous	4,140,810	2,297,213
Escrow accounts:		
So. Bay Power Plant remediation and other miscellaneous	4,679,195	8,671,663
Workers' compensation collateral	2,804,552	2,804,340
Series 2004 and 2013 Bonds:		
Debt service reserve funds held by trustee	3,378,688	3,378,688
Total restricted assets	15,003,245	17,151,904
Other noncurrent assets:		
Cash and investments designated for specific capital projects and commitments	3,276,495	14,603,086
Other noncurrent assets	59,090	66,757
Total other noncurrent assets	3,335,585	14,669,843
Capital assets:		
Nondepreciable assets:		
Land	239,274,790	227,860,798
Construction-in-progress	22,440,463	54,180,658
Depreciable assets:		
Land improvements	7,650,334	7,650,334
Buildings and structures	564,204,257	535,315,340
Machinery and equipment	86,482,274	80,243,963
Roads and parking lots	114,592,204	93,967,457
Intangible assets	2,377,155	2,067,468
Total capital assets	1,037,021,477	1,001,286,018
Less accumulated depreciation and amortization	(489,135,591)	(468,170,414)
Capital assets, net	547,885,886	533,115,604
Total noncurrent assets	566,224,716	564,937,351
Total assets	704,011,529	692,134,476
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on bond refunding	169,749	181,802
Deferred outflows - pension contributions made subsequent to the measurement date	16,780,113	-
Total deferred outflows	16,949,862	181,802
Total assets and deferred outflows of resources	\$ 720,961,391	\$ 692,316,278

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Net Position
June 30, 2015 and June 30, 2014

LIABILITIES	2015	2014
Current liabilities:		
Accounts payable	\$ 17,444,966	\$ 14,814,667
Accrued liabilities	17,927,690	9,796,376
Current portion of accrued leave	4,481,392	4,524,850
Deposits and other short-term liabilities	3,476,551	4,204,039
Accrued interest payable, Series 2004 and 2013 Bonds	562,479	589,979
Notes payable, current portion	2,109,070	2,162,622
Bonds payable, current portion	1,725,000	1,650,000
Total current liabilities	47,727,148	37,742,533
Noncurrent liabilities:		
Liabilities - payable from restricted assets:		
South Bay Power Plant remediation	4,379,195	8,371,663
Other long-term liabilities:		
Notes payable to SDCRAA, net of current portion	36,749,270	38,358,256
Bonds payable, net of current portion	35,431,265	37,411,318
Accrued leave, net of current portion	1,100,968	976,694
Unearned revenue	4,566,736	183,910
Civic San Diego loan advance - NEVP, net of current portion	7,174,434	7,722,137
Net OPEB obligation	34,843,659	29,536,934
Net Pension Liability - GASB 68	67,007,825	-
Total other long-term liabilities	186,874,157	114,189,249
Total noncurrent liabilities	191,253,352	122,560,912
Total liabilities	238,980,500	160,303,445
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - net differences between projected and actual earnings on pension investments	24,590,338	-
Total liabilities and deferred inflows of resources	263,570,838	160,303,445
NET POSITION		
Net investment in capital assets	507,623,256	490,021,160
Restricted for other projects and grants	4,786,859	4,121,565
Unrestricted	(55,019,562)	37,870,108
Total net position	457,390,553	532,012,833
Total liabilities, deferred inflows of resources, and net position	\$ 720,961,391	\$ 692,316,278

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended June 30, 2015 and June 30, 2014

	2015	2014
Operating revenues:		
Real Estate operations	\$ 95,939,734	\$ 89,281,706
Maritime operations	35,265,385	34,480,414
Harbor Police	14,728,677	17,202,471
Other operating revenues	3,631,384	4,806,963
Total operating revenues	<u>149,565,180</u>	<u>145,771,554</u>
Operating expenses:		
Direct expenses:		
Real Estate operations	27,781,900	31,279,699
Maritime operations	18,002,488	21,572,643
Harbor Police	31,080,891	32,622,641
Other operating expenses	9,685,129	5,151,159
Depreciation and amortization	21,217,742	19,596,656
General and administrative expenses	31,560,710	30,729,354
Total operating expenses	<u>139,328,860</u>	<u>140,952,152</u>
Income from operations	<u>10,236,320</u>	<u>4,819,402</u>
Nonoperating revenue (expense):		
Interest income	699,793	693,799
Settlement income	593,159	356,250
Net increase (decrease) in the fair value of investments	(36,742)	165,516
Interest expense	(3,816,021)	(3,998,061)
Convention Center expansion support	-	(4,500,000)
Other nonoperating expenses	(11,706,290)	(95,867)
Other nonoperating revenues	8,358,693	1,281,308
Nonoperating revenue (expense), net	<u>(5,907,408)</u>	<u>(6,097,055)</u>
Income (loss) before capital contributions	<u>4,328,912</u>	<u>(1,277,653)</u>
Capital grants and contributions	4,780,800	9,564,119
Change in net position	<u>9,109,712</u>	<u>8,286,466</u>
Net position, beginning of year, as previously reported	532,012,833	523,726,367
Cumulative effect of change in accounting principles	(83,731,992)	-
Net position, beginning of year, as restated	<u>448,280,841</u>	<u>-</u>
Net position, end of year	<u>\$457,390,553</u>	<u>\$532,012,833</u>

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Cash Flows
Fiscal Years Ended June 30, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Payments from customers	\$ 150,422,854	\$ 150,274,160
Payments to suppliers	(37,116,766)	(42,260,789)
Payments to employees	(74,707,109)	(73,188,156)
Other receipts	(2,816,907)	1,230,541
Net cash provided by operating activities	<u>35,782,072</u>	<u>36,055,756</u>
Cash flows from noncapital financing activities:		
Maintenance Fund - Salute to Bob Hope	(1,036)	(2,555)
Financial assistance for Convention Center expansion	-	(4,500,000)
Note payments	(2,162,622)	(2,890,659)
Net cash used in noncapital financing activities	<u>(2,163,658)</u>	<u>(7,393,214)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(35,313,835)	(34,718,439)
Proceeds on sale of capital assets	69,923	149,140
Federal/state grants received	1,632,356	1,774,518
Contributions for capital assets	3,131,151	7,114,477
Payment of bond principal	(1,650,000)	(1,840,000)
Interest paid	(3,983,906)	(3,450,757)
Civic San Diego loan advance - NEVP, net of current portion	4,336,243	5,013,535
Net cash used in capital and related financing activities	<u>(31,778,068)</u>	<u>(25,957,526)</u>
Cash flows from investing activities:		
Purchase of short-term investments	(67,929,020)	(49,465,230)
Maturity of short-term investments	73,080,558	49,785,749
Interest received from investment securities	663,051	948,095
Net cash provided by investing activities	<u>5,814,589</u>	<u>1,268,614</u>
Net increase in cash and cash equivalents	<u>7,654,935</u>	<u>3,973,630</u>
Cash and cash equivalents, beginning of year	49,026,335	45,052,705
Cash and cash equivalents, end of year	<u>\$ 56,681,270</u>	<u>\$ 49,026,335</u>

(Continued)

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Cash Flows
Fiscal Years Ended June 30, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income/(loss) to net cash provided by operating activities:		
Income from operations	\$ 10,236,320	\$ 4,819,402
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization expense	21,217,742	19,596,656
Loss on disposal of assets	(41,158)	(1,095)
Settlement income	593,159	356,250
Other nonoperating activities	(3,368,696)	1,060,662
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	1,585,161	3,279,217
Other current assets	(188,457)	(110,326)
Deferred outflows of resources	(16,768,060)	-
Accounts payable	1,973,404	(825,055)
Accrued liabilities	7,973,187	2,612,741
Other restricted assets	(212)	(185,276)
Other long-term liabilities	(11,293,168)	4,229,193
Deposits and other short-term liabilities	(727,488)	1,223,387
Deferred inflows of resources	24,590,338	-
Net cash provided by operating activities	<u>\$ 35,782,072</u>	<u>\$ 36,055,756</u>

Supplemental disclosure of noncash investing, capital, and financing activities:

Additions to capital assets included in accounts payable	\$ 436,165	\$ 941,856
Donated capital assets	\$ 17,293	\$ 675,124
Series B 2004 Bonds - defeased	\$ -	\$ (26,550,000)
Series A 2013 Bonds - proceeds	\$ -	\$ 25,475,000
Series A 2013 bond premium	\$ -	\$ 2,610,442
Bond issuance cost	\$ -	\$ 316,116
Accrued interest payable Series B 2004 Bonds - paid from escrow	\$ -	\$ 294,482
Net increase/(decrease) in the fair value of investments	\$ (36,742)	\$ 165,516
Gain on disposal of assets - land exchange	\$ 4,544,110	\$ -
Capital project write-offs - prior year costs	\$ (1,949,313)	\$ -
Reduction of NEVP maintenance credit (Civic San Diego loan)	\$ (4,383,862)	\$ -
Bond issue premium 2013 Series A (amortization)	\$ 216,838	\$ 44,014
Bond issue premium 2004 Series A (amortization)	\$ 38,215	\$ 53,440

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

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SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

(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 accrual basis of accounting. Under the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized when incurred.

(c) ***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.

(d) ***Investments***

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

(e) ***Accounts Receivable***

An allowance for uncollectible accounts receivable has been provided in the amount of \$1.1 million as of June 30, 2015 and 2014. 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.

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(f) Designated Assets

The BPC may designate funds, which they do not consider to be available for general operations. At June 30, 2015, the District has designated funds primarily for the unpaid contractual portion of some capital projects that are currently in progress totaling \$3.3 million compared to \$14.6 million on June 30, 2014. This designation is classified in the accompanying statements 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 \$16.6 million (see Note 11 (a)i) compared to \$33.8 million in fiscal year 2014.
- Commitments for other specific projects and activities (non-CIP) totaling \$8.0 million compared to \$4.1 million in fiscal year 2014.
- 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.

(g) 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.

(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

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(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, 2015:

Years of Active Service	Annual Accrued Hours (days)	Maximum Accrued Hours (days)
0-5 th	144 hours (18 days)	432 hours (54 days)
6-10 th	184 hours (23 days)	552 hours (69 days)
11-15 th	224 hours (28 days)	552 hours (69 days)
16 th -up	254 hours (31.75 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.

(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 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. Grants and contributions consist of grant

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reimbursements for capital and noncapital projects, contributions from external sources, and labor and benefits.

(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 personnel expense, contractual services, community and environmental support (including municipal services for fire, police, and medical emergency), and maintenance and repairs.

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 legal expense and interest expense.

(m) *Pension*

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's defined benefit pension plan administered by San Diego City Employees' Retirement System (SDCERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SDCERS.

(n) *Capital Grants and Contributions*

The District recognizes capital related grant revenues as capital contributions when a capital grant agreement is approved, all eligibility requirements have been met, and qualifying expenses are incurred. Contributed capital assets and donated revenue are recorded at fair value in the period when the donation is received.

(o) *Estimates*

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

(p) *New Governmental Accounting Standards*

The District implemented the following new governmental accounting standards as of July 1, 2014:

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. Refer to Note 5 and 12 for additional information related to GASB 68 implementation.

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 is no impact on the District's financial statements resulting from the implementation of this statement.

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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. Refer to Note 5 and Note 12 for additional information related to the GASB 71 implementation.

(q) ***Upcoming Governmental Accounting Standards***

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

GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It also provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. This statement will be effective for the District beginning in fiscal year 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also establishes requirements for defined contribution pensions that are not within the scope of Statement 68. In addition, it amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement 68 for pension plans and pensions that are within their respective scopes. This statement will be effective for the District beginning in fiscal year 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB). The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This statement will be effective for the District beginning in fiscal year 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by governments for postemployment benefits other than pensions (OPEB). It also improves information provided by governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes

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new accounting and financial reporting requirements for OPEB plans. This statement will be effective for the District beginning in fiscal year 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement will be effective for the District beginning in fiscal year 2016.

GASB Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual obligations, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. There will be no impact on the District's financial statements resulting from the implementation of this statement.

Management has not currently determined what the impact will be as a result of the implementation of GASB Statements No. 72 through No. 76.

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

Summary of cash and investments:	2015	2014
Cash and cash equivalents	\$ 56,681,270	\$ 49,026,335
Investments	64,241,785	59,910,328
Restricted cash and investments:		
Refundable security deposits	1,843,994	822,661
Other	2,296,816	1,474,552
Total restricted cash and investments	4,140,810	2,297,213
Designated cash and investments:		
Designated for specific capital projects and commitments	3,276,495	14,603,086
Total cash and investments	<u>\$ 128,340,360</u>	<u>\$ 125,836,962</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand, current	\$ 2,500
Deposits with financial institutions	4,221,716
Investments	124,116,144
Total cash and investments	<u>\$ 128,340,360</u>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand, current	\$ 2,500
Deposits with financial institutions	4,089,712
Investments	121,744,750
Total cash and investments	<u>\$ 125,836,962</u>

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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 temporary 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 2015 and fiscal year 2014 did the portfolio's weighted average days to maturity exceed three years. Other than the maximum allowable term to maturity, the District's BPC 115 is similar to the restrictions pursuant to California Government Code § 53600 et seq.

Investment Types Authorized by California Government Code and BPC 115	Term to Maturity	Maximum Allowable Investment	
		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 ¹	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)	n/a	No Restriction	n/a
Shares of Beneficial Interest – Issued by Management Companies	n/a	20% FMV	10% FMV
Shares of Beneficial Interest – Issued by Joint Powers Authorities (JPA)	2 Years	30% FMV	n/a
State Obligations - California and Others	5 years	No Restriction	No Restriction
California Local Agency Obligations	5 Years	No Restriction	No Restriction
Supranational Obligations - "AA" rating ²	5 Years	30% FMV	No Restriction

¹ BPC 115 allows up to 30% of A1 and P1 rated commercial paper if maturity does not exceed 31 days.

² Supranational Obligations includes Inter-American Development Bank, International Bank for Reconstruction and Development, and the International Finance Corporation.

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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 BPC 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, 2015 and 2014.

Information pertaining to the portfolio's overall sensitivity to interest rate risk at June 30, 2015 and 2014 is provided in the following tables:

District Investments		Remaining Days to Maturity			
Investment Type	Fair Value at June 30, 2015	120 Days or Less	121 to 360	361 to 720	721 to 1,080
U.S. Treasury Securities	\$ 13,031,794	\$ -	\$ 2,003,750	\$ 11,028,044	\$ -
Federal Agencies (Coupon)	47,331,036	24,311,935	6,008,162	15,014,169	1,996,770
Federal Agencies (Discount)	2,960,118	-	-	2,960,118	-
Local Agency Investment Fund - LAIF	46,100,000	-	46,100,000	-	-
Shares of Beneficial Interest - JPA	7,357,049	-	-	7,357,049	-
Medium Term Notes	7,336,147	5,327,671	-	2,008,476	-
Totals:	\$ 124,116,144	\$ 29,639,606	\$ 54,111,912	\$ 38,367,856	\$ 1,996,770

District Investments		Remaining Days to Maturity			
Investment Type	Fair Value at June 30, 2014	120 Days or Less	121 to 360	361 to 720	721 to 1,080
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	-	39,600,000	-	-
Shares of Beneficial Interest - JPA	7,334,119	-	-	7,334,119	-
Medium Term Notes	5,369,133	-	-	5,369,133	-
Totals:	\$ 121,744,750	\$ 31,443,529	\$ 52,612,537	\$ 27,718,044	\$ 9,970,640

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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.

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, 2015 and 2014 for each investment type.

Investment Type	Fair Value at June 30, 2015	Minimum Rating	AA+	A+	A	AAf /S1+	Not Rated
U.S. Treasury Securities	\$ 13,031,794	n/a	\$ 13,031,794	\$ -	\$ -	\$ -	\$ -
Federal Agencies (Coupon)	47,331,036	n/a	47,331,036	-	-	-	-
Federal Agencies (Discount)	2,960,118	n/a	2,960,118	-	-	-	-
Local Agency Investment Fund - LAIF	46,100,000	n/a	-	-	-	-	46,100,000
Shares of Beneficial Interest - JPA	7,357,049	n/a	-	-	-	7,357,049	-
Medium Term Notes	7,336,147	A	2,323,282	3,004,389	2,008,476	-	-
Totals:	\$ 124,116,144		\$ 65,646,230	\$ 3,004,389	\$ 2,008,476	\$ 7,357,049	\$ 46,100,000

Investment Type	Fair Value at June 30, 2014	Minimum Rating	AA+	AA-	AAf /S1+	Not 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		\$ 71,795,751	\$ 3,014,880	\$ 7,334,119	\$ 39,600,000

On June 10, 2015, Standard & Poor's affirmed the U.S. credit rating of AA+. Moody's Investors Service affirmed their Aaa credit rating on August 4, 2015, and Fitch Ratings affirmed their AAA ratings on April 13, 2015. Funds held in trustee and fiscal agent accounts as of June 30, 2015 and 2014 met California Government Code minimum credit rating requirements.

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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, 2015 and 2014, grouped by issuer, are identified in the tables below.

Issuer	Investment Type	Fair Value at June 30, 2015	Percentage of Portfolio
United States of America	U.S. Treasury Securities	\$ 13,031,794	10.5%
Federal Home Loan Bank	Federal Agencies Securities	17,418,071	14.0%
Federal Home Loan Mortgage Corporation	Federal Agencies Securities	17,866,265	14.4%
Federal National Mortgage Association	Federal Agencies Securities	3,001,020	2.4%
Federal Farm Credit Bank	Federal Agencies Securities	12,005,798	9.7%
General Electric Company	Medium Term Notes	3,004,389	2.4%
Microsoft Corporation	Medium Term Notes	2,323,282	1.9%
Wells Fargo & Company	Medium Term Notes	2,008,476	1.7%
CalTRUST Short-Term Fund	Shares of Beneficial Interest - JPA	7,357,049	5.9%
Local Agency Investment Fund	Local Agency Investment Fund	46,100,000	37.1%
Totals:		\$ 124,116,144	100.0%

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%

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 2015 and fiscal year 2014 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

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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, 2015 and 2014 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, 2015 and 2014 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% U.S. 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 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.

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 \$4.4 million as of June 30, 2015 and \$8.4 million as of June 30, 2014 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

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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, 2015 and 2014.

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 on as of June 30, 2015 and 2014, 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, 2015, and AA- and A-1+ respectively as of June 30, 2014.

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, 2015 and A+, AA- and A1 respectively as of June 30, 2014.

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(3) Capital Assets

Following is a summary of the capital assets activity for the fiscal years ended June 30, 2015 and June 30, 2014, respectively:

Capital Assets (Expressed in thousands)				
Description	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Nondepreciable assets:				
Land	\$ 227,861	\$ 11,414	\$ -	\$ 239,275
Construction-in-progress	54,181	27,082	(58,822)	22,441
Depreciable/amortizable assets:				
Land improvements	7,650	-	-	7,650
Buildings and structures	535,315	28,889	-	564,204
Machinery and equipment	80,244	6,532	(294)	86,482
Roads and parking lots	93,967	20,625	-	114,592
Intangible	2,068	309	-	2,377
Total assets	<u>1,001,286</u>	<u>94,851</u>	<u>(59,116)</u>	<u>1,037,021</u>
Accumulated depreciation/amortization:				
Land improvements	(6,006)	(250)	-	(6,256)
Buildings and structures	(335,422)	(13,067)	-	(348,489)
Machinery and equipment	(47,424)	(5,256)	253	(52,427)
Roads and parking lots	(79,228)	(2,481)	-	(81,709)
Intangible	(90)	(164)	-	(254)
Total accumulated depreciation/amortization	<u>(468,170)</u>	<u>(21,218)</u>	<u>253</u>	<u>(489,135)</u>
Capital assets, net	<u>\$ 533,116</u>	<u>\$ 73,633</u>	<u>\$ (58,863)</u>	<u>\$ 547,886</u>

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Capital Assets				
(Expressed in thousands)				
Description	Balance at June 30, 2013	Increases	Decreases	Balance at June 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	<u>965,830</u>	<u>59,819</u>	<u>(24,363)</u>	<u>1,001,286</u>
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	<u>(449,487)</u>	<u>(19,600)</u>	<u>917</u>	<u>(468,170)</u>
Capital assets, net	<u>\$ 516,343</u>	<u>\$ 40,219</u>	<u>\$ (23,446)</u>	<u>\$ 533,116</u>

The District recognized depreciation/amortization expense of \$21.2 million and \$19.6 million for the years ended June 30, 2015 and 2014, respectively.

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(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, 2015 and 2014, respectively:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015	Amounts due within one year
Notes:					
SDCRAA promissory note	\$ 39,886,768	\$ -	\$ (1,528,512)	\$ 38,358,256	\$ 1,608,986
Civic San Diego loan advance - NEVP	8,356,247	4,336,243	(5,017,972)	7,674,518	500,084
Revenue bonds:					
Series A 2004 bonds payable	11,070,000	-	(1,650,000)	9,420,000	1,725,000
Series A 2004 bonds premium	219,890	-	(38,215)	181,675	-
Series A 2013 bonds payable	25,205,000	-	-	25,205,000	-
Series A 2013 bonds premium	2,566,428	-	(216,838)	2,349,590	-
Total notes and bonds	87,304,333	4,336,243	(8,451,537)	83,189,039	3,834,070
Other noncurrent liabilities:					
Unearned revenue	183,910	4,385,646	(2,820)	4,566,736	-
Net OPEB obligation	29,536,934	10,382,727	(5,076,002)	34,843,659	-
Net Pension liability - GASB 68	-	100,327,558	(33,319,733)	67,007,825	-
Accrued leave	5,501,544	4,448,683	(4,367,867)	5,582,360	4,481,392
Unearned revenue - SBPP remediation	8,371,663	-	(3,992,468)	4,379,195	-
Total other noncurrent liabilities	43,594,051	119,544,614	(46,758,890)	116,379,775	4,481,392
Total long-term liabilities	<u>\$ 130,898,384</u>	<u>\$ 123,880,857</u>	<u>\$ (55,210,427)</u>	<u>\$ 199,568,814</u>	<u>\$ 8,315,462</u>
	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014	Amounts due 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
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
Unearned revenue - SBPP 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 long-term liabilities	<u>\$ 127,638,975</u>	<u>\$ 45,401,233</u>	<u>\$ (42,141,824)</u>	<u>\$ 130,898,384</u>	<u>\$ 8,337,472</u>

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The District's required debt service payments for the notes and bonds as of June 30, 2015, excluding the bond premium, are as follows:

Years Ending June 30:	Principal	Interest	Total Debt Service
2016	\$ 3,834,070	\$ 4,078,393	\$ 7,912,463
2017	4,033,783	3,878,280	7,912,063
2018	4,214,875	3,696,938	7,911,813
2019	4,441,940	3,468,547	7,910,487
2020	4,631,318	3,233,644	7,864,962
2021-2025	26,296,044	12,276,018	38,572,062
2026-2030	31,392,960	4,636,442	36,029,402
2031	1,812,784	29,478	1,842,262
Total	<u>\$ 80,657,774</u>	<u>\$ 35,297,740</u>	<u>\$ 115,955,514</u>

(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 is being amortized over a period of 25 years 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.

Civic San Diego Advance – NEVP Phase I

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 NEVP and to exercise the powers described in the JPA. The JPA identified the first phase of the NEVP (Phase I) 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 Phase I 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 Phase I 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 Phase I 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 Phase I (to be known as Setback Park/Plaza). The District has an agreement with the developers of Lane Field to design and construct Setback Park/Plaza at their sole expense. Additionally, the Agency acting

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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.

According to Section 2, Item 6.1.5.3 of the First Amendment, the District has begun to pay \$850 thousand annually to Civic San Diego as repayment of their loan advances. Upon the completion of Lane Field, the District shall pay Civic San Diego the greater of \$850 thousand or 50.0% of revenues received from Lane Field. The District may prepay advances anytime.

The NEVP Phase I improvements were completed on October 31, 2014. According to Section 3, Item 7.1 of the First Amendment, the District assumed responsibility for the maintenance of the Phase I improvements for a term of 30 years commencing six months after completion. The start of the 30 year maintenance term began on April 30, 2015 and will continue until April 29, 2045. According to Section 6.1.3 of the First Amendment, the District has applied the maintenance credit of approximately \$4.4 million against the loan advances from Civic San Diego in recognition of the District's assumption of these maintenance obligations.

According to Section 2, Item 6.1.3 of the First Amendment, the District has established and deposited \$550 thousand into a separate maintenance reserve called the NEVP Maintenance Fund (Fund) to meet the maintenance obligations for NEVP Phase I. The District will annually deposit an amount of \$550 thousand, escalated at 3% representing the incremental maintenance costs, into the Fund to meet the maintenance obligations of NEVP Phase I.

As of June 30, 2015, the District recorded the maintenance credit of approximately \$4.4 million as unearned revenue under other noncurrent liabilities. The District accounts for realized revenue on the 50.0% Civic San Diego share of NEVP Phase I maintenance costs as the costs are incurred over a 30 year period in accordance with the terms of the agreement.

(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. Term bonds outstanding on the Series A 2004 bonds are \$3.5 million and \$5.9 million. 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, 2015 through September 1, 2019.

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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 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).

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, 2015 total \$25.2 million.

Pledged Revenues

Pledged revenues for the year ended June 30, 2015, totaled \$152.4 million. This represents approximately 92.9% of total District revenues and 315.6% of the remaining Series A 2004 and 2013 Bonds' principal and interest requirements compared to \$145.1 million for the year ended June 30, 2014. Net pledged revenues for the year ended June 30, 2015 totaled \$31.6 million, which represents 935.4% of the Series A 2004 and 2013 Bonds' annual principal and interest requirements of \$3.4 million. 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 of \$3.7 million.

(d) Accrued Leave

All employees of the District earn annual leave that is paid upon termination or retirement. The accrued leave of \$5.6 million is based on current compensation rates.

(e) 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.

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.

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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, 2015 and 2014 were \$4.4 million and \$8.4 million, respectively. This amount is reported in the Statements 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.

On February 2, 2013, the above ground superstructure for the Plant was demolished. Subsurface demolition commenced in early 2014 and was completed in 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.

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(5) Defined Benefit Pension Plan

Plan Descriptions

The District's defined benefit pension plan (the 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. The District's 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 of Administration 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.

Benefits Provided

The plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits for Classic Members are based on years of credited service, equal to one year of full time employment. General Classic Members are eligible to retire at age 55 after 20 years of creditable service or at age 62 after five years of creditable service. Safety Classic Members are eligible to retire at age 50 after 20 years of creditable service or at age 55 after five years of service. Safety Members hired after January 1, 2010 are eligible to retire at age 55. All members are eligible for non-Industrial disability benefits after ten years of service credit. The death benefit is one of the following: non-industrial death before eligible to retire, non-industrial death after eligible to retire, and industrial death benefit. The cost of living adjustment is applied based on changes in Consumer Price Index, to a maximum of 2% per year.

Non-sworn employees hired after January 1, 2009 will be automatically enrolled in a defined benefit plan after five years of service. This plan has a set benefit percentage for each year of service, and increases by 0.25% every five years thereafter. The District pays 100% of this cost. These employees can contribute to a 457(b) plan and their contributions are matched by the District up to 4% in a 401(a) plan. Employees determine how their contributions are invested based on a line-up of mutual funds and target date funds. The District matches increases starting with the 16th year of service to an amount up to 6%.

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 including a change in the contribution.

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(a) *Required Disclosures In Accordance With GASB 68 – Fiscal Year 2015*

Plan Benefits

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	General	
	Prior to January 1, 2009	On or after January 1, 2009
Hire date		
Benefit formula	2.5% @ 55	1.5% @ 55
Benefit vesting schedule	5 years service	10 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55 – 62	55 – 62
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	0.75% to 1.5%
Required employee contribution rates	10.26%	*
Required employer contribution rates	41.81%	*

*For General Members hired on or after January 1, 2009, the Member is a participant for purposes of establishing reciprocity, but does not begin earning service credit until the 1st day of their 6th year of employment. As a result, the actuarial valuation has not yet reflected the contribution rates for members hired on or after January 1, 2009.

	Safety	
	Prior to January 1, 2010	On or after January 1, 2010
Hire date		
Benefit formula	3% @ 50	3% @ 55
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 – 55	55
Monthly benefits, as a % of eligible compensation	2.5% to 3.0%	2.5% to 3.0%
Required employee contribution rates	13.48%	13.48%
Required employer contribution rates	44.74%	44.74%

Employees Covered

As of the measurement date of June 30, 2014, the following employees were covered by the benefit terms for the Plan:

	General	Safety
Inactive employees or beneficiaries currently receiving benefits	423	95
Inactive employees entitled to but not yet receiving benefits	249	36
Active employees	281	104
Total	953	235

Contributions

Section 0800, Division 8 of the Amended and Restated San Diego Unified Port District Retirement Plan and Trust requires the District to contribute to the plan on behalf of the members, a percentage of compensation of all members. The Participation and Administration Agreement of the Group Trust requires member contributions to be actuarially determined to provide a specific level of benefit. Based upon the advice of the actuary, SDCERS will periodically determine and adopt by rule the required contributions separately for general members (including miscellaneous) and safety members.

Classic 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 2015,

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expressed as a percentage of compensation, were determined by the June 30, 2013 actuarial valuation. The member contribution rates were 10.26% for general members and 13.48% 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% for all other employees. For general employees hired on or after October 1, 2006, the offset rates are 7.5% for management employees and 6% for all others. Employees hired after January 1, 2009, other than safety, are not eligible to participate in the defined benefit plan until the completion of five years of service and do not have any offset.

Effective January 1, 2013, new members under PEPRA are required to pay at least 50% of the normal cost with no offset.

For the year ended June 30, 2015, the contributions made by the District to the Plan are as follows:

Contributions - employer	\$ 14,300,000
Contributions - employee (paid by employer)	\$ 2,480,113

Based on the June 30, 2013 actuarial valuation, the fiscal year 2015 employer's actuarially determined contribution rates expressed as a percentage of compensation are as follows:

General Members	41.81%
Safety Members	44.74%

Net Pension Liability

The District's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability are shown on the following page.

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.25%
Inflation	3.3%
Cost-of-living adjustment	2.0%
Projected salary increase	3.3% ¹
Investment rate of return	7.25% ²
Mortality	0.02% to 18.34% ³

¹ Plus merit component based on employee classification and years of service.

² Net of administrative and investment expenses.

³ Mortality: All active member and healthy retired members follow the RP2000 Combined Mortality Table (male and female). Disabled retirees are variations of the CALPERS Disability Tables. Further details of the mortality rate can found in the SDCERS' June 30, 2013 actuarial valuation report.

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Fiscal Years Ended June 30, 2015 and June 30, 2014

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study conducted by the actuary for the period July 1, 2007 – June 30, 2013, and the results of an economic experience study performed by the actuary prior to the completion of the June 30, 2013 valuation.

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the employees will continue to contribute to SDCERS at the current rates and the District will continue its historical practice of contributing to SDCERS based on an actuarially determined contribution, reflecting a payment equal to annual Normal Cost, an amount necessary to amortize the remaining Unfunded Actuarial liability, and the amount needed to avoid negative amortization, if any. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the discount rate of 7.25% was applied to all periods of projected benefit payments to determine the total pension liability.

The table below reflects best estimates of geometric long-term expected real rates of return and nominal rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014. Expected returns are based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and where necessary, judgment-based modifications are made to these inputs. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long - Term Expected Real Rates of Return</u>	<u>Long - Term Expected Nominal Rates of Return</u>
U.S. Equity	21.0%	4.7%	7.1%
Non - U.S. Equity	14.0%	5.0%	7.4%
Emerging Market Equity	1.0%	6.4%	8.8%
Global Equity	5.0%	5.0%	7.4%
U. S. Fixed Income	22.0%	1.7%	4.0%
Emerging Market Debt	5.0%	4.1%	6.5%
Real Estate	11.0%	4.3%	6.7%
Private Equity	10.0%	6.6%	9.1%
Infrastructure	3.0%	5.4%	7.8%
Opportunity Fund	8.0%	4.6%	7.0%
Total	<u>100%</u>		

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Changes in the Net Pension Liability

The changes in the Net Pension Liability follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2013	\$410,026,471	\$309,698,913	\$100,327,558
Changes in the year:			
Service cost	8,387,419	-	8,387,419
Interest on the total pension liability	29,357,391	-	29,357,391
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	13,900,000	(13,900,000)
Contribution - employee (paid by employer)	-	2,695,566	(2,695,566)
Contribution - employee	-	1,541,907	(1,541,907)
Net investment income	-	53,655,565	(53,655,565)
Administrative expenses	-	(728,498)	728,498
Benefit payments, including refunds of employee contributions	(18,762,842)	(18,762,842)	-
Net changes	18,981,968	52,301,698	(33,319,730)
Balance at June 30, 2014	\$ 429,008,439	\$362,000,611	\$67,007,828

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the District, as of the measurement date June 30, 2014, calculated using the discount rate, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
Net Pension Liability	\$ 119,427,769	\$ 67,007,828	\$ 23,451,306

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

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized pension expense of \$7,866,172. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 16,780,113	\$ -
Difference between actual and expected experience	-	-
Changes in assumptions	-	-
Net differences between projected and actual earning on plan investments	-	24,590,338
Total	\$ 16,780,113	\$ 24,590,338

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\$16,780,113 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	
2016	\$ (6,147,584)
2017	\$ (6,147,584)
2018	\$ (6,147,584)
2019	\$ (6,147,584)

Payable to the Pension Plan

The District had no outstanding required contributions payable to the pension plan for the year ended June 30, 2015.

(b) Required Disclosures In Accordance With GASB 27 – Fiscal Year 2014

Actuarial Contribution Rate

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.

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.

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

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

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

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

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
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)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
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.

(c) ***Preservation of Benefits Plan (POB Plan)***

The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Code Section 415(m)(3), which was created by Congress to allow the payment of promised pension benefits that exceed the Code Section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). As required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The District may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC Section 401(a) pension plan. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis, which is funded by the District. For purposes of disclosure requirements under GASB Statement No. 67, the District considers the POB Plan to be an arrangement that allows payment of benefits earned under the pension plan and does not consider the POB Plan to be a separate defined benefit plan.

For fiscal years 2015 and 2014, the District paid \$250 thousand and \$237 thousand respectively in benefits above 415(b) limits for the POB Plan. The number of participants in any given year for the POB Plan is determined by the number of pension plan participants who exceed the current year's section 415(b) limitations as calculated by SDCERS' actuary. The maximum annual participant payment from a defined benefit plan for calendar years 2015 and 2014 was \$210 thousand. For non-safety members, the limit is adjusted downward depending on the age of the participant when benefits began. In fiscal year 2015, the District POB Plan pension cost was approximately \$245 thousand, however, the District contributed \$250 thousand to the Plan, and therefore, the \$5 thousand difference in fiscal year 2015 decreased the District's Net Pension Obligation (NPO). In fiscal year 2014, the District POB Plan pension cost was \$235 thousand compared to the District's contribution of \$237 thousand, the \$2 thousand decrease being the Net Pension Obligation (NPO).

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(6) Employees' Deferred Compensation Plan (Plan)

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457(b). 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.

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.

(7) Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

In addition to pension benefits described in Note 5, 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.

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

For the years ended June 30, 2015 and 2014, 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 Annual Required Contribution (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 June 30, 2015, the UAAL as of July 1, 2014 was \$94.3 million and the ARC for the fiscal years ended June 30, 2015 was \$9.1 million and \$8.5 million in 2014. The District recognized \$8.4 million and \$8.0 million as OPEB

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expense for the years ended June 30, 2015 and 2014, respectively. Of these amounts, \$3.1 million was the total contributions made in 2015 and \$3.2 million in 2014. A total of \$5.3 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, 2015 and 2014:

	2015	2014
Annual required contribution	\$ 9,053,565	\$ 8,482,400
Interest on net OPEB obligation	1,329,162	1,115,312
Adjustment to annual required contribution	(1,949,919)	(1,599,480)
Annual OPEB cost (expense)	8,432,808	7,998,232
Contributions made	(3,126,083)	(3,246,000)
Increase in net OPEB obligation	5,306,725	4,752,232
Net OPEB obligation - beginning of year	29,536,934	24,784,702
Net OPEB obligation - end of year	\$ 34,843,659	\$ 29,536,934

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 2013, 2014, and 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 8,120,465	40%	\$ 24,784,702
June 30, 2014	\$ 7,998,232	41%	\$ 29,536,934
June 30, 2015	\$ 8,432,808	37%	\$ 34,843,659

Funded Status and Funding Progress

The following table summarizes the District's OPEB plan funded status as of the most recent actuarial valuation dated as of July 1, 2014.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	\$ -	\$94,341,528	\$(94,341,528)	0.0%	\$40,275,371	234.2%

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

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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 July 1, 2014 actuarial valuation that assumes: (a) 4.5% investment rate of return, and (b) annual healthcare cost increase ranging from an initial rate of 8.0% to an ultimate rate of 5.0% over a six year period. The valuation was performed using the projected unit credit and the UAAL is being amortized over 24 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) 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, 2015, were as follows:

Self-Insured Retentions/Deductibles (as of June 30, 2015)	
Coverage	Self-Insured Retentions/ Deductibles
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
Cyber Liability	50,000
Fiduciary liability	25,000
Crime/public employee dishonesty	5,000
Marine protection and indemnity	5,000
Automobile Liability	None

Since July 1, 2004, the District has participated in a loss-sensitive workers' compensation program with a \$500 thousand per claim deductible. The District is required to fund an escrow account that is held as security in the unlikely event the District fails to meet its required obligations, since July 1, 2013 the required amount has been \$2.8 million. 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, 2015, the District recorded \$1.6 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

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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 deductible 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, 2015 and 2014 were as follows:

Fiscal Year	Claims Liability at Beginning of Period	Claims Incurred During the Period, and Changes in Estimates	Claims Payment	Claims Liability at End of Period
FY 2014	\$ 1,976,196	\$ 642,677	\$ (797,020)	\$ 1,821,853
FY 2015	\$ 1,821,853	\$ 570,558	\$ (745,289)	\$ 1,647,122

(9) 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 permits the District to periodically adjust rents. In addition, many of these leases are secured by letters of credit, which totaled approximately \$3.5 million and \$2.4 million at June 30, 2015 and 2014, respectively. 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 \$62.9 million in 2015 and \$57.9 million in 2014. 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 \$36.6 million in 2015 and \$37.2 million in 2014.

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

<u>Years Ending June 30:</u>	
2016	\$ 75,072,810
2017	76,775,509
2018	74,803,472
2019	72,390,907
2020	71,507,234
2021-2025	357,632,326
2026-2030	353,143,057
2031-2035	287,050,811
2036-2040	273,178,063
2041-2045	232,272,480
2046-2050	189,586,265
2051-2055	168,670,777
2056-2060	154,332,383
2061-2065	164,062,747
2066-2070	160,044,943
2071-2075	42,209,500
2076-2080	17,077,417
Total	<u>\$ 2,769,810,701</u>

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. As of June 30, 2015, OPB has received rent credits totaling \$43.2 million. 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.

(10) 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

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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.

(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 the 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 CPI 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 the District'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) *Compressed Natural Gas (CNG) Vehicles*

In fiscal year 2009, the District amended the original 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 total amount for the two-year option is \$25,214. On December 4, 2014, the District made the final payment of \$24,710 after discount, and the title deeds to the vehicles are being transferred to the District.

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(f) *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, 2015 are as follows:

<u>Years Ending June 30:</u>	
2016	\$ 214,951
2017	198,197
2018	198,689
2019	199,202
2020	200,887
2021-2025	963,217
2026-2030	831,463
2031-2035	839,880
2036-2040	849,138
2041-2045	859,322
2046-2050	868,108
2051-2055	747,300
2056-2060	747,300
2061-2065	747,300
2066-2070	523,110
Total	<u>\$ 8,988,064</u>

Total rental expenses for the above mentioned operating leases for the fiscal years ended June 30, 2015 and 2014, were approximately \$243 thousand and \$300 thousand, respectively.

(11) **Commitments and Contingencies**

(a) *Commitments*

As of June 30, 2015, the District had significant commitments for capital expenditures and other matters as described below:

- i. Capital Improvement Program (CIP): 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 June 7, 2012, the fiscal year 2014-2018 CIP was approved. On October 27, 2014, the fiscal year 2014-2018 CIP was amended and approved by the Board. As of June 30, 2015, 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 \$16.6 million compared to approximately \$33.8 million as of June 30, 2014.

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

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 statements of net position as cash and investments designated for specific capital projects and commitments with a total balance of \$3.3 million.

- ii. Fire, Police, Emergency Medical, and Lifeguard Services: The District enters into a 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 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 \$7.5 million for fiscal year 2015 compared to \$7.4 million in fiscal year 2014. In addition, the District has a contract with the City of Imperial Beach for tidelands maintenance services at a cost of \$930 thousand for fiscal year 2015 and \$914 thousand in fiscal year 2014.

(b) Contingencies

As of June 30, 2015, 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 with the District and consideration of adding the District to the permits or other regulatory orders, 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 BAE Systems 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

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

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 RWQCB 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 cross-claims) 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 southern portion of the Site has been paid by the District. As of June 30, 2015, 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 in the prior year as a contingent liability based on its expected contribution to the remediation occurring at the northern portion of the Site.

- (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 Cleanup 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 alternative hull coatings research, education and outreach, and policy development. These efforts are intended to directly or indirectly reduce copper loading into the SIYB. 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.

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

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 a 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.

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. It is anticipated that 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, 2015.

- (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 have completed the inspection and remediation of the Pacifica Exchange Parcel and a closure letter has been issued by RWQCB. The District, UTAS, the City of Chula Vista, and Pacifica Company are completing a Soil Management Plan in order to address contamination found on the Pacifica Exchange Parcel during development of the Parcel. The District and UTAS are currently conducting testing of the northern portion of the South Campus Site also known as "H-23" in order for UTAS to comply with the CAO, and to identify potential remediation requirements on the H-23 Parcel.

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

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 South Campus 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.

- (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 much of 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 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 polycyclic 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, conduct sampling for a list of pollutants including PCBs, PAHs, and metals, and complete an analysis report. The District and other responsible parties fulfilled the Order's requirements with the submittal of a final report in April 2015.

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

At this time, the RWQCB's intent for future analysis or clean-up in the LHCE is not known. As a result, 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.

- (h) Sunroad Marina: In 2012, the District received an investigation order from the RWQCB to investigate possible impairment of sediment in the Sunroad Marina located in the East Basin of Harbor Island, which the District completed in 2013. The report showed sediment in some areas of the Sunroad Marina site was potentially impaired. In 2015, the RWQCB responded to the investigation report and requested the District either complete a risk assessment, remedial action plan or stressor identification study to resolve the potential impairment. The District is currently developing a stressor identification study work plan with the RWQCB. The estimated study cost is \$52,000. The goal of the study is to identify the source and extent of the potential impairment.
 - (i) Naval Training Center (NTC) Boat Channel: The NTC Boat Channel is a waterway under City of San Diego jurisdiction, which receives run-off from Lindbergh Field. The site was formerly part of the NTC which underwent Base Realignment and Closure (BRAC) beginning in the early 1990s. At that time, the NTC was transferred to the City of San Diego, except for Navy Boat Channel which had unresolved sediment contamination issues. In 2015, the Navy contacted the District as a former operator of Lindbergh Field and requested the District participate in a cost sharing arrangement for addressing the sediment contamination. Discussions are ongoing. As a result, the District's share of liability cannot be reasonably estimated at the present time, and the District anticipates that insurance might 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 brought a motion for summary judgment which was granted but the court of appeal reversed and remanded the case to the trial court. Plaintiffs sought leave to amend their complaint and the court granted leave and we are waiting for service of the amended complaint. A trial date is not presently set due to plaintiff's motion to file an amended complaint.

The likelihood of an unfavorable outcome is presently unknown as expert discovery has not been completed. However, a finding of significant liability against the District should be low. 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. The California Department of Industrial Relations (DIR) determined that a work of improvement commonly referred to as the Hilton San Diego Bayfront Hotel (Project) was a public works project. Consequently a wage and penalty assessment was issued 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 paid \$8.5 million in back wages to the DLSE and claims that they are entitled to be indemnified by the District for all damages, costs, and legal expenses incurred by them as a result of the assessment. The District denies liability in connection with the claims of Hensel Phelps. In addition, the District has tendered the claim to One Park Blvd., LLC (OPB), and demanded that

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

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 initiated an 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 recovery of damages alleged to be in excess of \$9.5 million. The District, Hensel Phelps, and OPB recently entered into a settlement whereby the District paid \$11.0 million to Hensel Phelps for full settlement of the matter and Hensel Phelps taking responsibility for a claim by E. F. Brady against the District. The \$11.0 million payment included the return of approximately \$1.6 million in legal fees previously deposited by Hensel Phelps with the District. As of June 30, 2015, the District accrued \$9.4 million of legal expenses for this matter.

- iv. 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 thousand.
- v. The District has been named as a defendant in two lawsuits filed by San Diego Navy Broadway Complex Coalition. The first lawsuit filed in November 2013 and the second filed in March 2014 have been consolidated by the court. The complaint alleges that the District violated the California Environmental Quality Act and the California Coastal Act when it approved the Port Master Plan Amendment for the San Diego Convention Center expansion. While the District contends that it did not violate either of these statutes and damages are normally not awarded in such cases, the District could be required to pay the plaintiff's attorneys' fees and costs if the plaintiff obtains a judgement against the District. The amount cannot be reasonably determined at the present time.
- vi. The District has been named as a defendant in a lawsuit filed by San Diego Navy Broadway Complex Coalition in April 2014. The complaint alleges that the District violated the California Environmental Quality Act and the California Coastal Act when it approved the Port Master Plan Amendment for the Sunroad hotel project. While the District contends that it did not violate either of these statutes and damages are normally not awarded in such cases, the District could be required to pay the plaintiff's attorneys' fees and costs if the plaintiff obtains a judgement against the District. The amount cannot be reasonably determined at the present time.
- vii. 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 and June 30, 2015 for these claims.

SAN DIEGO UNIFIED PORT DISTRICT
Notes to Basic Financial Statements
Fiscal Years Ended June 30, 2015 and June 30, 2014

(12) Implementation of GASB 68 and GASB 71 and Impact on Net Position

Effective July 1, 2014, the District implemented GASB Statements No. 68 and No. 71. GASB Statement No. 68 requires the recognition of the entire net pension liability, a more comprehensive measure of pension expense, and disclosure of deferred inflows of resources and deferred outflows of resources for the District. Previously, the net pension liability was not reported in the Statements of Net Position. Please refer to Note 5 Defined Benefit Pension Plan for additional information.

The implementation of GASB Statements No. 68 and No. 71 resulted in a restatement of net position of \$83,731,992, as shown below and presented as a separate line in the Statements of Revenues, Expenses, and Changes in Net Position for fiscal year 2015. The fiscal year 2014 data was not restated because GASB Statements No. 68 and No. 71 did not require retroactive application.

GASB Statements No. 68 and No. 71 Accounting and Reporting for Pensions Calculation of Prior Period Adjustment to Beginning Net Position	
Description	Amount
Net pension liability - beginning balance of fiscal year 2014	\$ 100,327,558
Less application of fiscal year 2014 contributions	(16,595,566)
Total adjustment to beginning net position	<u>\$ 83,731,992</u>

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Required Supplementary Information (Unaudited)

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SAN DIEGO UNIFIED PORT DISTRICT
Required Supplementary Information – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years*

	<u>2015</u>
<u>Total Pension Liability</u>	
Service cost	\$ 8,387,419
Interest (includes interest on service cost)	29,357,391
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(18,762,842)
Net change in total pension liability	18,981,968
Total pension liability - beginning	410,026,471
Total pension liability - ending	<u>\$ 429,008,439</u>
<u>Plan Fiduciary Net Position</u>	
Contributions - employer	\$ 16,595,566
Contribution - member	1,541,907
Net investment income	53,655,565
Benefit payments, including refunds of member contributions	(18,762,842)
Administrative expense	(728,498)
Net change in plan fiduciary net position	52,301,698
Plan fiduciary net position - beginning	309,698,913
Plan fiduciary net position - ending	<u>\$ 362,000,611</u>
Net pension liability - ending	<u>\$ 67,007,828</u>
Plan fiduciary net position as a percentage of the total pension liability	84.38%
Covered employee payroll	\$ 34,528,283
Net pension liability as a percentage of covered employee payroll	194.07%

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms specific to the plan.

Change of Assumptions: There were no changes in assumption

*Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

Source: SDCERS GASB67/68 Report as of June 30, 2014

SAN DIEGO UNIFIED PORT DISTRICT
Required Supplementary Information – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

Schedule of Employer Contributions
Last Ten Fiscal Years
Expressed in Thousands

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined/required contribution	\$ 14,300	\$ 13,900	\$ 13,200	\$ 12,600	\$ 11,500	\$ 7,200	\$ 7,300	\$ 6,900	\$ 8,300	\$ 8,121
Contributions in relation to the actuarially determined contribution	14,300	13,900	13,200	12,600	11,501	7,201	7,340	6,900	9,300	8,121
Contribution deficiency/(Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 37,730	\$ 34,528	\$ 35,873	\$ 34,632	\$ 39,165	\$ 40,370	\$ 38,635	\$ 37,160	\$ 33,927	\$ 35,077
Contributions as a percentage of covered-employee payroll	37.90%	40.26%	36.80%	36.38%	29.37%	17.84%	19.00%	18.57%	27.41%	23.15%

Notes to Schedule:

Valuation date June 30, 2012

Timing Actuarially determined contributions are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Key Methods and Assumptions Used to Determine Contribution (for the most recent fiscal year):

Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Expected Value Method
Amortization method	Level Percent Closed
Discount rate	7.5%
Amortization growth rate	3.75%
Salary increases	3.75% plus merit component based on employee classification and years of service
Cost-of-living adjustments	2.0%
Mortality	Healthy retired members use the RP2000 Combined Mortality Table (male and female). For Safety female members, rates are set forward one year.

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2014 can be found in the June 30, 2012 actuarial valuation report.

Source: SDCERS GASB 67/68 Report as of June 30, 2014

SAN DIEGO UNIFIED PORT DISTRICT
Required Supplementary Information – (Unaudited)
Fiscal Years Ended June 30, 2015 and June 30, 2014

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
June 30, 2014	\$ 333,229	\$ 433,272	\$(100,043)	76.9%	\$ 33,273	300.7%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2010	\$ -	\$ 80,436	\$ (80,436)	0.0%	\$ 42,918	187.4%
July 1, 2012	\$ -	\$ 90,510	\$ (90,510)	0.0%	\$ 41,099	220.2%
July 1, 2014	\$ -	\$ 94,342	\$ (94,342)	0.0%	\$ 40,275	234.2%

Port Pavilion



STATISTICAL SECTION (UNAUDITED)

Port Pavilion

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Tenth Avenue Marine Terminal



Contents

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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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	107-114
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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	115-118
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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	119-120
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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	121-122
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.

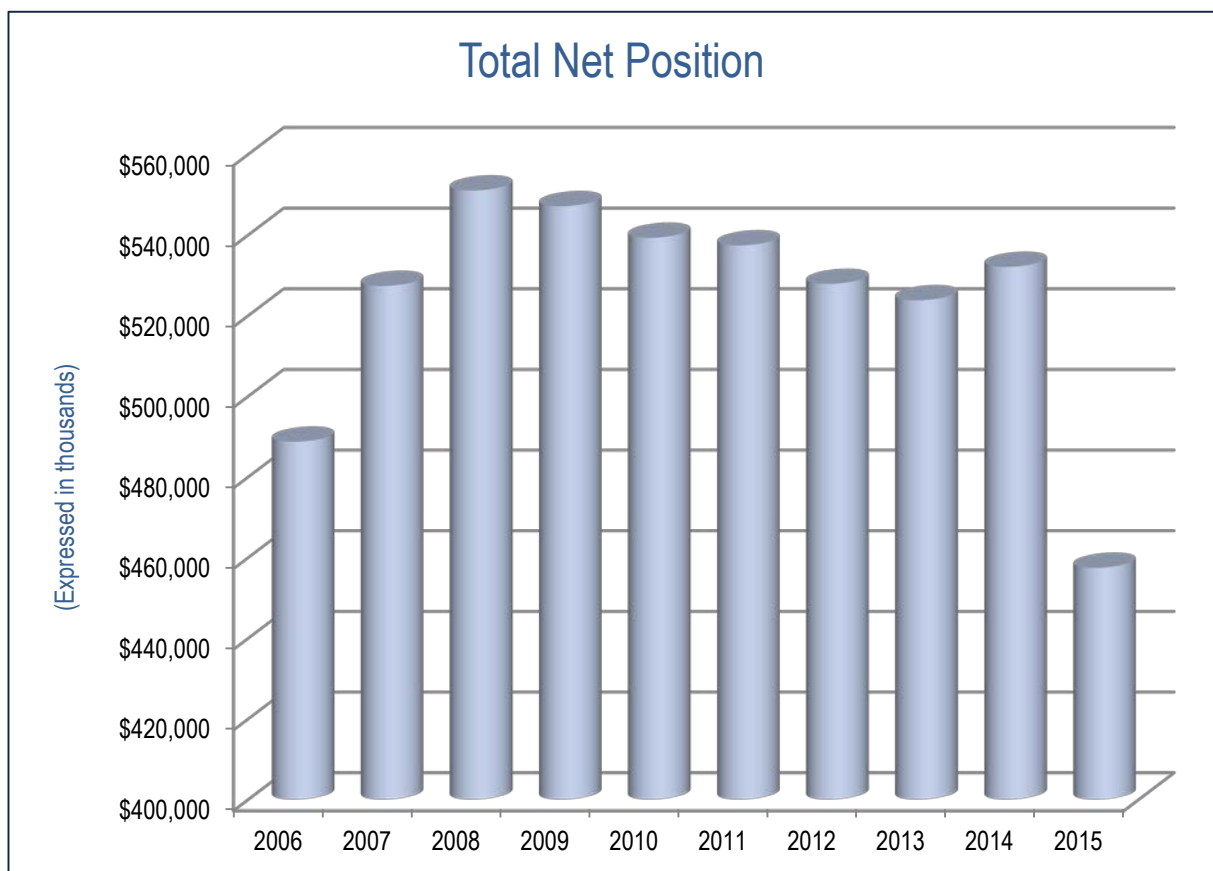
Net Position — Last Ten Fiscal Years

(Expressed in thousands)

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
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
2012 ¹	460,701	12,872	54,211	527,784
2013 ¹	474,797	3,436	45,494	523,727
2014	490,021	4,122	37,870	532,013
2015 ²	507,624	4,787	(55,020)	457,391

¹In 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.

²In 2015, the District's unrestricted net position was (\$55.0) million which includes a restatement of net position of \$83.7 million due to the implementation of GASB Statement No. 68.



Source: San Diego Unified Port District

Changes in Net Position – Last Ten Fiscal Years

(Expressed in thousands)

	2006	2007	2008	2009	2010	2011	2012 ¹	2013 ¹	2014	2015 ²
Operating revenues:										
Real Estate operations	\$ 77,055	\$ 82,807	\$ 87,181	\$ 78,536	\$ 71,560	\$ 80,904	\$ 79,782	\$ 82,604	\$ 89,282	\$ 95,940
Maritime operations	34,633	37,750	42,520	40,694	37,604	34,033	33,090	33,469	34,480	35,265
Harbor Police	11,239	11,406	12,289	12,464	12,934	13,190	15,639	15,313	17,203	14,729
Other operating revenues	1,538	1,765	2,140	2,816	2,511	3,240	2,225	3,884	4,807	3,631
Total operating revenues	124,465	133,728	144,130	134,510	124,609	131,367	130,736	135,270	145,772	149,565
Operating expenses:										
Direct expenses:										
Real Estate operations	21,156	19,745	21,897	21,191	26,704	26,512	34,656	33,186	31,280	27,782
Maritime operations	19,080	20,499	23,328	23,243	22,338	19,031	20,612	20,448	21,573	18,002
Harbor Police	27,060	29,626	31,049	32,974	33,043	35,407	31,458	33,756	32,623	31,081
Other operating expenses	8,669	7,007	8,442	11,732	2,502	1,830	75	1,123	5,151	9,685
Depreciation and amortization	17,183	16,983	17,412	18,117	18,511	19,267	19,096	18,935	19,597	21,218
General and administrative expenses	25,454	28,223	27,867	31,428	30,902	31,357	34,600	35,951	30,729	31,561
Total operating expenses	118,602	122,083	129,995	138,685	134,000	133,404	140,497	143,399	140,953	139,329
Income/(loss) from operations	5,863	11,645	14,135	(4,175)	(9,391)	(2,037)	(9,761)	(8,129)	4,819	10,236
Nonoperating revenue/(expense):										
Interest income	5,126	8,325	8,319	5,518	2,672	1,678	1,127	627	694	700
Settlement income	8	16,444	36	1,166	128	2,623	5	6	356	593
Net inc/(dec) in the fair value of invest.	(52)	291	(19)	1,117	(259)	(392)	(349)	(206)	166	(37)
Interest expense	(5,997)	(4,923)	(4,834)	(4,702)	(4,576)	(4,564)	(4,396)	(4,206)	(3,998)	(3,816)
Financial assistance other	(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)	-
Other nonoperating expenses	(1,626)	(357)	(390)	(1,043)	(456)	(205)	(80)	(78)	(96)	(11,706)
Other nonoperating revenues	29,191	4,782	6,458	3,371	3,759	4,741	4,007	986	1,281	8,359
Nonoperating income/(loss)	20,467	17,015	4,102	(5,056)	(3,438)	(2,782)	(7,516)	(7,371)	(6,097)	(5,907)
Capital grants and contributions	2,933	9,973	5,425	5,347	4,990	2,930	8,339	11,443	9,564	4,781
Change in net position	29,263	38,633	23,662	(3,884)	(7,839)	(1,889)	(8,938)	(4,057)	8,286	9,110
Beginning net position	459,390	488,653	527,286	550,948	547,061	539,222	537,333	527,784	523,727	532,013
Restatement	-	-	-	(3)	-	-	(611)	-	-	(83,732)
Ending net position	\$ 488,653	\$ 527,286	\$ 550,948	\$ 547,061	\$ 539,222	\$ 537,333	\$ 527,784	\$ 523,727	\$ 532,013	\$ 457,391

¹In 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.

²In 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, with new pension reporting requirements for employers. The implementation of GASB 68 restates the net position for the affected reporting units to give retroactive effect.

Source: San Diego Unified Port District

Operating Revenue by Segment – Last Ten Fiscal Years

(Expressed in thousands)

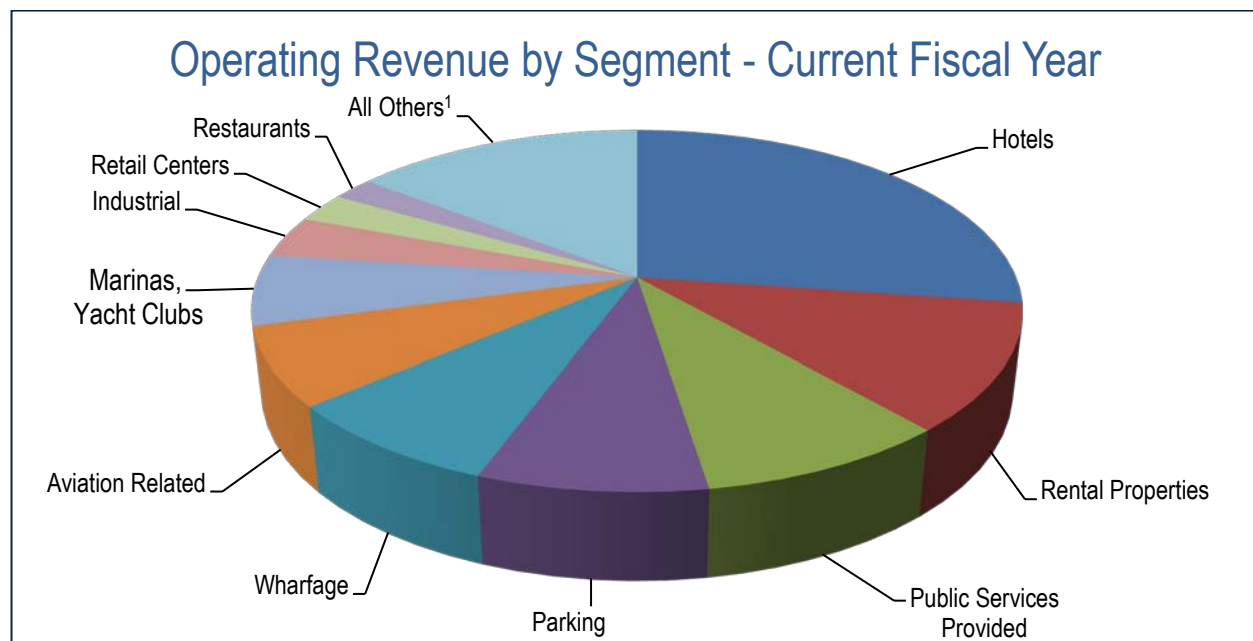
Segment	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Hotels ¹	\$ 33,448	\$ 36,716	\$ 37,484	\$ 32,323	\$ 25,125	\$ 30,866	\$ 32,824	\$ 33,667	\$ 37,700	\$ 40,739
Rental Properties	14,879	17,012	15,518	18,141	15,499	15,585	15,439	16,191	17,101	16,900
Public Services Provided ²	10,421	10,336	11,324	11,550	11,567	12,130	14,200	13,922	15,309	13,427
Parking	8,447	9,160	10,324	8,989	8,690	7,303	7,532	8,598	10,082	12,151
Wharfage	10,177	11,609	13,687	9,839	9,723	9,755	10,867	11,270	11,535	12,078
Aviation Related	10,776	11,514	11,338	11,488	11,504	11,503	11,564	11,053	10,575	10,469
Marinas, Yacht Clubs ³	7,006	8,026	8,308	8,735	8,116	8,099	8,736	9,216	8,529	9,482
Industrial	3,017	2,941	4,722	4,270	5,379	10,439	6,008	6,023	5,919	5,579
Retail Centers	2,750	3,400	3,126	3,119	2,867	3,053	3,491	3,604	3,815	3,928
Restaurants ⁴	2,088	2,397	2,459	2,540	2,627	2,560	2,316	2,326	2,888	3,097
Dockage	2,938	2,828	3,175	2,676	2,553	2,404	1,967	1,938	1,920	2,083
Passenger Fees	3,788	3,379	6,076	4,964	4,756	2,422	1,554	1,289	1,133	1,167
Citations	231	271	300	284	307	322	373	395	794	1,144
Passenger Security Charges	1,830	1,892	3,238	3,078	3,066	1,841	1,174	989	999	1,006
Piers & Floats	108	104	107	93	84	86	128	89	97	111
Grant Revenue	466	682	435	489	932	628	873	846	959	-
Other	12,095	11,461	12,509	11,932	11,814	12,371	11,690	13,854	16,417	16,204
Total	\$ 124,465	\$ 133,728	\$ 144,130	\$ 134,510	\$ 124,609	\$ 131,367	\$ 130,736	\$ 135,270	\$ 145,772	\$ 149,565

¹All hotel leases include restaurants and six hotel leases include marinas.

²Includes police services to San Diego County Regional Airport Authority (SDCRAA).

³Not included are marinas under hotel operations or under a restaurant lease.

⁴The District has eight direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.



¹All Others segment includes Dockage, Passenger Fees, Passenger Security Charges, Grant Revenue, Citations, Piers & Floats, and Other.

Source: San Diego Unified Port District

Ten Largest Customers — Current Fiscal Year and Nine Years Ago

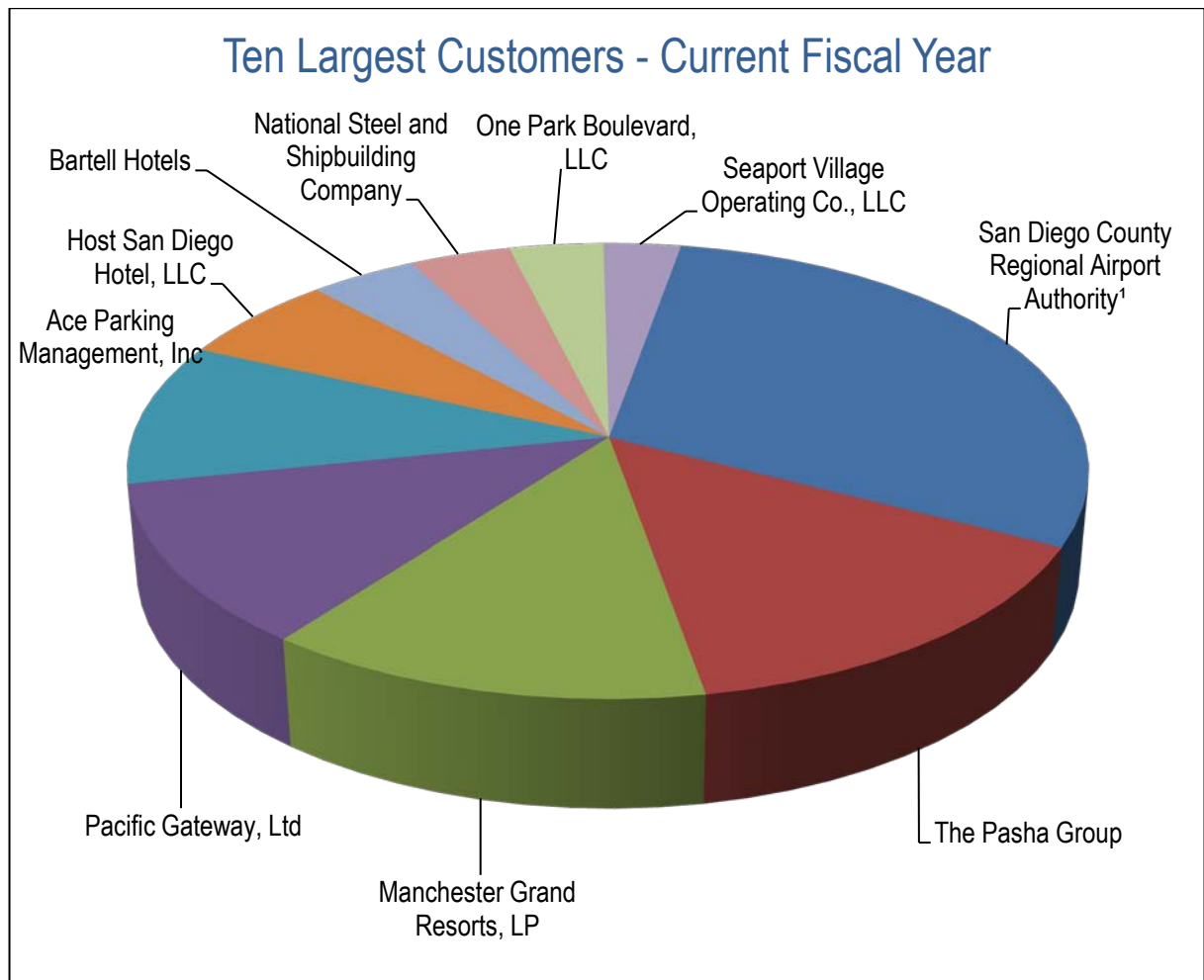
(Expressed in thousands)

Customer	2006	%
San Diego County Regional Airport Authority ¹	\$ 23,662	19.0%
Manchester Grand Resorts, LP	10,618	8.5%
Pacific Gateway, Ltd	8,885	7.1%
The Pasha Group	8,803	7.1%
Host San Diego Hotel, LLC	6,338	5.1%
Ace Parking Management, Inc	4,691	3.8%
Paxton, Shreve, & Hayes, Inc	4,240	3.4%
Meissner Jacquet Investment Management Services	3,142	2.5%
Bartell Hotels	2,577	2.1%
ABM/Ampco System Parking	2,518	2.0%
Total Ten Largest Customers	75,474	60.6%
Other	48,991	39.4%
Total Operating Revenue	<u>\$ 124,465</u>	<u>100.0%</u>

¹ Includes reimbursements for airport police services.

Customer	2015	%
San Diego County Regional Airport Authority ¹	\$ 26,167	17.5%
The Pasha Group	12,769	8.5%
Manchester Grand Resorts, LP	11,445	7.7%
Pacific Gateway, Ltd	10,030	6.7%
Ace Parking Management, Inc	8,844	5.9%
Host San Diego Hotel, LLC	5,480	3.7%
Bartell Hotels	3,635	2.4%
National Steel and Shipbuilding Company	3,425	2.3%
One Park Boulevard, LLC	3,190	2.1%
Seaport Village Operating Co, LLC	2,622	1.8%
Total Ten Largest Customers	87,607	58.6%
Other	61,958	41.4%
Total Operating Revenue	<u>\$ 149,565</u>	<u>100.0%</u>

¹ Includes reimbursements for airport police services.



¹Includes police services to San Diego County Regional Airport Authority (SDCRAA).

Source: San Diego Unified Port District

Real Estate Operations Revenue by Segment – Last Ten Fiscal Years

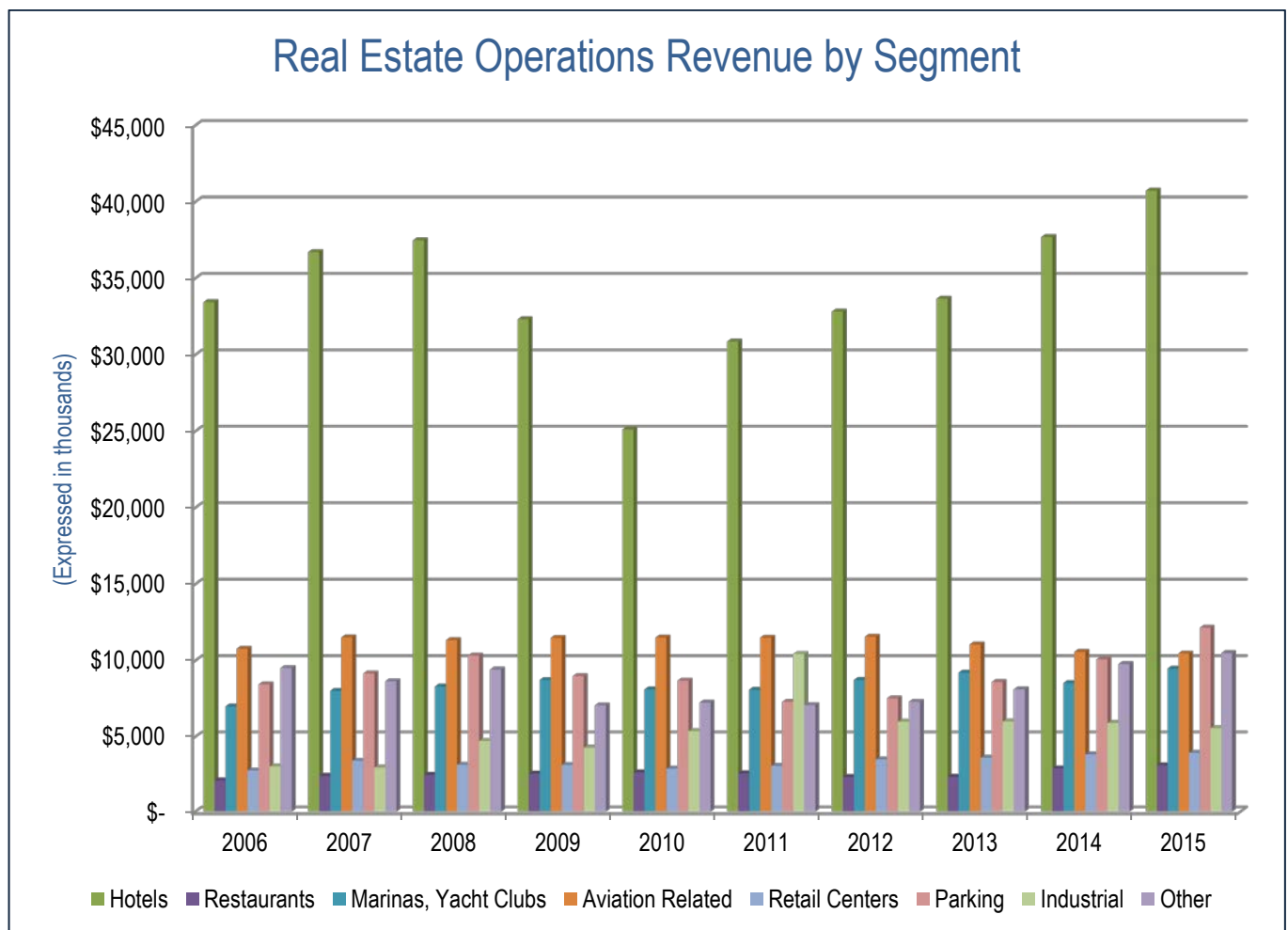
(Expressed in thousands)

Segment	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Hotels ¹	\$ 33,448	\$ 36,716	\$ 37,484	\$ 32,323	\$ 25,125	\$ 30,866	\$ 32,824	\$ 33,667	\$ 37,700	\$ 40,739
Restaurants ²	2,088	2,397	2,459	2,540	2,627	2,560	2,316	2,326	2,888	3,097
Marinas, Yacht Clubs ³	7,006	8,026	8,308	8,735	8,116	8,099	8,736	9,216	8,529	9,482
Aviation Related	10,776	11,514	11,338	11,488	11,504	11,503	11,564	11,053	10,575	10,469
Retail Centers	2,750	3,400	3,126	3,119	2,867	3,053	3,491	3,604	3,815	3,928
Parking	8,447	9,160	10,324	8,989	8,690	7,303	7,532	8,598	10,082	12,151
Industrial	3,017	2,941	4,722	4,270	5,379	10,439	6,008	6,023	5,919	5,579
Other	9,523	8,653	9,420	7,072	7,252	7,081	7,311	8,117	9,774	10,495
Total	\$ 77,055	\$ 82,807	\$ 87,181	\$ 78,536	\$ 71,560	\$ 80,904	\$ 79,782	\$ 82,604	\$ 89,282	\$ 95,940

¹All hotel leases include restaurants and six hotel leases include marinas.

²The District has eight direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.

³Not included are marinas under hotel operations or under a restaurant lease.



Source: San Diego Unified Port District

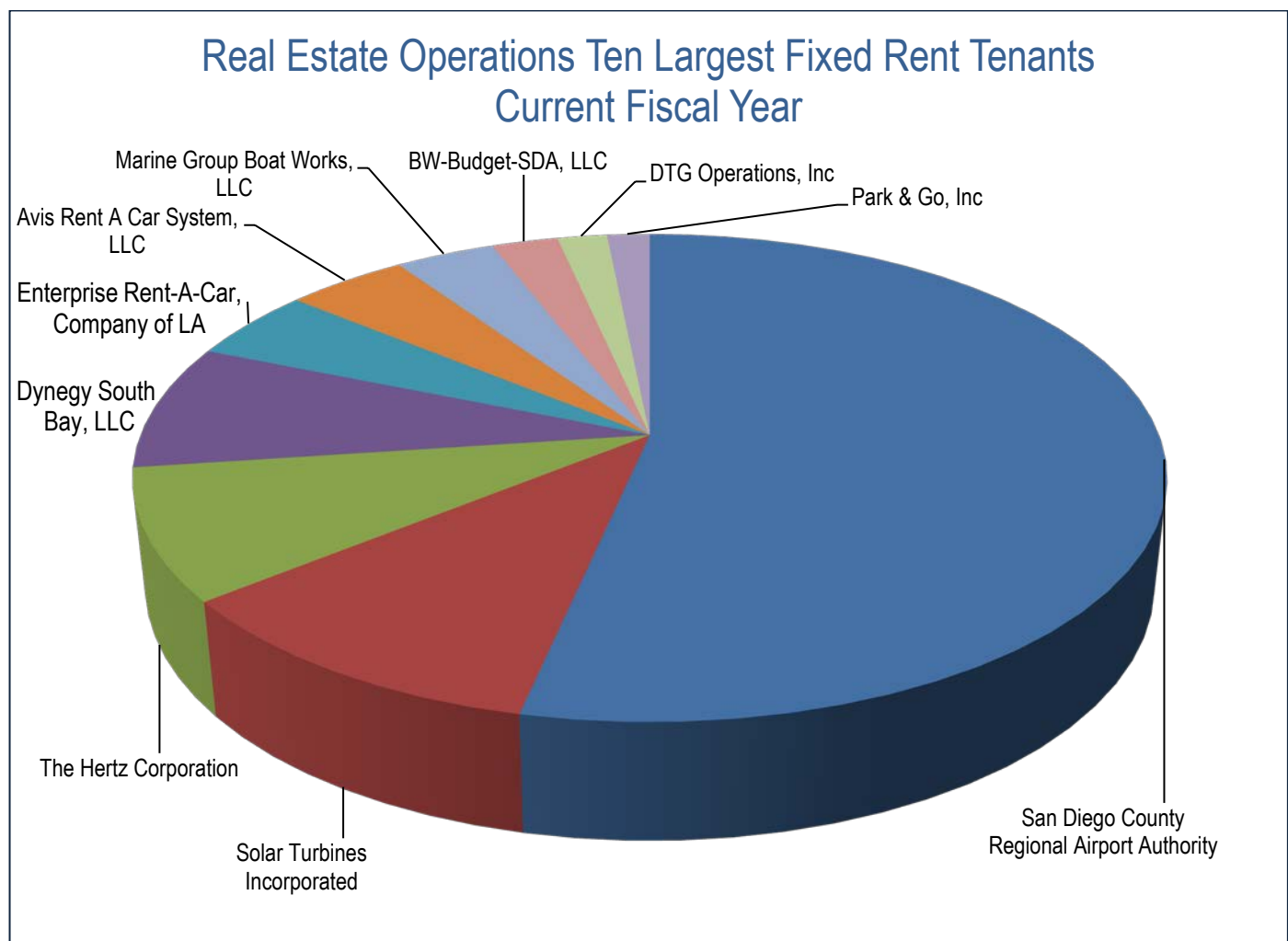
Real Estate Operations Ten Largest Fixed Rent Tenants –

Current Fiscal Year and Nine Years Ago

(Expressed in thousands)

Tenant	2006	%
San Diego County Regional Airport Authority	\$ 12,133	59.2%
Solar Turbines Incorporated	1,114	5.4%
The Hertz Corporation	872	4.3%
Enterprise Rent-A-Car, Company of LA	726	3.5%
Lee-AI, Inc	615	3.0%
Avis Rent A Car System, LLC	587	2.9%
Park and Ride, Inc	444	2.2%
AFS Industries, LLC	416	2.0%
San Diego Yacht Club	351	1.7%
Shelter Island Yachtways	267	1.3%
Total Ten Largest Fixed Rent Tenants	17,525	85.5%
Other Fixed Rent	2,973	14.5%
Total Real Estate Operations Fixed Rent	<u>\$ 20,498</u>	<u>100.0%</u>

Tenant	2015	%
San Diego County Regional Airport Authority	\$ 10,427	45.8%
Solar Turbines Incorporated	2,108	9.3%
The Hertz Corporation	1,695	7.4%
Dynegy South Bay, LLC	1,622	7.1%
Enterprise Rent-A-Car, Company of LA	932	4.1%
Avis Rent A Car System, LLC	877	3.8%
Marine Group Boat Works, LLC	718	3.2%
BW-Budget-SDA, LLC	481	2.1%
DTG Operations, Inc	358	1.6%
Park & Go, Inc	309	1.4%
Total Ten Largest Fixed Rent Tenants	19,527	85.8%
Other Fixed Rent	3,253	14.2%
Total Real Estate Operations Fixed Rent	<u>\$ 22,780</u>	<u>100.0%</u>



Source: San Diego Unified Port District

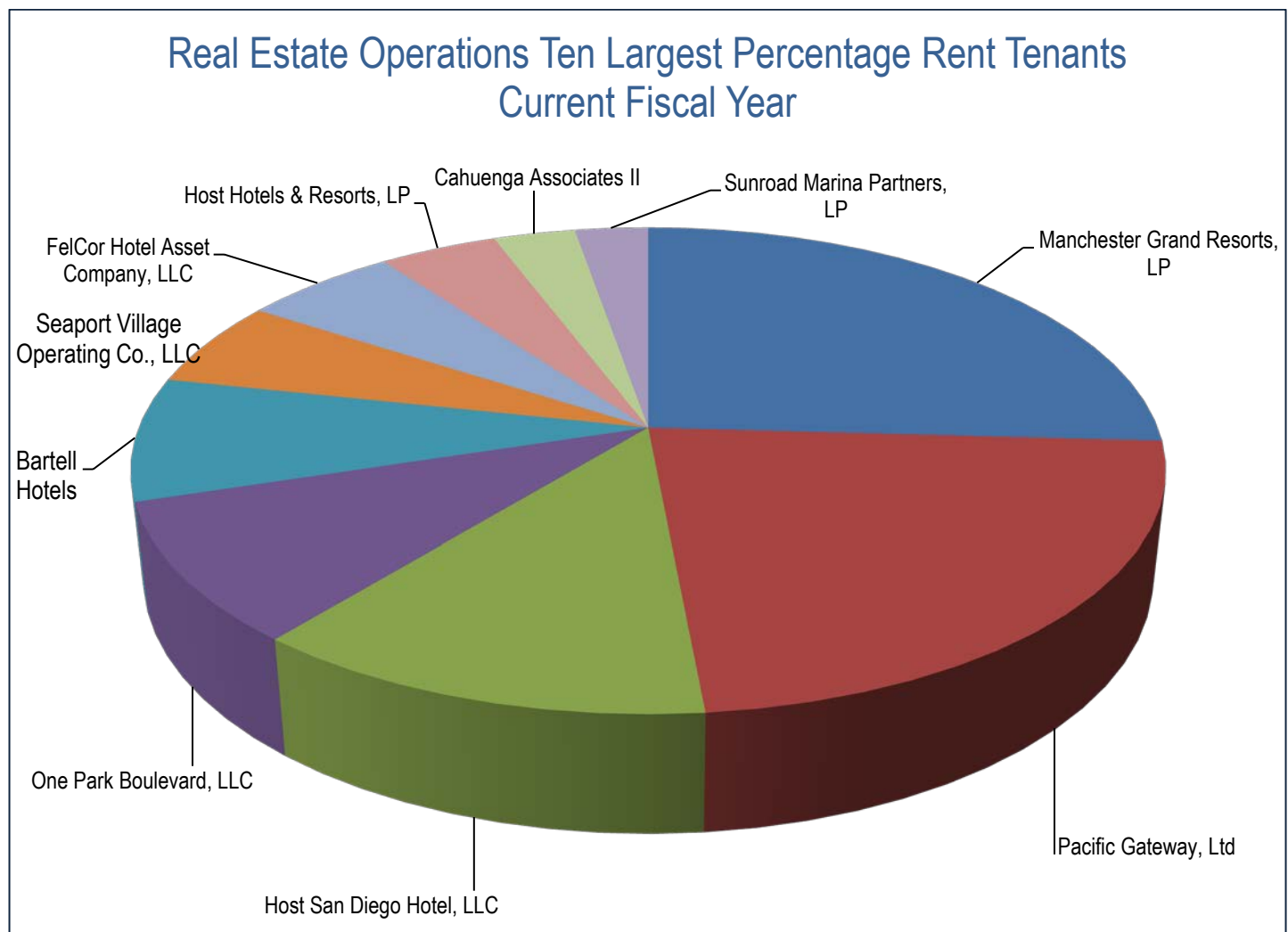
Real Estate Operations Ten Largest Percentage Rent Tenants –

Current Fiscal Year and Nine Years Ago

(Expressed in thousands)

Tenant	2006	%
Manchester Grand Resorts, LP	\$ 11,085	23.0%
Pacific Gateway, Ltd	8,885	18.4%
Starwood Sheraton San Diego CMBS I, LLC	4,145	8.6%
FelCor Hotel Asset Company, LLC	2,570	5.3%
Starwood Sheraton San Diego West	2,193	4.5%
Seaport Village Operating Co, LLC	2,154	4.5%
Host Hotels & Resorts, LP	1,817	3.8%
Bartell Hotels	1,396	2.9%
SD Marina, LLC	1,276	2.6%
Sunroad Marina Partners, LP	1,269	2.6%
Total Ten Largest Percentage Rent Tenants	36,790	76.2%
Other Percentage Rent	11,502	23.8%
Total Real Estate Operations Percentage Rent	\$ 48,292	100.0%

Tenant	2015	%
Manchester Grand Resorts, LP	\$ 11,444	18.7%
Pacific Gateway, Ltd	10,014	16.4%
Host San Diego Hotel, LLC	5,472	9.0%
One Park Boulevard, LLC	4,102	6.7%
Bartell Hotels	3,632	5.9%
Seaport Village Operating Co, LLC	2,561	4.2%
FelCor Hotel Asset Company, LLC	2,531	4.1%
Host Hotels & Resorts, LP	1,932	3.2%
Cahuenga Associates II	1,338	2.2%
Sunroad Marina Partners, LP	1,199	2.0%
Total Ten Largest Percentage Rent Tenants	44,225	72.4%
Other Percentage Rent	16,866	27.6%
Total Real Estate Operations Percentage Rent	\$ 61,091	100.0%

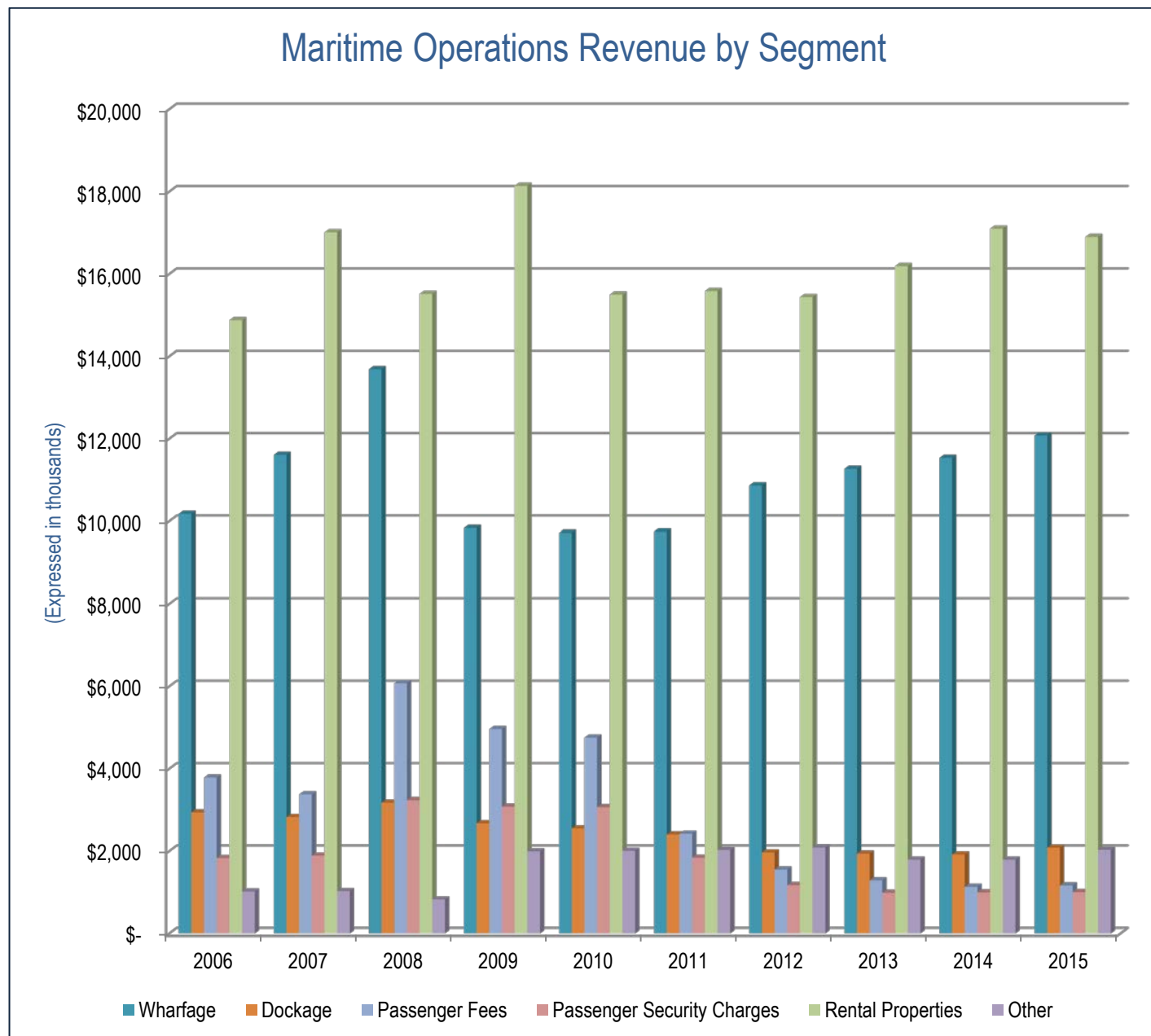


Source: San Diego Unified Port District

Maritime Operations Revenue by Segment – Last Ten Fiscal Years

(Expressed in thousands)

Segment	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Berths:										
Wharfage	\$ 10,177	\$ 11,609	\$ 13,687	\$ 9,839	\$ 9,723	\$ 9,755	\$ 10,867	\$ 11,270	\$ 11,535	\$ 12,078
Dockage	2,938	2,828	3,175	2,676	2,553	2,404	1,967	1,938	1,920	2,083
Passenger Fees	3,788	3,379	6,076	4,964	4,756	2,422	1,554	1,289	1,133	1,167
Passenger Security Charges	1,830	1,892	3,238	3,078	3,066	1,841	1,174	989	999	1,006
Rental Properties	14,879	17,012	15,518	18,141	15,499	15,585	15,439	16,191	17,101	16,900
Other	1,021	1,030	826	1,996	2,007	2,026	2,089	1,792	1,792	2,031
Total	\$ 34,633	\$ 37,750	\$ 42,520	\$ 40,694	\$ 37,604	\$ 34,033	\$ 33,090	\$ 33,469	\$ 34,480	\$ 35,265



Source: San Diego Unified Port District

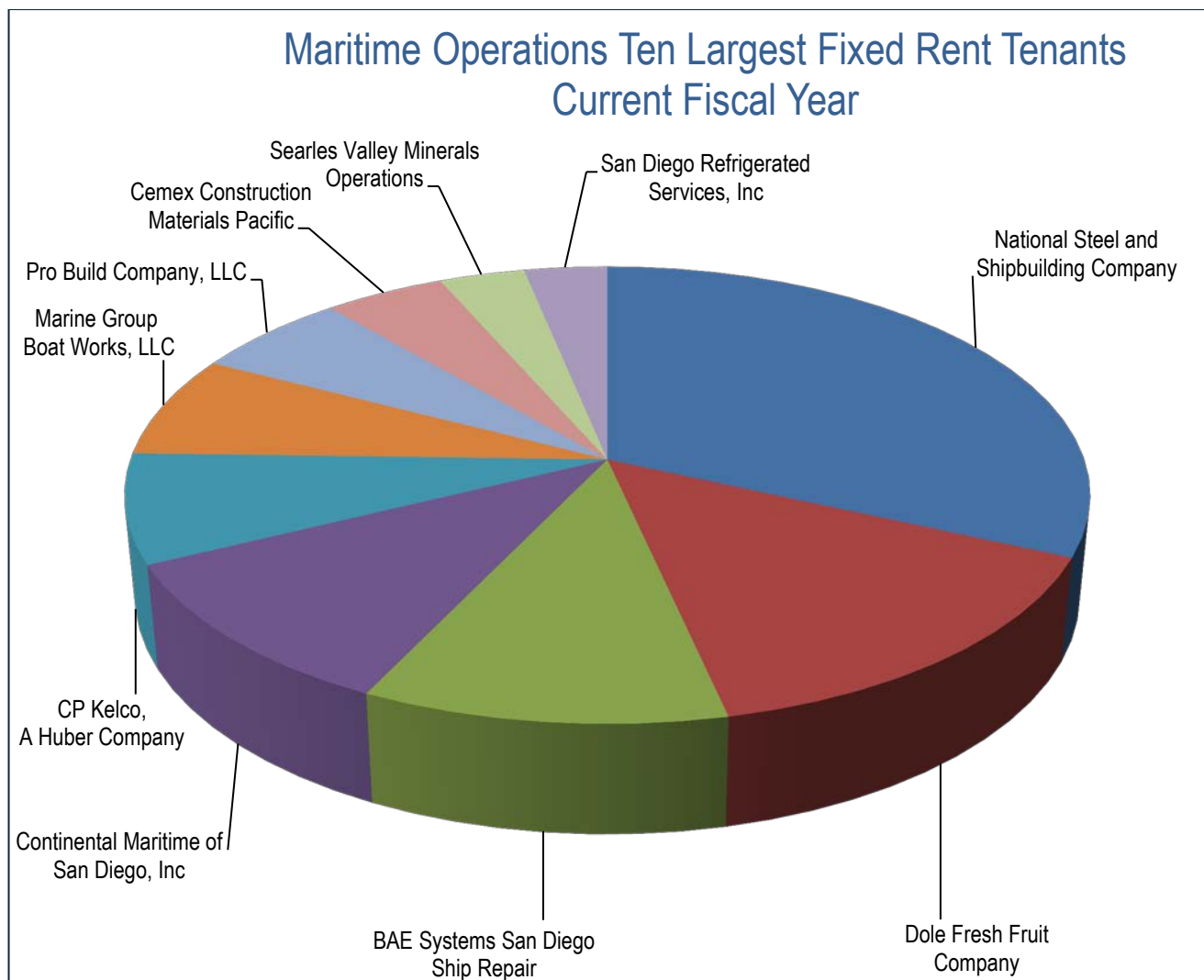
Maritime Operations Ten Largest Fixed Rent Tenants –

Current Fiscal Year and Nine Years Ago

(Expressed in thousands)

Tenant	2006	%
National Steel and Shipbuilding Company	\$ 2,220	17.6%
Dole Fresh Fruit Company	1,500	11.9%
Dixieline Lumber Company	967	7.6%
Continental Maritime of San Diego, Inc.	622	4.9%
BAE Systems San Diego Ship Repair	585	4.6%
Knight & Carver Yachtcenter, Inc.	555	4.4%
Weyerhaeuser Company	440	3.5%
CP Kelco, A Huber Company	424	3.4%
Copley Press, Inc.	253	2.0%
Searles Valley Minerals Operations	216	1.7%
Total Ten Largest Fixed Rent Tenants	7,782	61.6%
Other Fixed Rent	4,865	38.4%
Total Maritime Operations Fixed Rent	\$ 12,647	100.0%

Tenant	2015	%
National Steel and Shipbuilding Company	\$ 3,190	23.2%
Dole Fresh Fruit Company	1,485	10.8%
BAE Systems San Diego Ship Repair	1,065	7.7%
Continental Maritime of San Diego, Inc	1,064	7.7%
CP Kelco, A Huber Company	774	5.6%
Marine Group Boat Works, LLC	724	5.3%
Pro Build Company, LLC	611	4.4%
Cemex Construction Materials Pacific	473	3.4%
Searles Valley Minerals Operations	335	2.4%
San Diego Refrigerated Services, Inc	325	2.4%
Total Ten Largest Fixed Rent Tenants	10,046	72.9%
Other Fixed Rent	3,722	27.1%
Total Maritime Operations Fixed Rent	\$ 13,768	100.0%



Source: San Diego Unified Port District

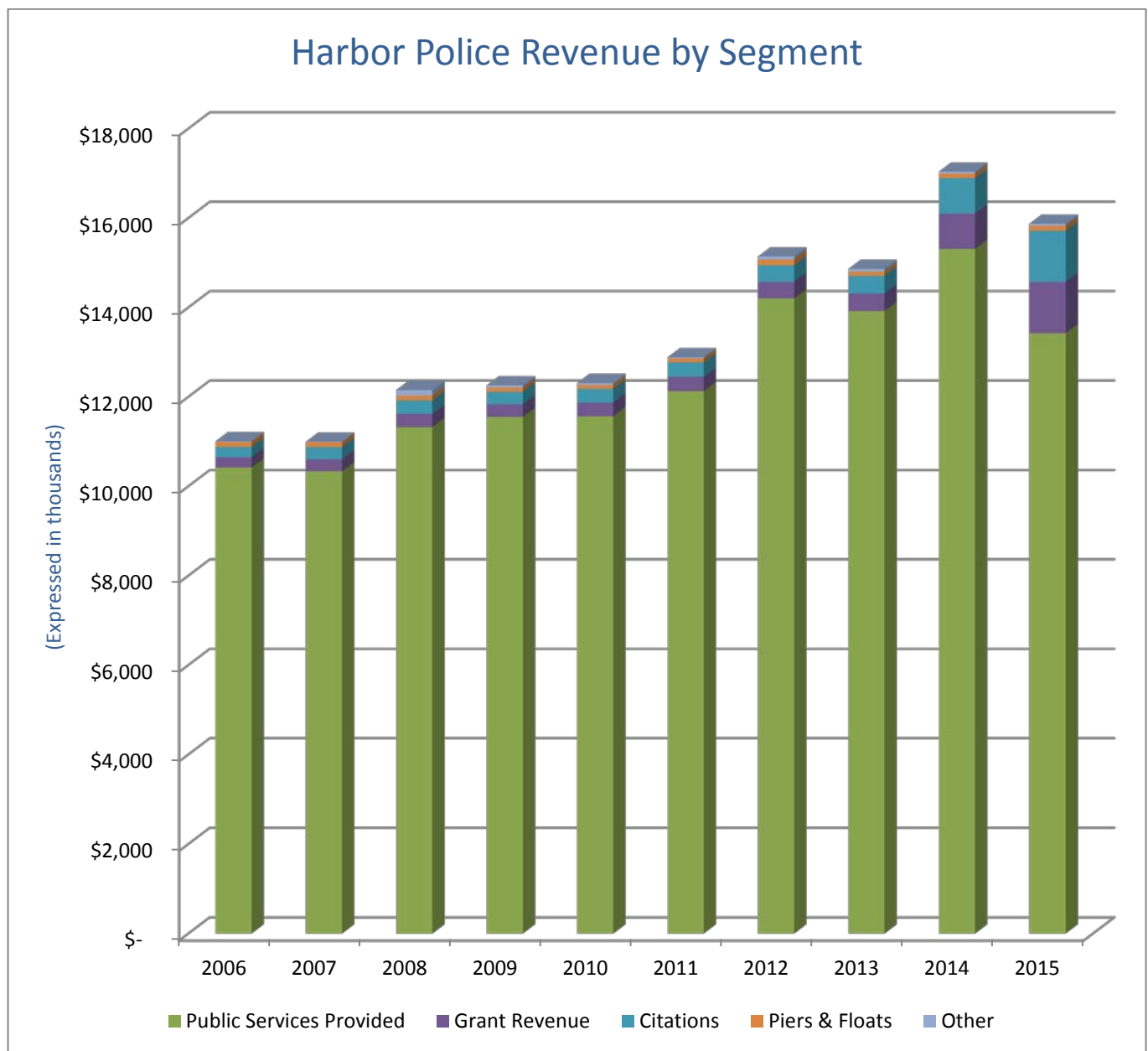
Harbor Police Revenue by Segment – Last Ten Fiscal Years

(Expressed in thousands)

Segment	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Services Provided ¹	\$ 10,421	\$ 10,336	\$ 11,324	\$ 11,550	\$ 11,567	\$ 12,130	\$ 14,200	\$ 13,922	\$ 15,309	\$ 13,427
Grant Revenue ²	466	682	435	489	932	628	873	846	959	-
Citations	231	271	300	284	307	322	373	395	794	1,144
Piers & Floats	108	104	107	93	84	86	128	89	97	111
Other	13	13	123	48	44	24	65	61	44	47
Total	\$ 11,239	\$ 11,406	\$ 12,289	\$ 12,464	\$ 12,934	\$ 13,190	\$ 15,639	\$ 15,313	\$ 17,203	\$ 14,729

¹Police services provided to SDCRAA (excluding G&A cost reimbursements).

²Grant revenue was reclassified to nonoperating revenue in fiscal year 2015.



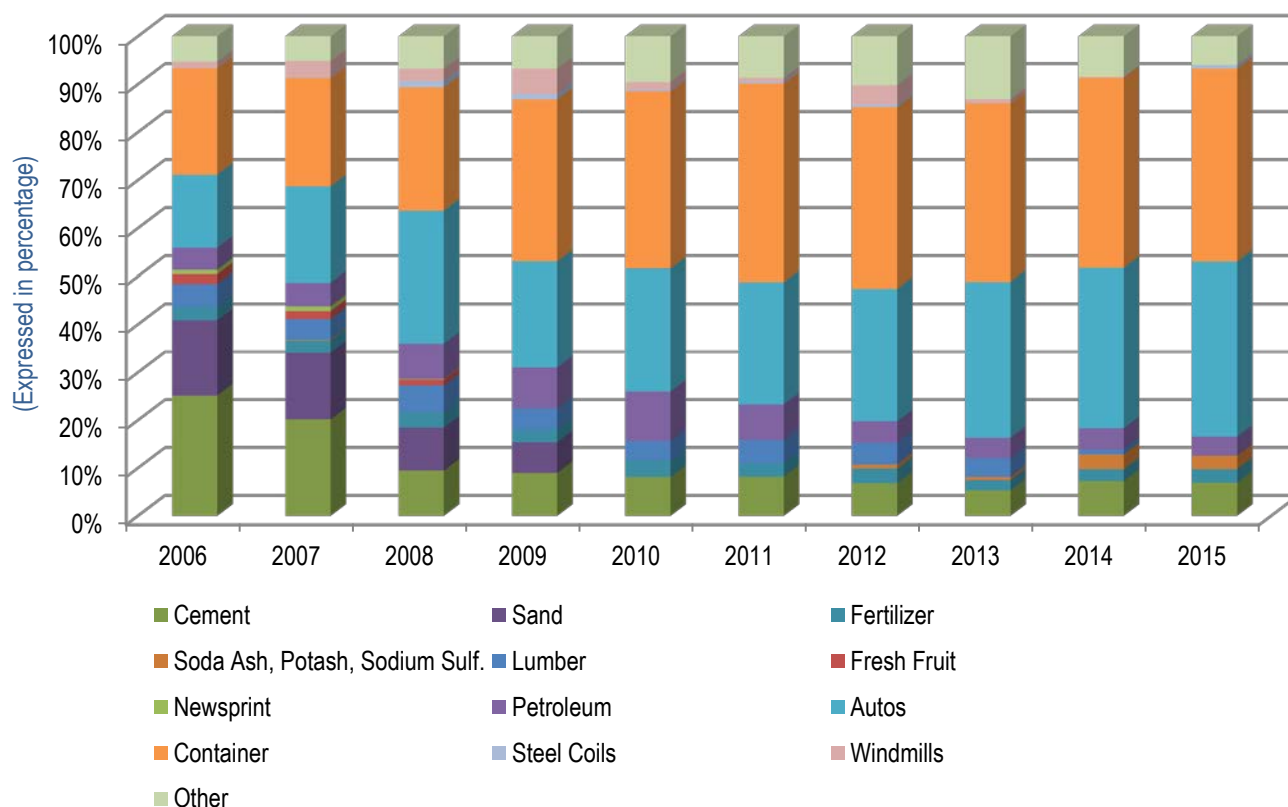
Source: San Diego Unified Port District

Maritime Operations Cargo Volumes – Last Ten Fiscal Years

(Expressed in metric tons)

Cargo	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cement	759,942	547,708	227,423	160,590	127,679	122,233	115,962	88,618	121,218	123,646
Sand	474,748	378,422	215,501	114,537	-	-	-	-	-	-
Fertilizer	85,406	69,263	77,470	46,849	54,478	41,494	50,917	36,503	41,304	50,279
Soda Ash, Potash, Sodium Sulf.	-	5,184	-	-	-	-	14,928	10,897	51,570	49,589
Lumber	142,127	116,958	134,732	80,146	63,994	72,645	77,188	65,344	17,701	-
Fresh Fruit	59,866	45,295	29,870	-	-	-	-	-	-	-
Newsprint	29,922	27,628	2,283	-	-	-	-	-	-	-
Petroleum	137,900	133,086	178,078	153,589	162,225	111,078	75,806	71,822	74,003	71,582
Autos	458,900	543,715	664,870	394,569	401,375	379,821	468,786	545,001	556,954	649,725
Container	670,246	615,208	618,830	604,841	580,822	617,289	640,586	621,921	660,586	717,085
Steel Coils	335	3,831	31,358	20,400	5,546	6,732	9,849	43	-	13,253
Windmills	41,819	93,262	63,191	94,101	25,106	10,763	68,541	15,360	3,942	627
Other	160,446	139,239	162,002	121,384	150,015	129,487	172,800	219,577	140,966	106,759
Total Cargo	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	1,782,545
Minimum Annual Guarantee (MAG)	559,310	474,086	625,322	1,028,467	1,306,058	1,338,920	1,224,974	1,007,575	996,412	953,280
Total Cargo with MAG	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	2,735,825

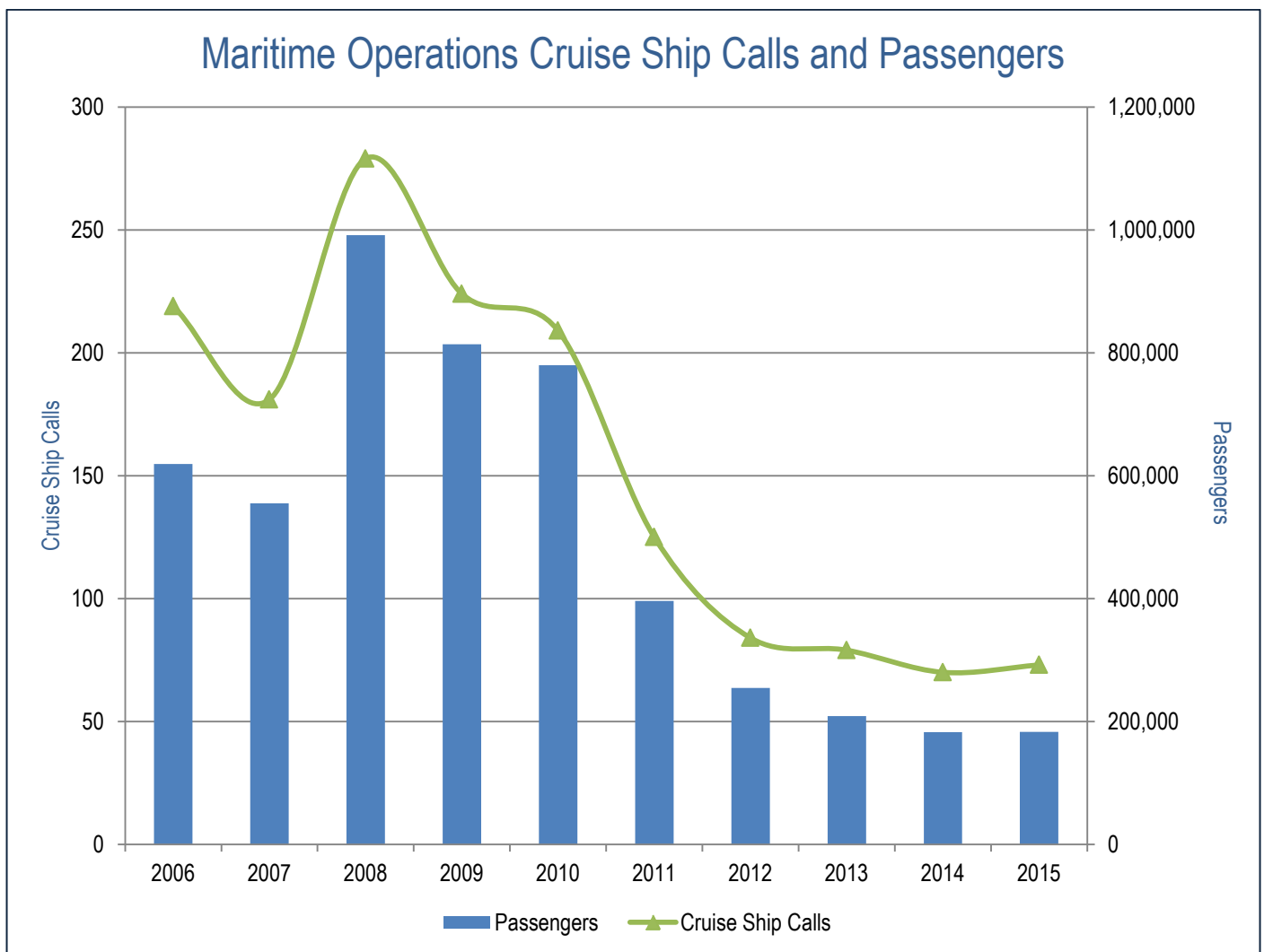
Maritime Operations Cargo Volumes (excluding MAG)



Source: San Diego Unified Port District

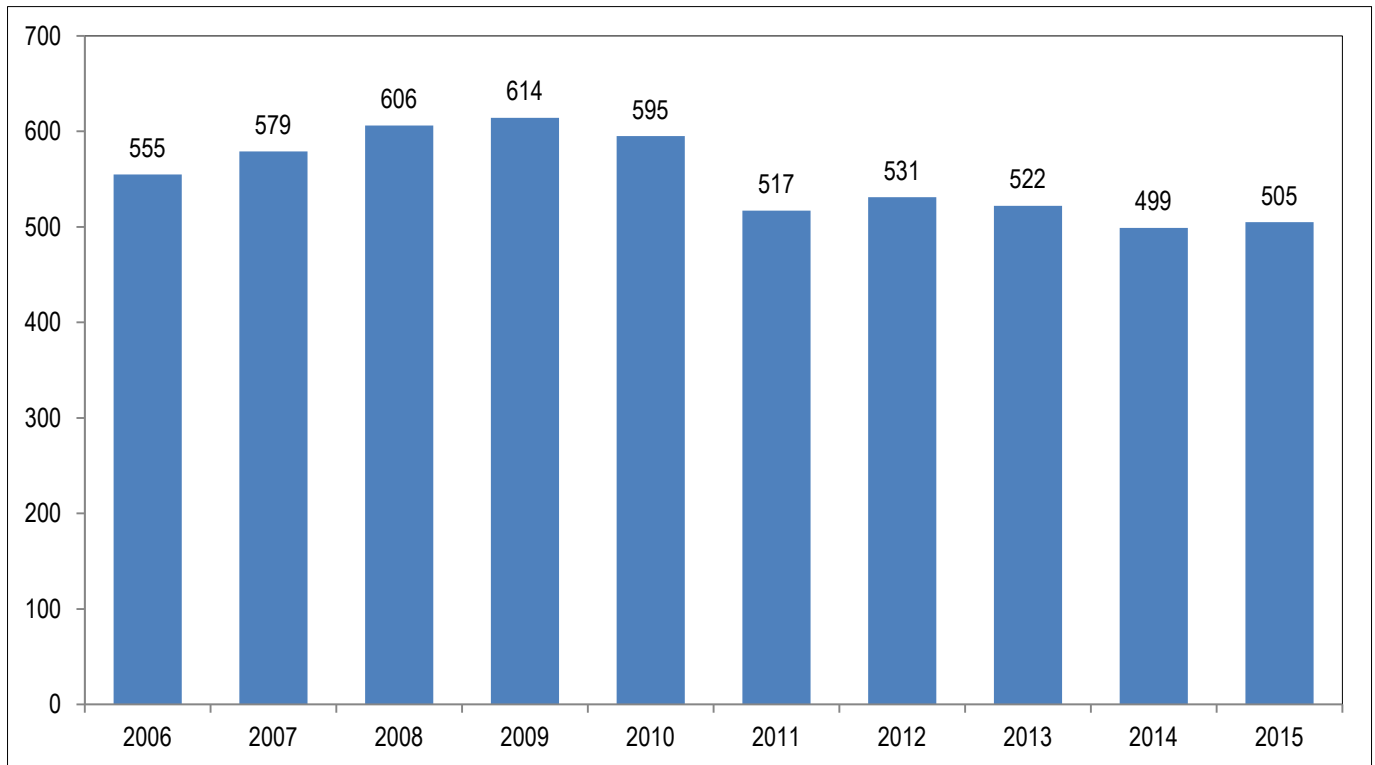
Maritime Operations Cruise Ship Calls and Passengers – Last Ten Fiscal Years

Fiscal Year	Cruise Ship Calls	Passengers
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	70	182,693
2015	73	183,136



Source: San Diego Unified Port District

District Employee Headcount – Last Ten Fiscal Years



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

Source: San Diego Unified Port District

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)	81,497,532
Leased Water- Estimated (in square feet)	43,421,743
Leased Buildings - Estimated (in square feet)	5,955,244
Leased Piers - Estimated (in square feet)	76,525
Public Safety	
Stations	1
Sub-stations	3
Sworn Officers	120
Number of Calls	62,029
Traffic Citations	3,781
Parking Citations	35,511
Arrests	2,058
Number of Parks	22
Total Acreage	150
Parking (number of short-term and long-term spaces)	
Navy Pier	386
Lane Field	220
B Street Pier	177
Hilton Garage	1,790
Convention Center Garage	1,900
Imperial Beach	100
Metered (throughout District)	1,015
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:	
Size (in acres)	96
Number of Berths	8
Wharf (in linear feet)	4,347
Storage Facilities:	
Cold Storage (in million cubic feet)	6
Warehouse Capacity (in square feet)	724,287
Number of Cruise Terminals	2
B Street Cruise Ship Terminal:	
Size (in acres)	9.2
Wharf (in linear feet)	2,400
Number of Berths	5
Broadway Pier Cruise Ship Terminal:	
Size (in acres)	3.1
Wharf (in linear feet)	2,135
Number of Berths	5

Source: San Diego Unified Port District

Debt Service Coverage – Last Ten Fiscal Years

(Expressed in thousands)

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Pledged Revenues ¹	\$152,329	\$158,471	\$151,982	\$140,754	\$125,401	\$133,350	\$133,385	\$132,702	\$145,141	\$152,377
Operating and Maintenance Expenses ²	(99,620)	(104,180)	(110,250)	(124,681)	(113,795)	(108,826)	(114,155)	(115,988)	(114,368)	(120,774)
Net Pledged Revenues - Senior Debt	<u>\$ 52,709</u>	<u>\$ 54,291</u>	<u>\$ 41,732</u>	<u>\$ 16,073</u>	<u>\$ 11,606</u>	<u>\$ 24,524</u>	<u>\$ 19,230</u>	<u>\$ 16,714</u>	<u>\$ 30,773</u>	<u>\$ 31,603</u>
Senior Debt Service ³										
Principal	\$ 1,125	\$ 1,170	\$ 1,215	\$ 1,255	\$ 1,305	\$ 1,360	\$ 1,420	\$ 1,490	\$ 1,840	\$ 1,650
Interest	2,339	2,295	2,248	2,208	2,159	2,105	2,010	1,949	1,822	1,729
Total Senior Debt Service	<u>\$ 3,464</u>	<u>\$ 3,465</u>	<u>\$ 3,463</u>	<u>\$ 3,463</u>	<u>\$ 3,464</u>	<u>\$ 3,465</u>	<u>\$ 3,430</u>	<u>\$ 3,439</u>	<u>\$ 3,662</u>	<u>\$ 3,379</u>
Senior Debt Coverage Ratio	15.22	15.67	12.05	4.64	3.35	7.08	5.61	4.86	8.40	9.35

¹Pledged Revenues are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

²Operating and Maintenance Expenses are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

³Senior Debt Service is calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

Source: San Diego Unified Port District

Ratios of Outstanding Debt by Type – Last Ten Fiscal Years

(Expressed in thousands)

Fiscal Year	Revenue Bonds		Notes ¹		Capital Leases		Total Debt	Percent of Personal Income ²	Per Capita ²
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
2015		34,625		46,033		-	80,658	0.04%	25

¹Includes the San Diego County Regional Airport Authority (SDCRAA), Pond 20, and Civic San Diego notes.

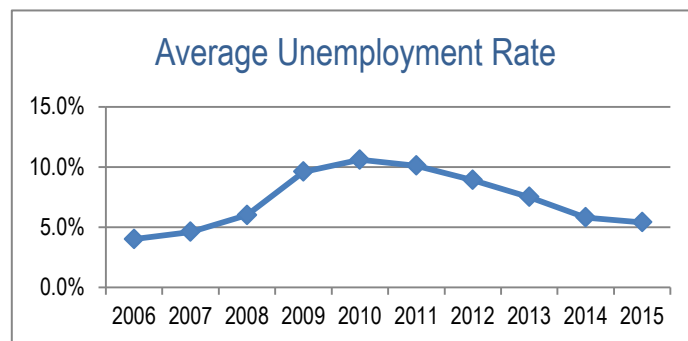
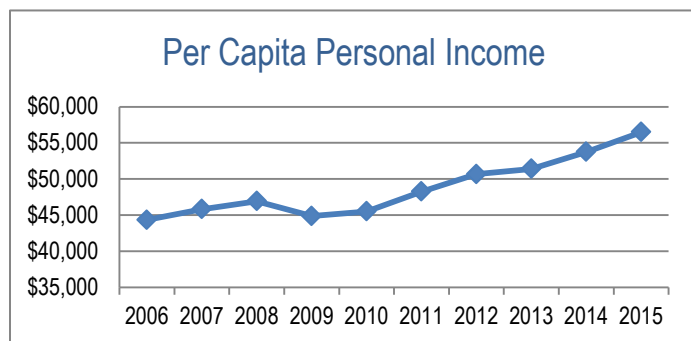
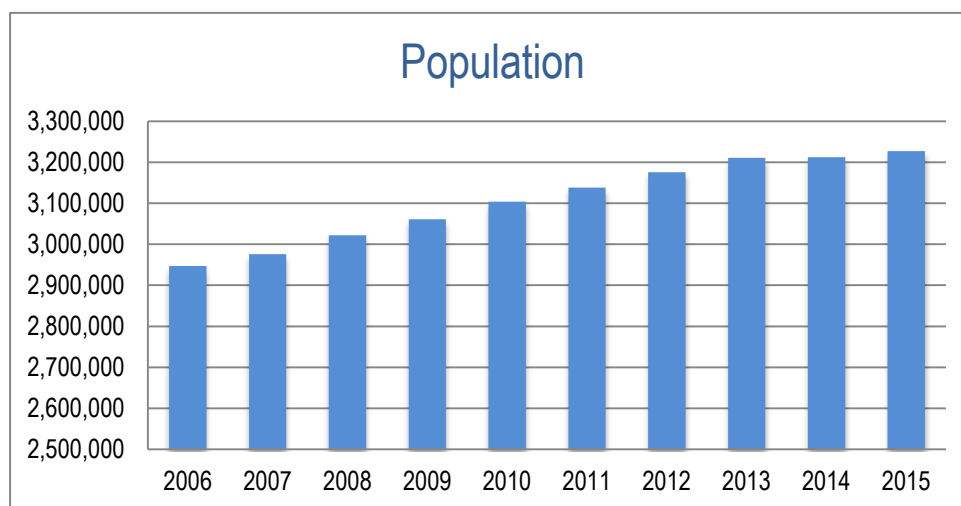
²Refer to the Demographic and Economic Statistics table for further detail on population and per capita information.

Source: San Diego Unified Port District

Demographic and Economic Statistics – Last Ten Fiscal Years

Calendar Year	Estimated Population ¹	Personal Income (in thousands) ¹	Per Capita Personal Income ¹	Average Unemployment Rate ²
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	3,212,298	171,690,569	53,748	5.5%
2015	3,227,496	181,459,502 ³	56,489 ³	5.1%

Population and Per Capita Personal Income San Diego County



Sources:

¹ US Department of Commerce, Bureau of Economic Analysis

² California Employment Development Department (December 2014 revised report and August 2015 preliminary)

³ 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

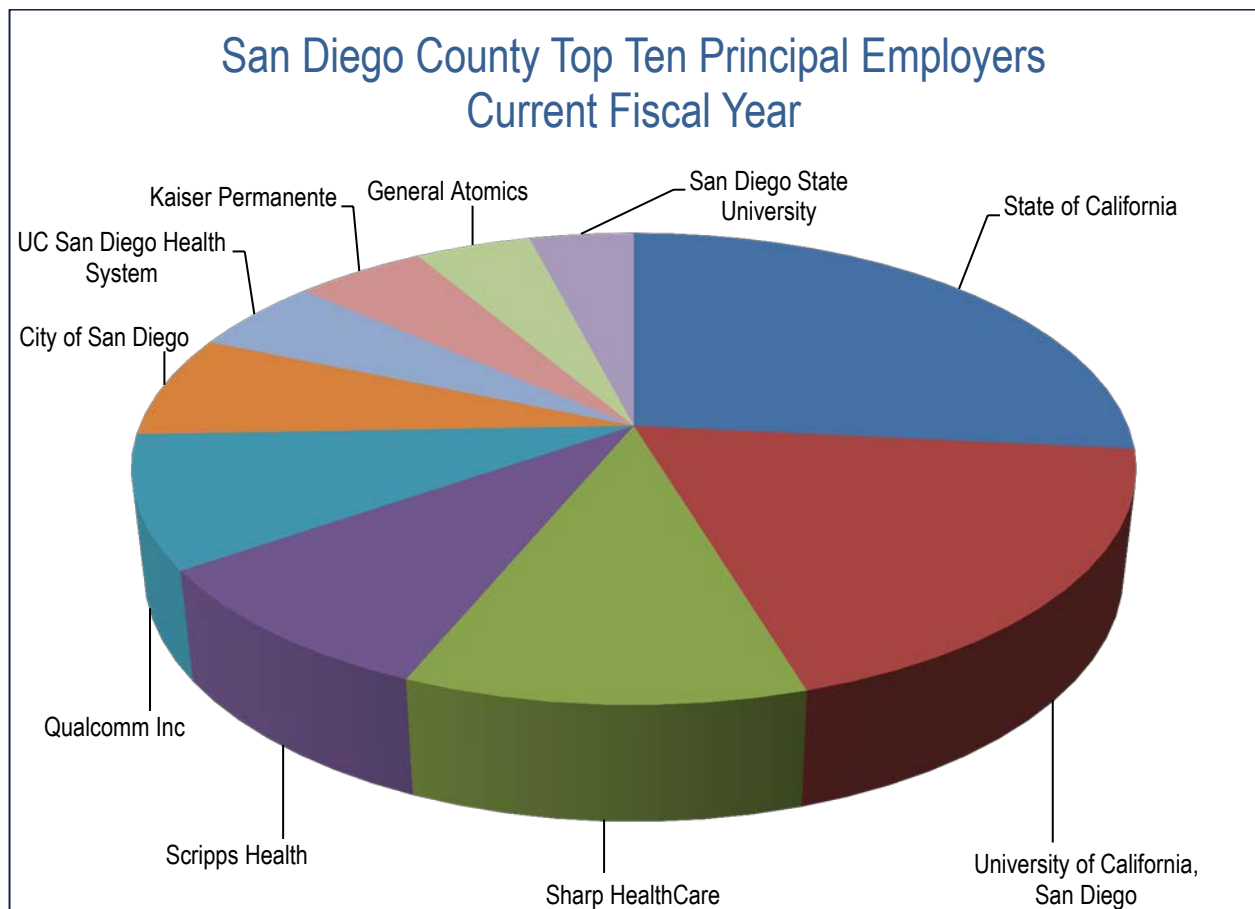
San Diego County Top Ten Principal Employers – Current Fiscal Year and Nine Years Ago

2006				2015			
Employer	Local Employees	Rank	%	Employer	Local Employees	Rank	%
Federal Government	40,200	1	3.09%	State of California	40,100	1	2.95%
State of California	38,300	2	2.94%	University of California, San Diego	28,341	2	2.09%
University of California, San Diego	27,200	3	2.09%	Sharp HealthCare	16,477	3	1.21%
San Diego Unified School District	19,777	4	1.52%	Scripps Health	13,717	4	1.01%
County of San Diego	15,715	5	1.21%	Qualcomm Inc	13,700	5	1.01%
Sharp HealthCare	13,377	6	1.03%	City of San Diego	10,584	6	0.78%
City of San Diego	11,777	7	0.90%	UC San Diego Health System	7,726	7	0.57%
San Diego State University-EMC	11,114	8	0.85%	Kaiser Permanente	7,549	8	0.56%
Scripps Health	10,932	9	0.84%	General Atomics ¹	6,714	9	0.49%
Kaiser Permanente	7,432	10	0.57%	San Diego State University	6,042	10	0.44%

Total Industry Employment in San Diego County (June 2005): 1,302,600

Total Industry Employment in San Diego County (June 2014): 1,358,000

¹Affiliates include General Atomics Aeronautical Systems, Inc

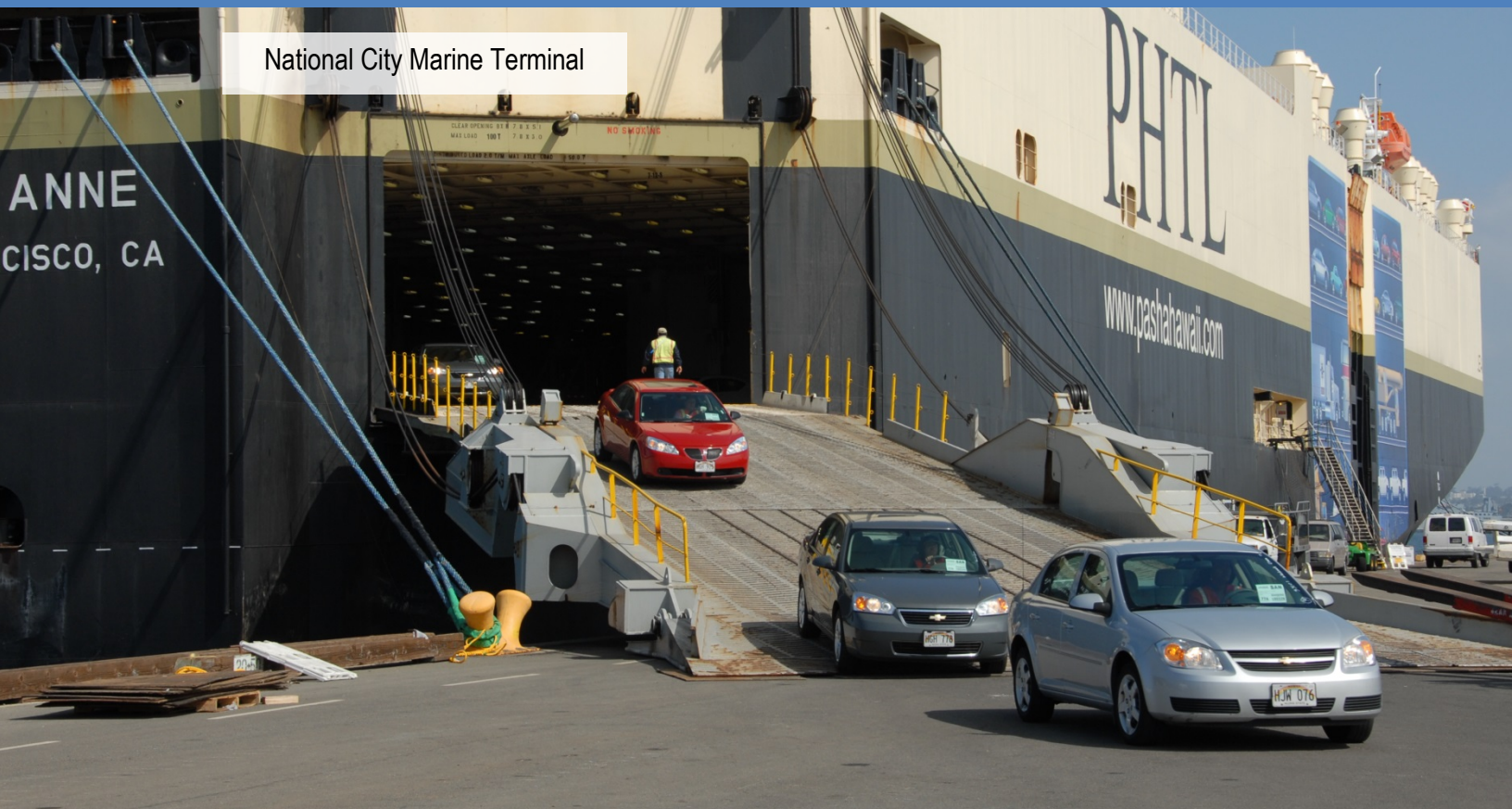


Sources:

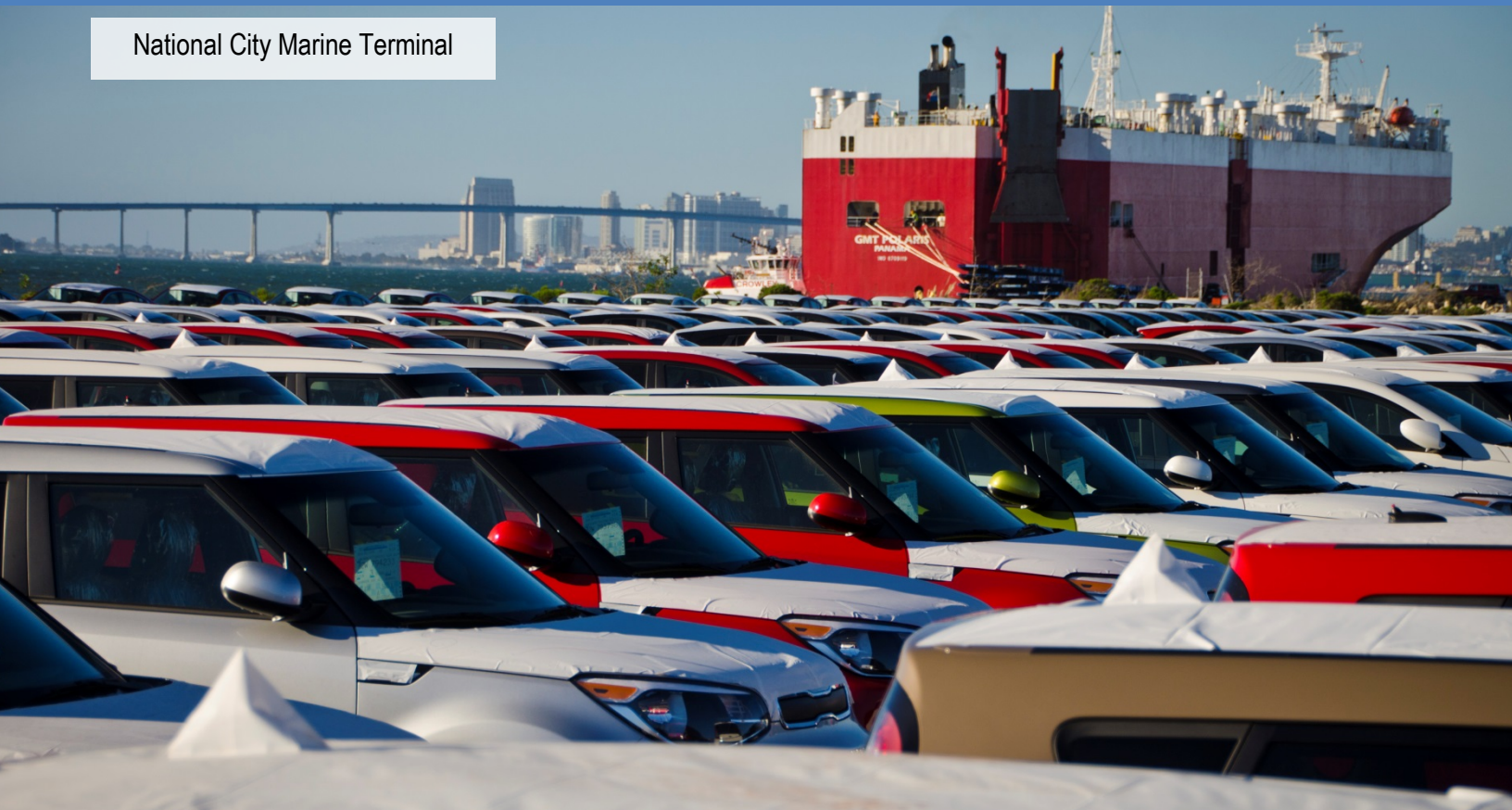
San Diego Business Journal Book of Lists (Year 2006 – as at January 1, 2006 and Year 2015 – as at August 1, 2014)

Total Industry Employment - California Employment Development, Labor Market Information, March 2014 Benchmark – Years 2005 and 2014

National City Marine Terminal



National City Marine Terminal





Unified Port
of San Diego

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